INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/260

CAMBODIA

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

December 2021

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 2021 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 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 a lapse of time basis, following discussions that ended on September 27 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 10, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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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Washington, D.C.

PRESS RELEASE

PR21/365

IMF Executive Board Concludes 2021 Article IV Consultation with Cambodia

FOR IMMEDIATE RELEASE

Washington, DC – **November 19, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cambodia.

COVID-19 has hit the Cambodian economy with a collapse in external demand in 2020 and community spread of the virus in 2021. The government rapidly redirected resources to healthcare and to support livelihoods, including a new system of cash transfers to vulnerable households. But despite extensive government support, the economy has suffered. Growth is estimated to have contracted by 3.1 percent in 2020 after growth of nearly 7 percent in previous years.

Although activity showed signs of picking up toward the end of 2020, the rapid spread of the virus from February this year has set the economy back again. The public finances have been stressed, but public debt risks remain low overall. However, as in many other countries, the crisis has strained the ability of households and firms to service loans. Banks' loan portfolios were already concentrated in real estate; as the crisis has run, loans to tourism, transport, and trade sectors have come under stress.

A slow recovery is projected. Staff projects growth of 2.2 percent in 2021, increasing gradually to pre-crisis rates of 6½ percent after a few years. Future growth depends heavily on the course of the pandemic. Faster containment of the virus in Cambodia and other countries will facilitate resumption of tourism; slower progress would damage growth further. These risks appear skewed to the downside at this stage. The stress on loans raises the risk of potentially inadequate provisioning and weak capital buffers. Cambodia is particularly vulnerable to climate change, as indicated by recent droughts and floods.

Executive Board Assessment[2]

The authorities have responded quickly to the crisis with measures to contain the spread of the virus and support livelihoods. The vaccination program is a notable success, and the government has taken steps to further boost healthcare. A new system of cash transfers was rolled out, targeting poor households, while several support measures have been directed to firms. The NBC responded with liquidity measures early in the crisis. Without these responses, the effect of the pandemic would likely have been worse.

Nonetheless, the economy has been badly affected, and the recovery is gradual. Community spread of the virus in 2021 set back the recovery. The outlook remains highly uncertain, and

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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.

[2] At the conclusion of the discussion, the Managing Director, as Chairman 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 summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

there are still risks that it could be weaker than expected. Given this uncertainty, policies should remain supportive in the near term, and be more finely targeted as the economy recovers.

For fiscal policy, healthcare and social assistance remain the immediate priorities. Over time, support measures such as tax and fee exemptions and credit support, can be recalibrated to ensure maximum value for money. The extensive range of measures necessitates attention to safeguards. A broader tax base and development of a sovereign bond market would allow fiscal policy to be more countercyclical in future, while a well-defined medium-term fiscal framework would help to help to ensure confidence in the public finances over the medium term.

Loan restructurings have surged. Losses on restructured loans could weaken capital positions and potentially undermine the ability of the financial sector to finance the recovery. Results from bank stress tests and the extra reporting will allow the NBC to implement a carefully calibrated sequence of steps to gradually return to standard prudential requirements. Reforms should continue to close supervisory gaps and bolster the financial safety net, and the authorities should press to address deficiencies in the AML/CFT regime.

Addressing structural challenges will help the recovery and build a more resilient economy. Several factors hold back growth potential and make the economy vulnerable to shocks, including the lack of diversification and the low value added in exports, high labor informality, and perceptions of governance weaknesses and corruption. Increased public spending on infrastructure and education as recovery allows would improve fundamentals, and investment in climate change adaptation measures is increasingly important.

Table 1. Cambodia: Selected Economic Indicators, 2017–22

Per capita GDP (2019, US$) : 1,713 — Life expectancy (2019, years) : 75.5
Population (2019, million) : 15.6 — Literacy rate (2019, percent) : 87.7
Poverty rate (2012, percent) : 17.7 — Gini (2012) : 29

	2017	2018	2019	2020	2021	2022
				Est.	Proj.	
Output and prices (annual percent change)						
GDP in constant prices	7.0	7.5	7.1	-3.1	2.2	5.1
Inflation (end-year)	2.2	1.6	3.1	2.9	3.2	3.0
(Annual average)	2.9	2.4	2.0	2.9	2.8	3.0
Saving and investment balance (in percent of GDP)						
Gross national saving	15.0	11.7	9.2	13.3	-1.4	8.3
Government saving	4.8	6.2	8.4	3.5	1.3	3.1
Private saving	10.1	5.5	0.8	9.8	-2.6	5.2
Gross fixed investment	22.9	23.4	24.2	25.5	25.5	25.0
Government investment	7.5	7.7	7.4	9.0	8.7	8.6
Private investment	15.4	15.7	16.8	16.5	16.8	16.4
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	23.3	26.6	18.2	15.3	13.3	17.4
Private sector credit	18.3	28.1	28.0	17.2	10.1	13.6
Velocity of money 1/	1.1	1.0	0.9	0.8	0.7	0.6
Public finance (in percent of GDP)						
Revenue	21.6	23.7	26.8	24.5	23.4	23.6
Domestic revenue	19.7	21.6	24.8	22.5	21.5	22.1
Of which : Tax revenue	16.9	18.6	21.7	20.2	19.5	20.0
Grants	1.9	2.1	2.0	2.0	1.9	1.5
Expenditure	22.4	23.0	23.8	28.0	29.0	27.7
Expense	14.8	15.3	16.4	19.0	20.3	19.1
Net acquisition of nonfinancial assets	7.5	7.7	7.4	9.0	8.7	8.6
Net lending (+)/borrowing(-)	-0.8	0.7	3.0	-3.5	-5.6	-4.1
Net lending (+)/borrowing(-) excluding grants	-2.7	-1.5	1.0	-5.5	-7.5	-5.6
Net acquisition of financial assets	3.2	3.5	8.8	0.6	-2.4	-1.4
Net incurrence of liabilities 2/	4.0	2.8	5.8	4.1	3.2	2.7
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	11,229	12,973	14,998	17,407	17,465	18,987
(Annual percent change)	9.3	15.5	15.6	16.1	0.3	8.7
Imports, f.o.b.	-15,504	-18,813	-22,251	-20,974	-24,221	-23,760
(Annual percent change)	9.8	21.3	18.3	-5.7	15.5	-1.9
Current account (including official transfers)	-1,756	-2,895	-4,067	-3,057	-7,038	-4,689
(In percent of GDP)	-7.9	-11.8	-15.0	-12.1	-26.9	-16.7
Gross official reserves 3/	12,200	14,628	18,763	21,334	20,541	21,814
(In months of prospective imports)	6.7	6.9	9.8	9.6	9.4	9.1
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt	6,669	7,021	7,597	8,810	9,376	10,137
(In percent of GDP)	30.0	28.4	28.2	35.2	36.0	36.4
Public debt service	211	266	309	359	377	420
(In percent of exports of goods and services)	1.3	1.4	1.5	1.9	2.0	2.0
Memorandum items:						
Nominal GDP (in billions of Riels)	89,831	99,544	110,014	103,512	108,786	117,679
(In millions of U.S. dollars)	22,208	24,599	27,088	25,192	26,187	28,020
Exchange rate (Riels per dollar; period average)	4,045	4,047	4,061	4,109	4,154	4,200

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

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

2/ Includes statistical discrepancy.

3/ Includes unrestricted foreign currency deposits held at the National Bank of Cambodia; starting in 2009, includes the new Special Drawing Right (SDR) allocations made by the IMF of SDR 68.4 million; starting 2016, RMB holdings are considered part of reserves following inclusion of RMB in the SDR basket.

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

November 10, 2021

KEY ISSUES

Context: The rapid spread of the virus in Cambodia during 2021 has set the economy back again, after external demand collapsed in 2020. The authorities responded to the crisis with measures to support households and firms, including increased healthcare spending; a new system of cash transfers to vulnerable households; loans and guarantees; tax breaks; and wage subsidies and retraining. Despite these measures, growth is estimated to have contracted by -3.1 percent in 2020. Growth in 2021 is expected to be 2.2 percent, slowly recovering to pre-crisis rates of around 6½ percent.

Recommendations: The outlook remains highly uncertain, complicating policy setting. Given this uncertainty, policies should remain supportive in the near term, and be more finely targeted as the economy recovers, allowing more resources for measures to increase resilience and adaptability.

- *Fiscal policy* should continue to prioritize healthcare and social assistance. Support to firms and workers should be costed and regularly evaluated. Revenue mobilization, broadening the tax base, and the development of a sovereign bonds are essential to increase financing flexibility.

- *Macro- and micro-financial policies:* Supervisory standards should be gradually normalized with a carefully calibrated sequence of steps to gradually return to standard prudential requirements. Reforms should continue to close supervisory gaps and bolster the financial safety net. Addressing deficiencies in the AML/CFT regime is an urgent challenge.

- *Structural policies* to improve fundamentals such as institutions, education, and technological readiness remain crucial to boost potential growth and diversity. Particular focus should be directed at tackling labor informality, addressing corruption concerns, and adapting to climate change.

Approved by
Anne-Marie Gulde Wolf (APD) and Bjorn Rother (SPR)

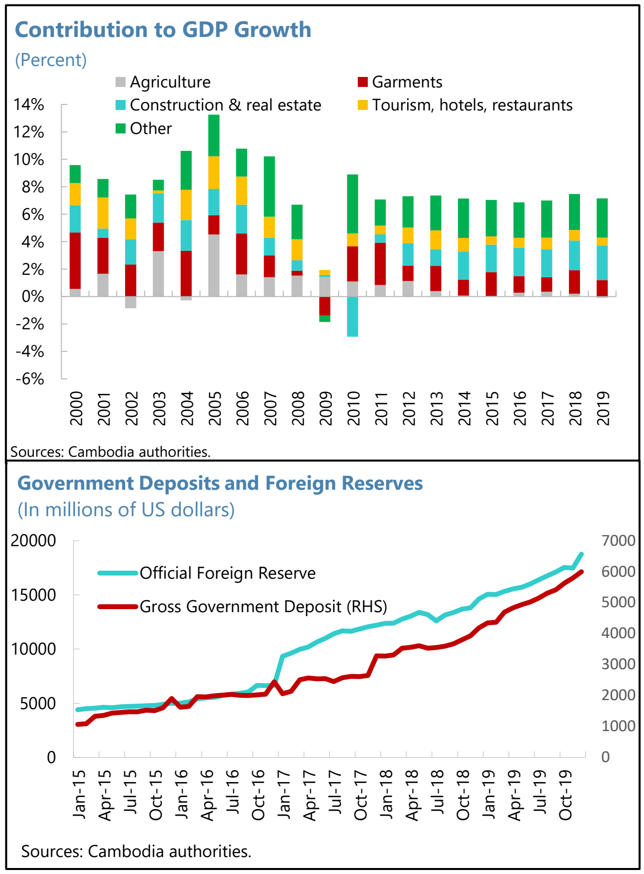
Discussions took from September 13 to 27, 2021. The staff team was comprised of Juliana Araujo, Alessia De Stefani, Sungjin Kim, Yasuhisa Ojima (IMF resident representative), and Alasdair Scott (head) (all APD), Luisa Zanforlin (ICD), and Ke Chen (LEG). Pirun Chan. Kuchsa Dy, and Chenda Pich supported the mission from the IMF's office in Phnom Penh. Lamond Hill, Hibah Khan, Ross Rattanasena, and Yuanyan Sophia Zhang assisted from IMF HQ. Meetings were also attended, variously, by IMF Executive Director Rosemary Lim, Suasdey Chea, and Dennis Bautista (OEDST).

CONTENTS

ANNEXES

CAMBODIA'S ECONOMY BEFORE THE COVID CRISIS

1. **Cambodia had been experiencing high rates of growth**—around 7 percent—for many years. The economy had benefited from high demand for garments and footwear and tourism services, drawing in considerable foreign direct investment (Figure 1).



2. **The government had accrued healthy financial buffers**. By end-2019, the government had accrued deposits of around 20 percent of GDP; even though the economy had run persistent and large external deficits, substantial financial inflows meant the central bank had accumulated FX reserves of around 70 percent of GDP.

3. **However, the pre-Covid 19 economy had already been showing vulnerabilities.** Although growth had been impressive, it was concentrated in relatively few industries, and had been associated with rapid credit growth (especially for construction and real estate), an increase in household debt,[1] bank balance sheets concentrated in real estate, and persistent current account deficits. Countercyclical fiscal policy options were limited by lack of market access and a narrow tax base; monetary policy by a managed exchange rate regime and pervasive dollarization. Social protection was very limited before the crisis.

DEVELOPMENTS THROUGH 2020 AND 2021

4. **COVID-19 has hit the Cambodian economy in two waves** (Figure 2)**:**

- *2020: A collapse in external demand.* The virus remained largely contained and overall domestic demand slowed relatively slightly. But tourism collapsed: foreign tourist visits have fallen from millions to merely a few thousand in 2020 and 2021. Orders for garments and footwear were cancelled during the first stages of the crisis. Light manufacturing recovered later in 2020 as

[1] See Alessia De Stefani, "Household Liabilities and Debt Servicing in the Wake of the Pandemic", Selected Issues Paper.

foreign demand picked up, but the economy lacked the diversity to benefit from increased demand for manufactured goods as much as did some other countries.

- *2021: Community spread of the virus* from February has led to the tightest restrictions on movement and gathering yet. Despite the containment efforts and one of the highest rates of vaccination in the region, cases have surged to over 118,000. Areas targeted by lockdowns included major metropolitan areas and factory locations, interrupting production (Box 1: Covid-19 Spread, Mitigation, and Vaccination).

5. **The economy also faced other negative shocks.** The EU withdrew preferential trade access on some Cambodian exports (including garments, footwear, and travel goods) in August 2020 after a review of its Everything But Arms scheme, citing concerns over human and labor rights, although the terms were less onerous than anticipated.[2] Floods damaged farmland in late 2020, but the harvest had largely been completed and agricultural production fell by less than initially expected.

6. **The authorities have responded with measures to support households and firms.** The government rapidly redirected resources to healthcare while rationalizing other current spending. It followed with loans and guarantees to affected small businesses; tax breaks, wage subsidies, and support for retraining conditional on firms retaining workers; and implemented a system of cash transfers to vulnerable households (Annex V: Crisis Policy Measures). The National Bank of Cambodia (NBC) introduced measures early in the crisis to improve liquidity, and later issued guidance to banks to facilitate loan restructuring.

2020-2021 COVID-19 Intervention Package: Public Health and Social Intervention
(Percent of GDP)

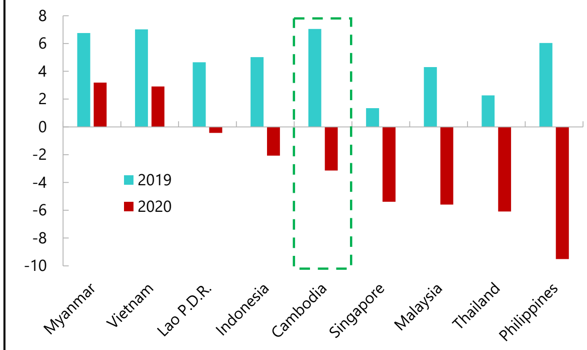
Interventions	Description	2020 Disbursed	2021 Planned	2021 Full year estimate (Authorities)
Health Masterplan/Outbreak Prevention and Treatment	Scaling up health response by increasing prevention and detection facilities, clinical management and treatment as well as coordination and supporting system	0.1	0.1	2.8
Wage subsidy and skill training	Providing partial wage subsidies of $40 per month and technical/soft skills training for furloughed workers in the tourism and garment industries	0.3	0.2	0.2
Cash for work	Providing jobs in rural areas through construction, upgrade, and maintenance of rural roads, drainage and small-scale irrigation	0.4	0.6	0.6
Cash transfers	Providing monthly cash grants to poor and vulnerable individuals that are registered in the government's IDPoor database	1.2	0.8	1.3

[2] See the Staff Report for the 2019 Article IV Consultation for more details.

7. Despite extensive government support, the economy has suffered. Growth is estimated to have contracted by 3.1 percent in 2020, one of the largest year-on-year changes among economies in the region.

GDP Growth

(In percent)



Sources: Cambodia authorities

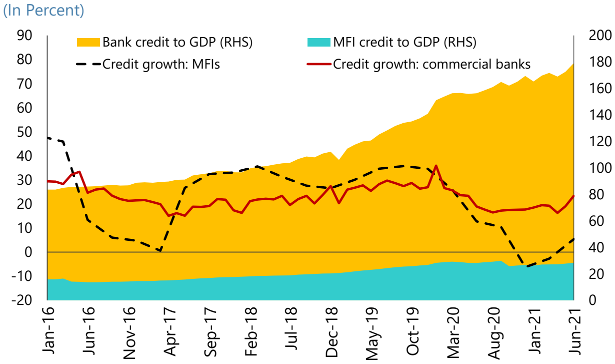
- *Households* saw widespread falls in incomes.[3] Staff estimates that without the new cash transfer scheme, incomes of 17 percent of households would have fallen below US$1.9 per day; even with the cash transfers, 12 percent are estimated to have earned below US$1.90 per day.[4]

- *Firms:* The recession has been associated with an increase in bankruptcies (Figure 2); as most businesses are small and many unregistered, these figures probably understate the extent of difficulties. Real estate and construction sectors—which accounted for nearly half of growth in 2019 and one fifth of output—were resilient in 2020, but projects and sales have been very sluggish in 2021.

- *Financial sector:* Previous staff reports have noted the risks to the banking system from concentration of assets in a narrow range of real estate projects, creating a potential transmission channel from a deterioration in real estate/construction to banking system health. The crisis has not, so far, seen widespread financial institution failures. Loan growth has eased but not collapsed; likewise, NPLs remain low, despite increases in household debt (¶21). However, both are mostly accounted for by extensive loan restructuring.

Private Sector Credit: MFIs and Commercial Banks

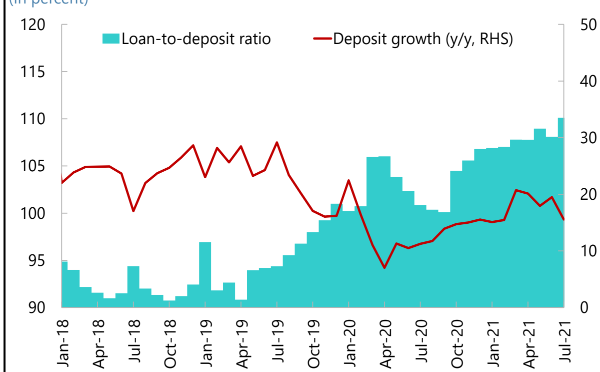
(In Percent)



Sources: National Bank of Cambodia; and IMF staff calculations.
Note: GDP data for 2021 is based on staff projections.

LTD and Bank's Deposit Growth

(In percent)



Sources: Cambodia authorities

[3] 83 percent of Cambodian households reported suffering a decline in income in the first half of 2020. About 50 percent have witnessed their incomes declining further since then. See World Bank, "The Socioeconomic impact of Covid-19 on Households in Cambodia", No. 2 November 2020 and No. 3 February 2021.

[4] See Alessia De Stefani, "Labor Market Vulnerability and Social Security Design in Cambodia", Selected Issues Paper.

8. The public finances have been stressed, but debt risks remain low overall. 2020 saw a fiscal deficit, after a surplus in 2019. Overall spending increased with the implementation of crisis measures, despite rationalization of other current spending, while tax revenues fell by even more than nominal GDP (¶17).[5] The sharp reduction in growth has lowered current debt carrying capacity, which remains vulnerable to further shocks to exports and growth. Nonetheless, based on baseline growth projections and current policies, the total PPG debt-to-GDP ratio is projected to rise relatively modestly—around 5 percentage points—during the next decade. Overall, Cambodia remains at low risk of external and overall debt distress (Debt Sustainability Analysis).

9. The current account remained substantially weaker than implied by fundamentals and policies based on 2020 data (Annex I: External Sector Assessment). Notwithstanding the collapse in tourism revenues and falls in remittances as migrant workers returned, the current account balance actually *improved* in 2020, as a result of exports of non-monetary gold and import compression. The assessment of external balances assumes that gold exports are not expected to continue[6], and that the deterioration in the services trade balance is also exceptional, leaving the assessment of external balances qualitatively unchanged from that in the 2019 Article IV Staff Report.[7] The fiscal deficit is projected to narrow (¶13), which will help to reduce the current account deficit and persistent overvaluation, but further improvement in current account deficits implies increases in the balances of the private sector with the rest of the world. Boosting net trade would require addressing long-standing structural problems to boost productivity and lower unit costs (¶31-36), especially given the likelihood of having to maintain a managed exchange rate to facilitate further progress in de-dollarizing the economy (¶28). Net financial inflows were somewhat less than in previous years; nonetheless they covered the current account deficit and resulted in an increase in FX reserves (Figure 3).

Authorities' Views

10. The authorities generally shared the staff's assessment of developments. The authorities emphasized that, although healthcare and social protection were essential, fiscal sustainability would be ensured. The authorities noted the large share of intermediate and capital goods in imports, which implies that current account deficits are more sustainable than implied by overall balances. External deficits had been consistently financed, and that the largest portion of financial inflows was relatively stable FDI. Nonetheless, they noted the size and persistence of current account deficits, which they agreed implied the need for higher productivity and value added in the export sector.

[5] The deficits were financed by bilateral grants (e.g., from Japan and EU) and concessional lending (e.g., from the ADB and World Bank). The government did not seek relief under the Debt Service Suspension Initiative.

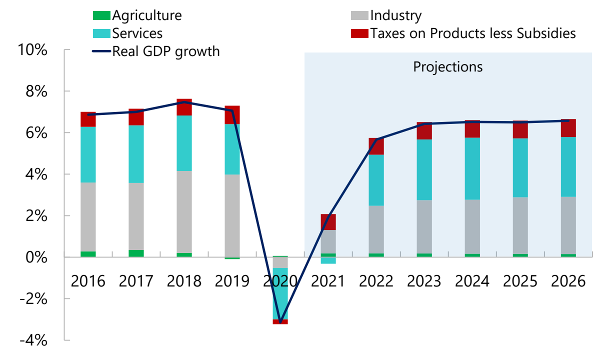
[6] Cambodia does not produce significant amounts of gold. The exports seem to be re-exports of unaccounted-for stocks.

[7] The 2019 Report also noted that the model used to assess the current account does not fully account for the very young population in Cambodia, thereby overstating national saving needs. (While Cambodia's old age dependency ratio is lower than the world's average, Cambodia's total dependency ratio is higher, arguing for lower savings than implied by the model.)

OUTLOOK AND RISKS

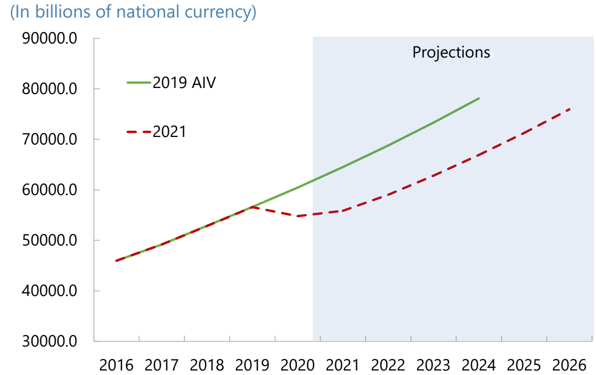
11. A gradual recovery is projected. Staff projects growth of just above 2 percent in 2021, increasing to pre-crisis growth of 6½ percent over the medium term. The projections therefore imply a permanent loss in output compared to projections before the crisis. The projections assume some fiscal support, both from transfers to households and robust capital spending (¶13), with macrofinancial conditions broadly unchanged. External demand is fueled by buoyant recoveries in the US, China, and Europe. But, assuming tourism resumes but takes some time to recover to pre-crisis levels, near-term growth mostly depends on manufacturing and other services. Over-supply in commercial and residential properties is likely to see growth in construction and real estate remain subdued, compared to pre-crisis years.

Real GDP Growth Contributions
(In percent)



Sources: Cambodia authorities

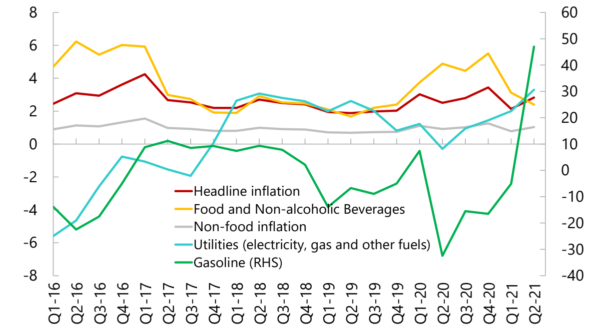
GDP Levels, 2019 AIV vs 2021
(In billions of national currency)



Sources: Cambodia authorities

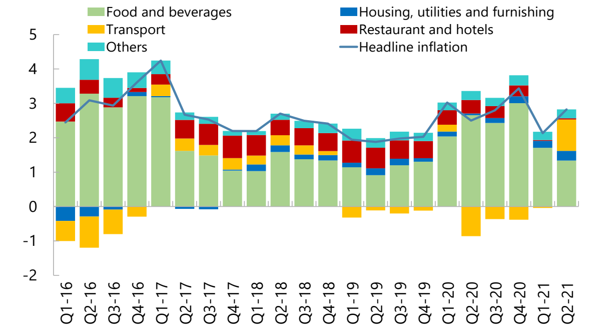
12. Inflation is expected to remain contained. As in many regional peers, food prices surged in 2020, but have since receded; a strong growth in energy and especially gasoline prices have driven up inflation in 2020. The baseline projects these price pressures to ease in 2022. With growth below potential, overall inflation is projected to continue around 3 percent throughout the medium term. More persistent price pressures could lead to higher inflation, which may add to the call for post-pandemic fiscal adjustment and productivity-enhancing reforms as monetary policy channels remain underdeveloped (see ¶13).

Inflation
(In percent, y/y)



Sources: Cambodia authorities

Contribution to Inflation of Product Groups
(In percent)

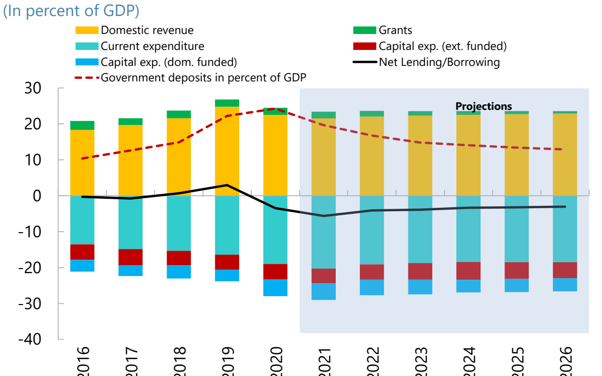


Sources: Cambodia authorities

13. Fiscal and external deficits are expected to widen.

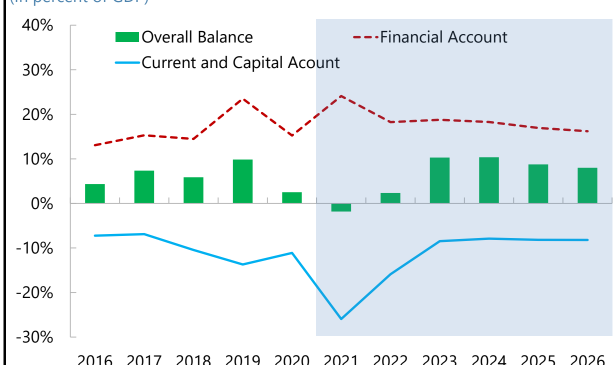
- *Fiscal:* The government expects to spend more than previously budgeted on healthcare and social assistance, with interventions increasing from 2 to 4.9 percent of GDP in 2021. Other current and capital spending will be more constrained: public sector wages and hiring are to be frozen (except for retiree replacement), and, after increases in 2020, new infrastructure projects and non-essential public investment projects are to be suspended for the remainder of 2021 and in 2022 (although will nonetheless remain robust at around 8.5 percent of GDP from 2021 to 2026). Staff projects the fiscal deficit to widen to around 5½ percent of GDP in 2021, as revenues remain weak and the cutback in spending only partially offsets crisis-related spending. The deficit is expected to subside to around 4 percent in 2022-2023, mainly reflecting the phasing out of some crisis-related measures.

Medium-term Fiscal Outlook
(In percent of GDP)



Sources: Cambodia authorities; and IMF staff calculations.

Cambodia's Balance of Payments
(In percent of GDP)



Sources: Cambodia authorities and IMF staff estimates

- *External:* Without the temporary improvements in goods trade in 2020, and with tourism likely to remain stagnant until the country can remove restrictions on inward travel, the current account deficit is expected to sharply widen in 2021, to around one quarter of GDP. Staff projects a gradual narrowing of the current account deficit from 2022 as external demand recovers (the improvement being mainly from tourist services, supported by benefits from bilateral Free Trade Agreements with China and Korea for light manufacturing and, particularly, agriculture). Financial inflows—mainly in the form of foreign direct investment—are expected to continue to be strong over the medium term; the current account is expected to be fully financed. FX reserves are estimated to slightly dip in 2021, but start to accumulate again from 2022, helped by strong FDI. Coverage of imports remains sufficient: FX reserves are expected to remain at around 9-10 times projected imports over the medium term. Cambodia received SDR167.7 million (about US$239.07 million) as part of the general allocation of Special Drawing Rights (equivalent to US$650 billion) in August 2021, boosting Cambodia's reserves by just over one percent from current levels. The authorities plan to keep the allocated SDRs as part of gross international reserves, and not to use them for fiscal purposes.

14. Future growth depends heavily on the course of the pandemic; risks appear to remain to the downside (Annex II: Risk Assessment Matrix).

- Faster containment of the virus in Cambodia and other countries would facilitate resumption of tourism. However, the epidemic still rages at the time of writing, despite lockdowns and progress with vaccinations, carrying the risk of slower-than-projected growth.[8]

- Banks' loan portfolios were already concentrated in real estate; as the crisis has run, loans to tourism, transport, and trade sectors have come under stress, raising the risk of potentially inadequate provisioning and weak capital buffers.

- Recent droughts and floods have demonstrated the vulnerability to climate change.

Authorities' Views

15. The authorities shared the staff's assessment of the outlook. The authorities' own growth projections differed only marginally, with slightly higher growth expected in 2021 and slightly lower growth for 2022. Manufacturing and agriculture were expected to boost growth, but services would remain sluggish. Real estate and construction would rebound over the medium term. The authorities expected that rapid vaccination would limit risks of further domestic outbreaks, and were confident that external demand for manufactured goods (such as garments and electronic components) would be a strong boost to growth in the coming years.

[8] The government's goal of vaccinating the entire adult population by year's end is expected to be met, but restrictions on movement and gathering are assumed to remain into 2022, including quarantine and other requirements on foreign visitors.

POLICY DISCUSSIONS

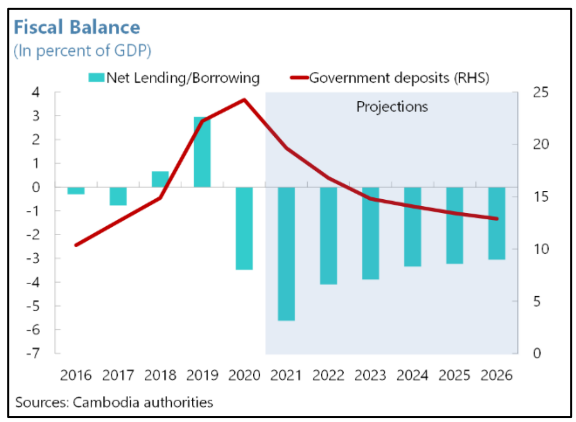
16. The authorities have rapidly responded to the crisis with a wide range of measures. Pressures on households and firms are still high and policy should remain supportive, and healthcare and social assistance remain priorities. Over the medium term, the challenges will be to maintain support for households and businesses while avoiding imbalances, and to guide the economy to be more resilient against future stresses.

A. Fiscal Policies

17. The government's spending and financing intentions appropriately balance the need for support during the ongoing crisis and longer-term sustainability.

- The domestic outbreak has increased demands for health care and social assistance beyond what was planned at the beginning of the year. The reallocation of spending (¶13) rightly prioritizes those needs. In 2021, compared to budget plans, the purchase of goods and services are estimated to have risen by 1.3 percent of GDP, while subsidies, grants and social benefits are expected to rise by 2.4 percent of GDP (Table 4), largely reflecting public health and social interventions (Figure 4). Meanwhile, capital spending is expected to fall below previous budget plans (while still remaining significant, in terms of share of GDP).

- To help finance the deficit, government deposits are expected to be drawn down by approximately US$1 billion in 2021, and by one half (as a share of GDP) by 2026. The remainder of financing needs will be largely met with a gradual increase in external public debt, after jumping in 2020. Staff's projection is for PPG debt to stabilize at just under 40 percent of GDP over the medium term, which would be consistent with the authorities' own debt limit. This would also avoid monetary financing of the deficit, which should be a last resort for a highly dollarized economy with fixed exchange rate.



18. As the economy recovers, policy can focus on further targeting of support measures, restoring revenues, increasing financing options, and supporting SDG goals, such as investment in human capital, infrastructure, and climate adaptation. Such adjustment would contribute to increasing incomes and a more diverse and resilient economy (Section C).[9]

[9] See the Box on SDG costing in the Staff Report for the 2019 Article IV consultation,

- *Support to households:* The cash transfer system introduced in 2020 has provided crucial support to the poor, and is likely to have been very effective at tackling extreme poverty, especially in rural areas. However, a large section of the urban workforce might yet be unprotected, especially households who may have fallen into poverty in 2020.[10] To that end, the authorities' plans to replace the emergency cash transfers introduced in 2020 with a broader system of social protection that allows finer targeting to vulnerable groups are welcome (Annex VI: The Evolution of Social Protection in Cambodia).

- *Support to businesses:* The current range of interventions includes employment support, tax and fee exemptions, and credit guarantees and subsidies. These interventions have mostly been targeted to sectors viewed as strategic, such as tourism, aviation, garments, and agriculture. As the course of the pandemic becomes clearer, viability and the long-term growth potential of different sectors can be a consideration when assessing support.

- *Fiscal revenues:* Restoring revenues is crucial, to allow more spending on development needs. The numerous tax and fee exemptions should also be costed so that policymakers can properly evaluate where support is best directed. Strong implementation of the authorities' Revenue Mobilization Strategy will help to mitigate the damage to tax revenues. Over the medium term, there is potential for further gains from VAT and customs and excise tax collection, through strengthened administration, and corporate taxation. But the crisis shows the volatility of these revenues—more stable tax revenues and more progressive taxation should be explored, with exemptions linked to the level of investment. Options include property (especially on transfers), capital gains, digital, and carbon taxation.

- *Financing options:* Establishing market access is a key policy step to enabling smoother government spending, such as on social needs. The government intends to issue, for the first time, local-currency government bonds in 2022[11], while building market infrastructure to manage the whole cycle of these domestic securities (e.g., issuance, registration, and trading).

19. The extensive range of measures necessitates attention to safeguards. The measures—especially those for health care, job subsidies, social assistance, and below-the-line support for the SME bank and Credit Guarantee Corporation—require careful monitoring to ensure that funds are properly accounted for and well directed. The authorities aim to improve fiscal governance with the Medium-Term Fiscal Framework and PFM reform.[12] The authorities have introduced measures with "sunset" clauses that the interventions are temporary and have invested in monitoring mechanisms to review potential risks and whether existing policies remain appropriate. Procurement is governed

[10] See "Labor Market Vulnerability and Social Security Design in Cambodia", Selected Issues Papers.

[11] 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 NBC as a fiscal agent and arranging the issuance operations.

[12] This includes on-going efforts for the FMIS roll out; public procurement system reform 2019-25; sub-national budget system reform 2019-25; and public investment management system reform, based on IMF technical assistance.

by the 2012 Law on Public Procurement, but the 2021 Public Expenditure and Financial Accountability (PEFA) assessment indicates several deficiencies, to which the authorities are responding with an amendment to the law. The authorities have been closely monitoring the new cash transfer system, the results of which suggest that reassessing ID Poor cardholders' financial situations could ensure that monies are allocated more in line with needs. The authorities have assessed fiscal costs of below-the-line support and disclosed all measures; however, the 2021 PEFA report raises concerns about the authorities' capacity to quantify risks from government guarantees and from other contingent liabilities. In the case of both the SME Bank and Credit Guarantee Corporation, the government is working with private financial institutions to utilize the latest capacity to assess applicants' credit risk.

20. Framing interventions within a well-defined medium-term fiscal framework would help ensure confidence in the public finances over the medium term. Plans are already underway to develop an MTFF, to be fully integrated into the 2023 budget process by setting expenditure ceilings for key sectors (Annex III: Implementation of Past Advice). An MTFF would ideally spell out overall spending priorities and financing strategy, cost interventions, and relate fiscal strategy to a fiscal anchor. The government's Public Debt Management Strategy 2019-2023 describes a fiscal anchor of a limit on public external debt to 40 percent of GDP, which the authorities are reviewing. A debt rule on medium-term debt levels is a good option (supplemented with an operational rule(s) to guide annual budgets), as it can be communicated easily. Whichever fiscal rule is utilized, it should be simple and transparent.[13]

Authorities' Views

21. The authorities agreed with the need to balance emergency assistance in the near-term with debt sustainability over the medium-term. They stressed that, despite crisis stresses, debt levels had remained in check. Support measures have been targeted to viable business and only to the most affected sectors, and tax breaks would be temporary and reassessed on a timely basis. Capital spending could be scaled up depending on financing availability. The authorities' draft Economic Recovery Plan recognizes the need to boost the health system and invest in skills and infrastructure (physical, "green", and digital), all while maintaining value for money, and to strengthen the implementation of the Revenue Mobilization Strategy and Public Debt Management Strategy and to develop a market for government securities. The authorities have begun a Tax System Reform Study to look at broadening the revenue base.

B. Macrofinancial and Monetary Policies

22. The National Bank of Cambodia has sought to soften the impact of the pandemic lockdown on lenders and borrowers and support economic activity. Several measures were directed to increasing liquidity in the banking sector: required reserves ratios were lowered and interest rates were cut (on Liquidity Providing Collateralized Operations and on Negotiable

[13] See IMF, 2018, "How to Select Fiscal Rules: A Primer", How-To Notes No. 9

Certificates of Deposit, the collateral for LPCOs). The authorities mandated a delay in the accumulation of capital conservation buffers. The NBC also favored loan restructuring in priority sectors by foregoing provisioning requirements for restructured loans, allowing up to three restructurings before the loan is to be classified as a loss. The policy on loan restructuring was introduced in May 2020, has been extended twice, and currently runs to the end of 2021.

23. Loan restructurings have surged. System-wide financial indicators notionally remain robust,[14] but the apparently low system-wide NPL ratios benefit from loan restructuring terms that have allowed banks and financial institutions to maintain the same credit risk classifications for loans after they are restructured.[15] The value of loans restructured in 2020 was nearly US$2 billion, compared with only US$30 million in 2019, and was over US$2.5 billion for the first half of 2021. Currently 11 percent of outstanding loans have been restructured across the banking system.

24. The NBC has taken steps to reduce risks from restructured loans. Support to banks has softened the impact of the pandemic on borrowers, but losses on restructured loans are likely to weaken capital positions and could potentially undermine the ability of the financial sector to finance the recovery. To mitigate such risks, the NBC instructed banks and financial institutions in December 2020 to suspend dividend payments in 2020 and proactively requested capital increases from those institutions for which buffers appeared to be relatively low. Despite restrictions on movement of people during the crisis, it has implemented some targeted virtual onsite inspections, and has required increased reporting on loan restructurings from banks. During 2021, the NBC requested the banks to run stress tests on the restructured portfolio to assess the extent of the provisioning shortfall with respect to the pre-covid regulatory environment and assess existing capital buffers. New results from stress tests that would provide greater information on the probability of default of restructured loans, such as the numbers of loans that have been restructured multiple times and the potential losses on such loans, are due in November 2021.

25. Prudential requirements should be gradually normalized. Results from the stress tests and the extra reporting from banks on the restructured loan portfolio will allow the NBC to assess impact of the policies on bank health, and address risks from restructured loans to capital adequacy. This will entail requesting timely corrective measures where necessary. That will in turn allow the NBC to implement a carefully calibrated sequence of steps to gradually return to standard prudential requirements. A first step would be to require full provisioning for those loans that are clearly unviable (such as those already restructured multiple times and not being serviced).

26. Reforms should continue to close supervisory gaps and bolster the financial safety net. The establishment of a Non-Bank Financial Services Authority brings a range of important non-bank

[14] Banking system capital adequacy in 2020 was only slightly less than in 2019, while MFIs significantly improved their capital positions. Commercial Banks and MDIs maintained higher liquidity coverage ratios than the regulatory benchmark. Profitability remained high; returns on equity and assets dipped only slightly.

[15] The NBC issued guidelines in 2020 to financial institutions on loan restructuring for stressed-but-still-viable borrowers in priority sectors (tourism, garments, construction, transportation and logistics). The forbearance was extended to end-2021. In February 2021,

financial institutions under a common supervisor, including real estate developers that had issued sizeable loans for property purchases. Implementation—e.g. full staffing and reporting structures—is the next milestone. It is particularly important that the authorities update the regulatory framework to allow for prompt and corrective actions to address emerging weaknesses in banks. The draft legislation for bank resolution and deposit protection schemes (Appendix V) also remains a priority, to reduce taxpayer cost of financial distress and avoid risks of contagion across financial institutions.

27. Advances in digital payments could increase efficiency and financial inclusion. The *Bakong* is a new payment system, operated by the NBC, using blockchain technology and providing real-time-gross settlement.[16] The system provides e-wallets, mobile payments, online banking, and financial applications in a single interface. It is expected to promote cashless payment, reduce risks of transmission, and enable the rural population to take advantage of high rates of mobile phone usage to access financial services.

a. **Increasing exchange rate flexibility would boost monetary policy capability but is contingent on reducing dollarization.** Greater nominal exchange rate flexibility would in principle allow easier real exchange rate adjustment and better control over domestic currency liquidity, reducing the reliance on fiscal policy.[17] However, before allowing for more exchange rate flexibility, the high rates of dollarization—92 percent of bank deposits are denominated in US dollars—would need to be lowered. The relatively slow progress of de-dollarization efforts suggests that this might take some time yet.[18] Experience shows that, even in successful cases, de-dollarization is protracted. Prerequisites include macroeconomic stabilization and disinflation, which Cambodia has seen. Subsequent steps that can assist and are particularly relevant for Cambodia include development of a domestic financial market (¶18) and increased ease of use of the domestic currency (which could be a useful side-effect of the new digital payments system; ¶27).[19]

28. Addressing deficiencies in the AML/CFT regime remains a priority. Cambodia remains on the Financial Action Task Force (FATF)'s list of jurisdictions under enhanced monitoring due to strategic AML/CFT deficiencies. All of the FATF's deadlines for the implementation of the action plan

[16] Note that Bakong is not a central bank digital currency, as some reports have suggested. See https://bakong.nbc.org.kh/en/

[17] The de jure exchange rate arrangement is a managed float. The central bank has maintained the exchange rate within a 2 percent band against the US dollar during the pandemic, hence the de facto arrangement is classified as "stabilized", effective June 2020.

[18] The authorities have for many years pursued financial incentives to increase the use of the domestic currency, such as differences in riel and US dollar reserve rates to commercial banks, and a requirement that at least 10 percent of lending is in domestic currency,

[19] See Annamaria Kokenyne, Jeremy Ley, and Romain Veyrune, 2010, "Dedollarization", IMF Working Paper WP/10/188.

have passed, and the FATF strongly urges Cambodia to address its deficiencies swiftly.[20] Exiting the grey list would also allow Cambodia banks to access international credit lines and open correspondent banking accounts. Progress has been made, despite the challenges during the pandemic, in particular with respect to AML/CFT supervision at banks. The authorities should strengthen efforts to pursue high-risk offenses and associated proceeds in line with Cambodia's ML/TF risk profile.

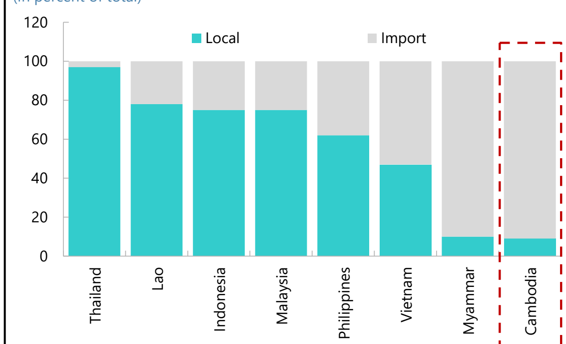
Authorities' Views

29. The authorities agreed with staff recommendations. The financial system was exposed to covid-related distress, but remained profitable and well capitalized. The policy on loan restructuring had supported the economy and avoided widespread bankruptcies. Nonetheless, the authorities agreed that the build-up of restructured loans was a concern requiring heightened vigilance. Authorities agreed that, depending on the results of the stress tests and additional data reported by banks, requiring full loss recognition of unviable loans would be an important first step toward a gradual and calibrated normalization of prudential requirements. Legislation for a bank resolution framework was being prepared, and the draft law for the deposit protection scheme had been finalized by the NBC. The Cambodia Financial Intelligence Unit was making progress to apply the recommendations of the Financial Action Task Force, and, despite the challenges of working through lockdowns, was actively pursuing cases. A stable currency would be needed for some time to reassure users of the value of the domestic currency and de-dollarize the economy, limiting the potential to increase exchange rate flexibility.

C. Structural Policies

30. The quality of the recovery is affected by several long-standing structural challenges. Several factors hold back growth potential and make the economy vulnerable to shocks, including the lack of diversification and the low value added in exports, high labor informality,[21] and perceptions of governance weaknesses and corruption, while additional vulnerabilities are emerging from climate change.

Intermediate Goods Sourcing by Foreign Manufacturers
(In percent of total)



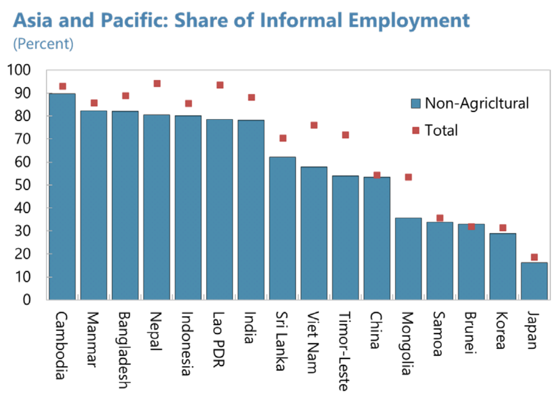
Sources: OECD

[20] The Financial Action Task Force notes that the authorities should: (1) enhance disseminations of financial intelligence to law enforcement authorities in connection with high-risk crimes; (2) demonstrate an increase in ML investigations and prosecutions in line with risk; (3) demonstrate an increase in the freezing and confiscation of criminal proceeds, instrumentalities, and property of equivalent value; and (4) provide training to strengthen the skills of competent authorities to implement targeted financial sanctions related to proliferation financing, and enhance the understanding of sanctions evasion. See: http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-october-2021.html.

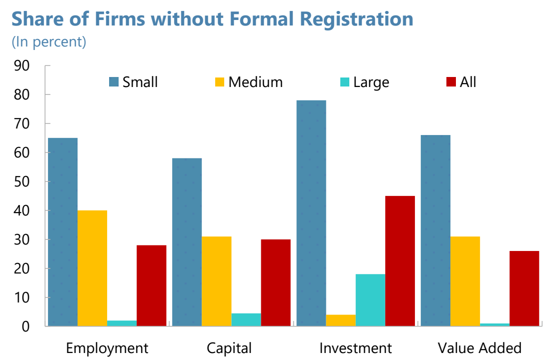
[21] The de jure exchange rate arrangement is a managed float. The central bank has maintained the exchange rate within a 2 percent band against the US dollar during the pandemic, hence the de

31. Addressing lack of diversification and low value added: Trade and investment liberalization has helped Cambodia to move from dependence on agriculture toward light manufacturing. However, so far this has been limited mainly to relatively low-skill value-added activities.[22] Diversifying and raising value added requires continued progress on "horizontal" policies to boost fundamentals such as institutions, education, and technological readiness.[23]

32. Addressing labor informality: Cambodia has one of the highest rates of informality in the region. Informal firms are usually much less productive than formal firms. Informality also reduces the tax base, and informal workers are not covered by social protection measures such as pension systems and health insurance. The authorities have pursued a policy of tax breaks to encourage firms to formally register. These measures could be bolstered with information campaigns and simplification of registration.[24]



Sources: ILO



Sources: World Bank Enterprise Survey, "The Investment Climate Assessment 2014"

33. Addressing corruption: Efforts to increase diversification and move up value chains will likely be undermined without progress to reduce "informal customs charges" and other costs; in addition, extensive corruption reduces the net benefits workers and firms see from paying taxes as part of the formal economy. The effectiveness of the Anti-Corruption Unit could be strengthened by

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facto arrangement is classified as "stabilized", effective June 2020.

[22] The authorities have fo

r many years pursued financial incentives to increase the use of the domestic currency, such as differences in riel and US dollar reserve rates to commercial banks, and a requirement that at least 10 percent of lending is in domestic currency,

[23] See Annamaria Kokenyne, Jeremy Ley, and Romain Veyrune, 2010, "Dedollarization", IMF Working Paper WP/10/188.

cies: The Backbone of Export Diversification and Complexity", IMF Working Paper WP/21/64.

[24] Workers can be employed informally *within* formal firms, suggesting that tax breaks to firms might not be sufficient by themselves to reduce informality. Programs to make tax registration of firms and workers easier have been shown to be successful—see, for example, Jonas Jessen and Jochen Kluve, 2021, "The effectiveness of interventions to reduce informality in low- and middle-income countries" *World Development* 138.

increasing its operational independence and transparency[25] and stepping up investigations through better use of financial intelligence. Legal reforms to introduce due diligence measures for business relationships with domestic politically exposed persons would help detect cases of corruption.

34. Addressing climate change vulnerabilities: Cambodia is projected to experience not only warming, but potentially changes to monsoon patterns, river flows, and water quality (Annex VII: Cambodia and Climate Change). A priority should be to identify and cost adaptation measures. The authorities have taken first steps to identify options for changing crop varieties, but this should be extended to adaptation measures to manage water flows and quality. Because climate change has implications not only for agriculture and fishing but also for transportation for industry and tourism, coordinating policies across many branches of government will be important.

35. Data quality and transparency. The public dissemination of economic statistics is gaining momentum, including under the e-GDDS initiative, and data quality improvements are advancing in several areas, supported by Fund TA. Looking forward, further strengthening of statistics—such as on trade—is an important public good that would improve the investment climate and improve the targeting of policies. (Annex IV: Capacity Development). External debt statistics do not cover borrowing by resident non-financial corporations—see Statistical Issues, Informational Annex.

Authorities' Views

36. The authorities agreed with the importance of reforms to not only boost growth potential but to build a more resilient economy, as indicated in the Economic Recovery Plan, which emphasizes the "three Rs" of recovery, reform, and resilience. They agreed with the specific challenges listed above. The SME bank and Credit Guarantee Corporation were intended to foster diverse small businesses. The (ACU) is focused on raising awareness and investigating corruption cases, and draft legislation on whistleblower protection has been submitted to the Ministry of Justice. The government has implemented a national climate strategy and also ratifying the 2015 Paris Accord, and the authorities have emphasized the importance of a green recovery.

STAFF APPRAISAL

37. The authorities have responded quickly to the crisis with measures to contain the spread of the virus and support livelihoods. The government rapidly redirected resources to healthcare while rationalizing other current spending. It implemented a system of cash transfers to vulnerable households. Loans and guarantees, tax breaks, wage subsidies, and support for retraining were extended to affected businesses. The NBC introduced measures early in the crisis to improve liquidity in the banking system, and issued guidance to banks to facilitate loan restructuring. Without these measures, incomes and employment would likely have fallen further.

[25] See Cambodia: Staff Report for the 2018 Article IV Consultation.

38. The outlook remains highly uncertain, complicating policy setting. Community spread of the virus in 2021 has set back recovery. Reopening the economy would allow a recovery in tourism, with consequent boosts to other service, real estate, and construction sectors. But the course of the pandemic remains uncertain, raising the risk of further stresses on households, firms, and financial institutions.

39. Given this uncertainty, policies should remain supportive in the near term, and be more finely targeted as the economy recovers. Policy makers face the task of balancing near-term support with longer-term sustainability. Healthcare and social assistance remain priorities; other interventions, such as tax and fee exemptions and credit support, can be recalibrated to ensure maximum value for money. To ensure the financial sector is sufficiently healthy to support the recovery, supervisory standards should be gradually normalized.

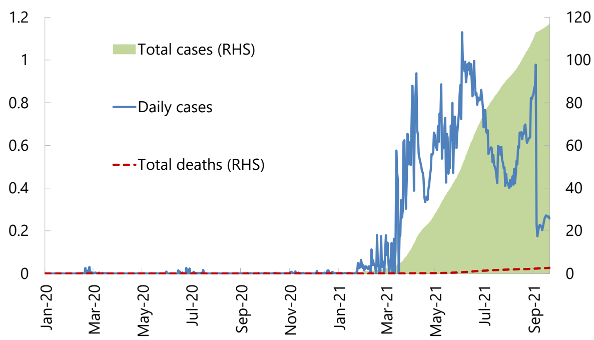
40. Over the longer term, policy should focus on measures to increase resilience and adaptability. A broader tax base and development of a sovereign bond market would allow fiscal policy to be more countercyclical in future. Reforms to the financial safety net would reduce risks of contagion among financial institutions. Addressing long-standing structural concerns—diversification and value added, informality, governance and corruption—would create a more robust economy. Increased public spending on infrastructure and education as recovery allows would improve fundamentals, and investment in climate change adaptation measures would mitigate vulnerabilities not only of agriculture but tourism and manufacturing also. Progress on de-dollarization would facilitate greater exchange rate flexibility, which would add a policy option to cope with shocks.

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

Box 1. Covid-19 Spread and Mitigation

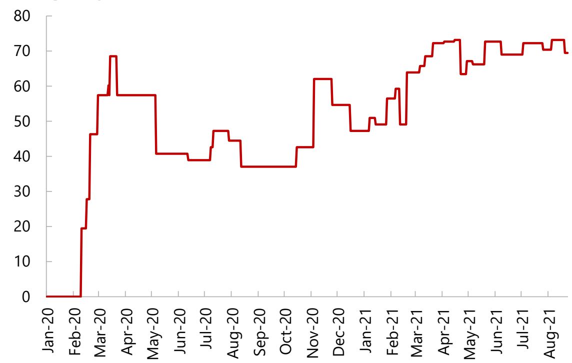
The first confirmed COVID-19 case was reported in January 2020. The government imposed restrictions on movement and gathering. Entry requirements and quarantine on entry to the country were imposed for foreigners and self-isolation for returning citizens. Domestic travel restrictions, school closures, and bans on public gathering and various venues (such as restaurants, casinos, and clubs) were employed. Recorded infections were only 484 before community outbreak in Phnom Penh in February 2021 but have since have surged to 118,000 as of October 27. The government responded with tightest restrictions yet seen in Cambodia: markets, schools, venues, and some factories were closed, a mask mandate was introduced, and stay-in-place orders were issued for specific districts with high incidences of infection. High schools were allowed to reopen from September 15, 2021.

COVID-19 Cases and Deaths
(In thousands)



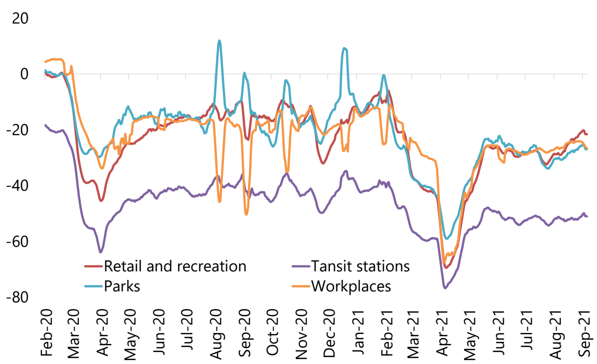
Sources: Our World in Data

Stringency Index



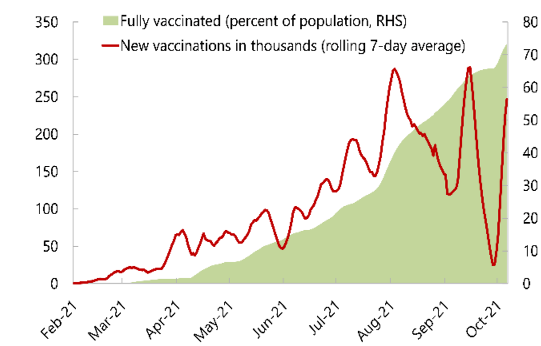
Sources: Oxford COVID-19 Government Response Tracker (OxCGRT)

Google COVID-19 Community Mobility Reports



Sources: Google COVID-19 Community Mobility Reports

COVID-19 Vaccinations



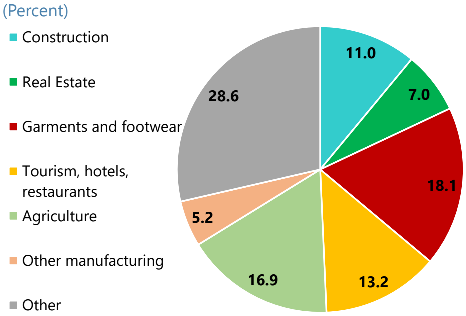
Sources: Our World in Data

The government was quick to secure and distribute vaccines. The first target was vaccination of those aged 16-64—around 10 million adults, or nearly 70 percent of the total population. In August 2021, the government extended vaccinations to individuals aged 12 to 18 and, in September, to individuals aged 6 to 12. As of October 27, 2021, 13.7 million individuals have been vaccinated, compared to the target of 14 million individuals out of a total population of around 16 million. Vaccine doses have been secured from COVAX and donations from other countries such as China, Australia, India, the US, the UK and Japan. Apart from these donations, the authorities have funded the vaccination program through budget reallocation, a concessional loan from the ADB, and private domestic donations.

Figure 1. Cambodia: The Cambodian Economy Before Covid

The main sectors were light manufacturing, hospitality, construction and real estate, and agriculture.

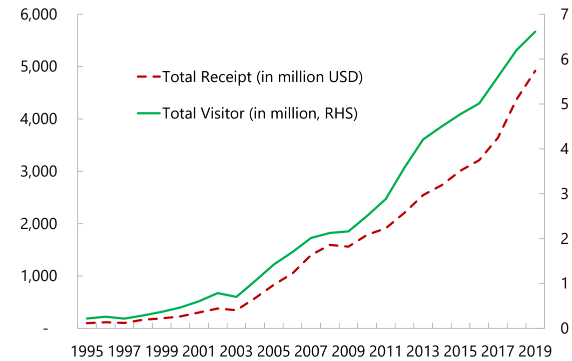
Real GDP Shares, 2019
(Percent)



Sources: Cambodia authorities.

Tourism had boomed, taking advantage of external demand…

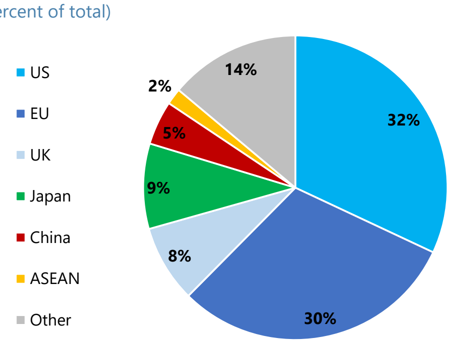
Inbound Tourism to Cambodia



Sources: Cambodia authorities

…while garment production was dependent on demand in advanced economies.

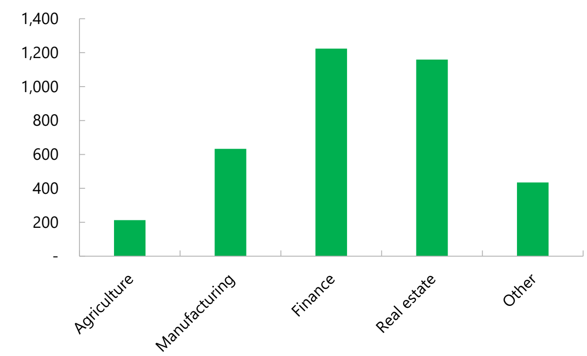
Garment Exports by Export Market, 2019
(In percent of total)



Sources: Cambodia authorities.

Construction and real estate drew in the bulk of foreign direct investment.

FDI Flow by Sector, 2019
(In millions of US dollars)

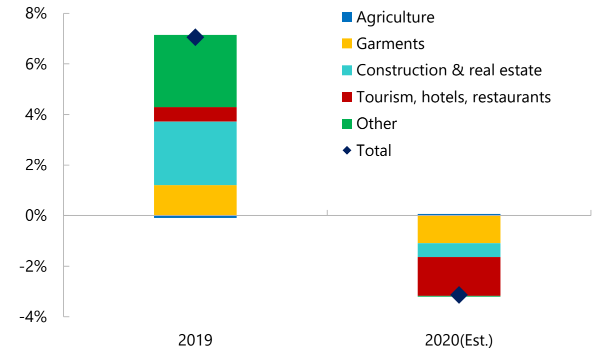


Sources: Cambodia authorities.

Figure 2. Cambodia: The Macroeconomic Impact of the Crisis

The economy was dragged into recession…

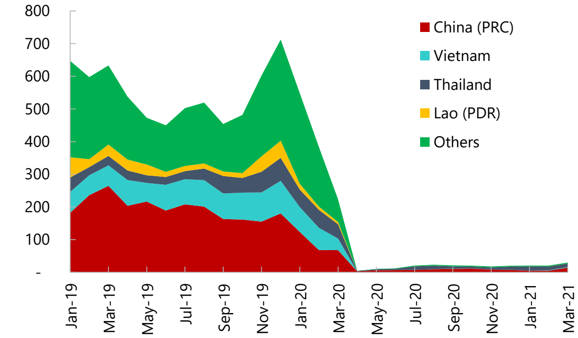
Contribution to GDP Growth
(Percent)



Sources: Cambodia authorities.

… by a collapse in tourism…

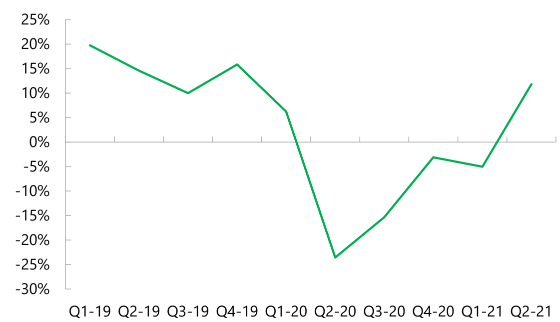
International Tourist Arrivals to Cambodia
(In thousands)



Sources: Cambodia authorities

…garments exports…

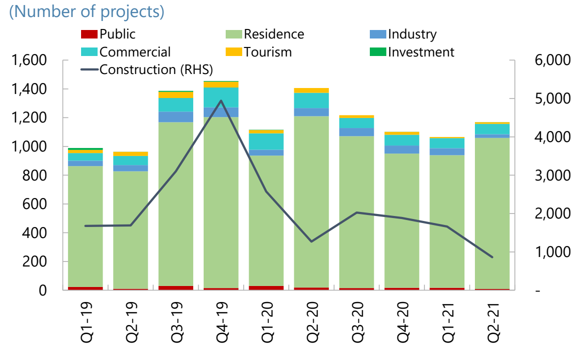
Growth of Garment Exports
(In percent, y/y)



Sources: Cambodia authorities

…and a downturn in construction.

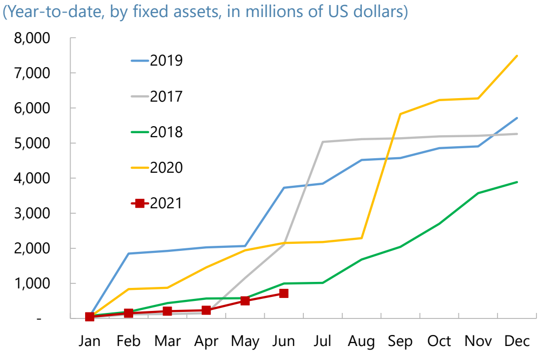
Construction Project Approvals
(Number of projects)



Sources: Cambodia authorities
Note: Construction value is in millions of US dollars

Investment approvals picked up at the end of 2020 but have been flat in 2021…

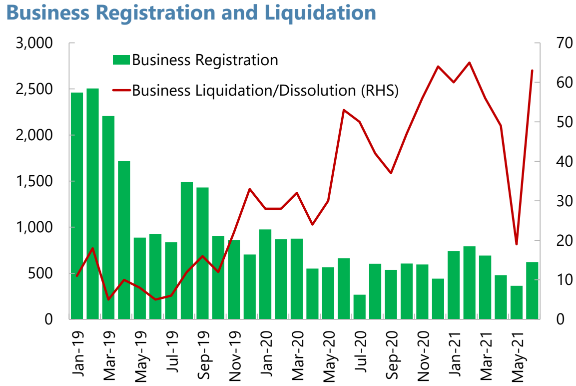
Investment Approvals
(Year-to-date, by fixed assets, in millions of US dollars)



Sources: Cambodia authorities

…while business creation has plummeted.

Business Registration and Liquidation

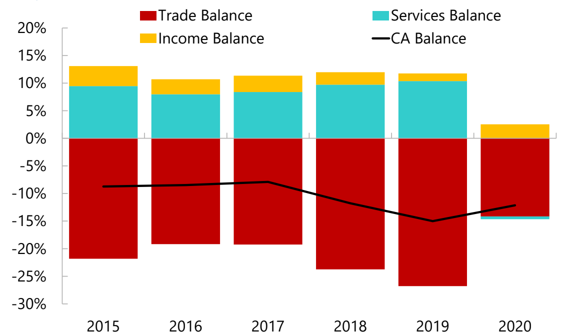


Sources: Cambodia authorities

Figure 3. Cambodia: External Balances

The current account balance improved in 2020…

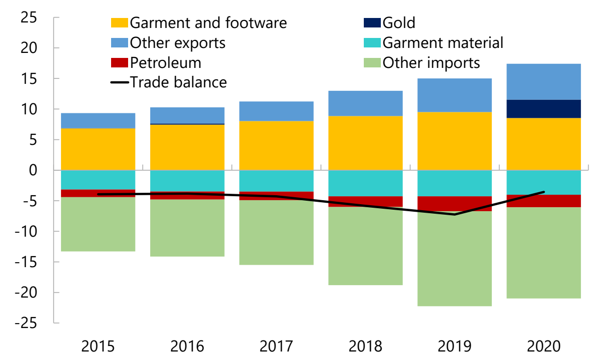
Current Account Balance
(In percent of GDP)



Sources: Cambodia authorities
Note: Income balance includes official transfers.

…with gold exports and import compression.

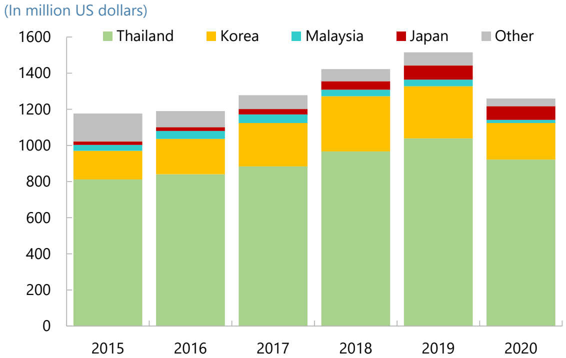
Trade Balance and Main Items
(In billions of US dollars; exports (+), imports (-))



Sources: Cambodia authorities

Remittances fell as workers abroad lost jobs…

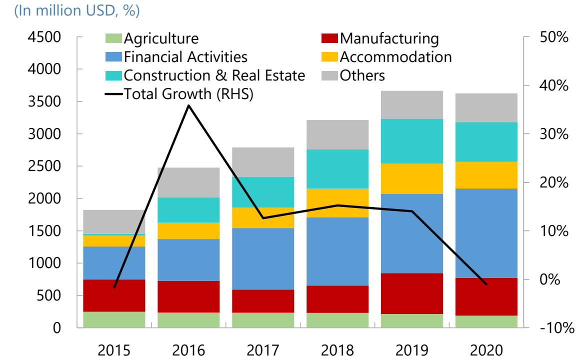
Remittances by Country
(In million US dollars)



Sources: Cambodia authorities

…but FDI inflows remained stable.

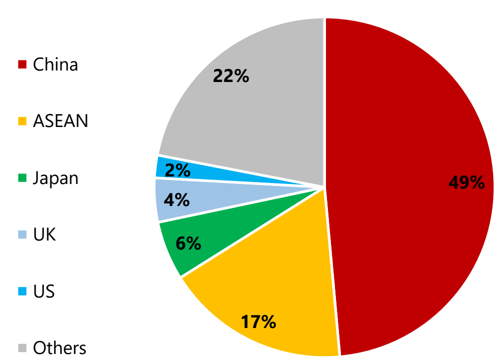
FDI Inflows by Sector
(In million USD, %)



Sources: Cambodia authorities

…dominated by inflows from the region…

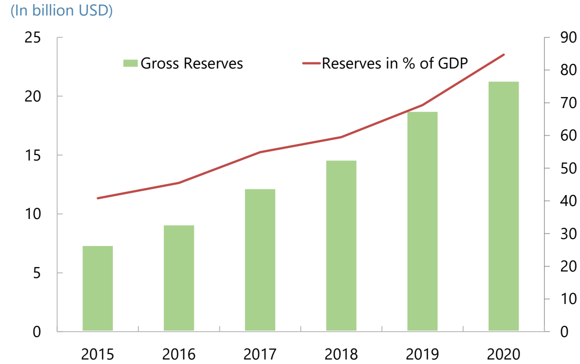
FDI Inflows by Source Country
(In percent, 2020)



Sources: Cambodia authorities

…leading to a further increase in reserves.

International Reserves
(In billion USD)



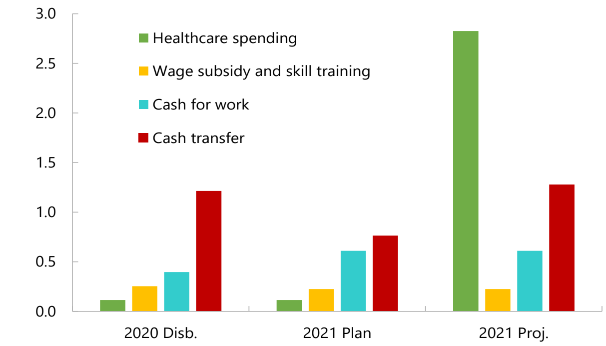
Sources: Cambodia authorities

Figure 4. Cambodia: The Public Finances

Higher-than-anticipated spending on public health measures and social support …

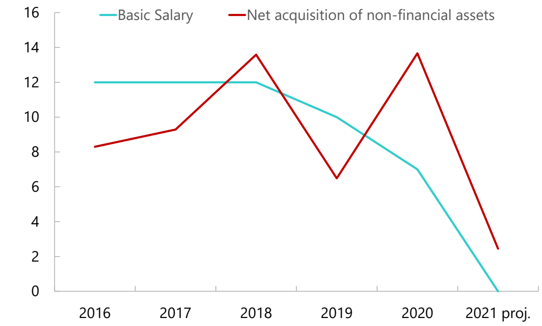
…even with restrained capital expenditure and public sector wages…

Public Health and Social Intervention



Sources: Cambodia authorities and IMF staff calculations.

Public Wage and Capital Spending
(Percentage growth)

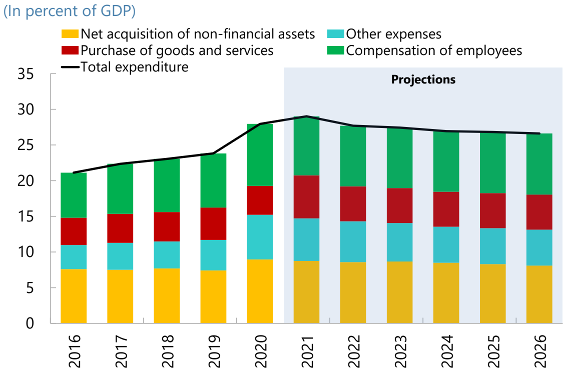


Sources: Cambodia authorities and IMF staff calculations.

…has led to spending increases.

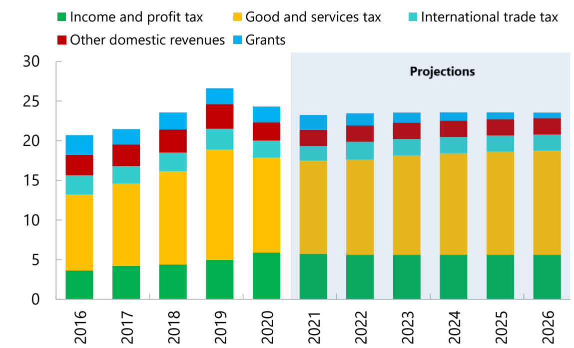
Together with falling revenues…

Government Spending
(In percent of GDP)



Sources: Cambodia authorities; and IMF staff calculations.

Fiscal Revenues
(In percent of GDP)

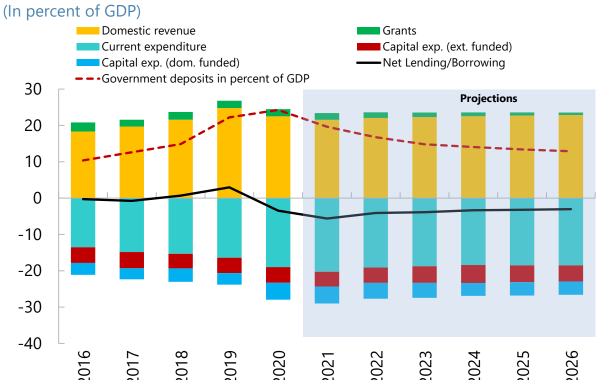


Sources: Cambodia authorities; and IMF staff calculations.

… fiscal balances have deteriorated…

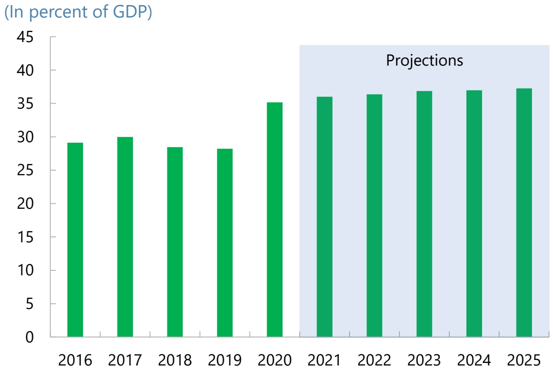
…leading to an increase in external debt.

Medium-term Fiscal Outlook
(In percent of GDP)



Sources: Cambodia authorities; and IMF staff calculations.

External Debt
(In percent of GDP)



Sources: Cambodia authorities

Table 1. Cambodia: Selected Economic Indicators, 2017-2022

Per capita GDP (2019, US$) : 1,713 — Life expectancy (2019, years) : 75.5
Population (2019, million) : 15.6 — Literacy rate (2019, percent) : 87.7
Poverty rate (2012, percent) : 17.7 — Gini (2012) : 29

	2017	2018	2019	2020	2021	2022
				Est.	Proj.	
Output and prices (annual percent change)						
GDP in constant prices	7.0	7.5	7.1	-3.1	2.2	5.1
Inflation (end-year)	2.2	1.6	3.1	2.9	3.2	3.0
(Annual average)	2.9	2.4	2.0	2.9	2.8	3.0
Saving and investment balance (in percent of GDP)						
Gross national saving	15.0	11.7	9.2	13.3	-1.4	8.3
Government saving	4.8	6.2	8.4	3.5	1.3	3.1
Private saving	10.1	5.5	0.8	9.8	-2.6	5.2
Gross fixed investment	22.9	23.4	24.2	25.5	25.5	25.0
Government investment	7.5	7.7	7.4	9.0	8.7	8.6
Private investment	15.4	15.7	16.8	16.5	16.8	16.4
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	23.3	26.6	18.2	15.3	13.3	17.4
Private sector credit	18.3	28.1	28.0	17.2	10.1	13.6
Velocity of money 1/	1.1	1.0	0.9	0.8	0.7	0.6
Public finance (in percent of GDP)						
Revenue	21.6	23.7	26.8	24.5	23.4	23.6
Domestic revenue	19.7	21.6	24.8	22.5	21.5	22.1
Of which : Tax revenue	16.9	18.6	21.7	20.2	19.5	20.0
Grants	1.9	2.1	2.0	2.0	1.9	1.5
Expenditure	22.4	23.0	23.8	28.0	29.0	27.7
Expense	14.8	15.3	16.4	19.0	20.3	19.1
Net acquisition of nonfinancial assets	7.5	7.7	7.4	9.0	8.7	8.6
Net lending (+)/borrowing(-)	-0.8	0.7	3.0	-3.5	-5.6	-4.1
Net lending (+)/borrowing(-) excluding grants	-2.7	-1.5	1.0	-5.5	-7.5	-5.6
Net acquisition of financial assets	3.2	3.5	8.8	0.6	-2.4	-1.4
Net incurrence of liabilities 2/	4.0	2.8	5.8	4.1	3.2	2.7
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	11,229	12,973	14,998	17,407	17,465	18,987
(Annual percent change)	9.3	15.5	15.6	16.1	0.3	8.7
Imports, f.o.b.	-15,504	-18,813	-22,251	-20,974	-24,221	-23,760
(Annual percent change)	9.8	21.3	18.3	-5.7	15.5	-1.9
Current account (including official transfers)	-1,756	-2,895	-4,067	-3,057	-7,038	-4,689
(In percent of GDP)	-7.9	-11.8	-15.0	-12.1	-26.9	-16.7
Gross official reserves 3/	12,200	14,628	18,763	21,334	20,541	21,814
(In months of prospective imports)	6.7	6.9	9.8	9.6	9.4	9.1
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt	6,669	7,021	7,597	8,810	9,376	10,137
(In percent of GDP)	30.0	28.4	28.2	35.2	36.0	36.4
Public debt service	211	266	309	359	377	420
(In percent of exports of goods and services)	1.3	1.4	1.5	1.9	2.0	2.0
Memorandum items:						
Nominal GDP (in billions of Riels)	89,831	99,544	110,014	103,512	108,786	117,679
(In millions of U.S. dollars)	22,208	24,599	27,088	25,192	26,187	28,020
Exchange rate (Riels per dollar; period average)	4,045	4,047	4,061	4,109	4,154	4,200

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

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

2/ Includes statistical discrepancy.

3/ Includes unrestricted foreign currency deposits held at the National Bank of Cambodia; starting in 2009, includes the new Special Drawing Right (SDR) allocations made by the IMF of SDR 68.4 million; starting 2016, RMB holdings are considered part of reserves following inclusion of RMB in the SDR basket.

Table 2. Cambodia: Medium-Term Macroeconomic Framework, 2017-2026

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.			Proj.			
Output and prices (percent change)										
GDP at constant prices	7.0	7.5	7.1	-3.1	2.2	5.1	5.9	6.1	6.3	6.5
GDP deflator	3.3	3.1	3.2	-2.9	2.9	2.9	3.0	3.0	3.0	3.0
Consumer prices (end-year)	2.2	1.6	3.1	2.9	3.2	3.0	3.0	3.0	3.0	3.0
Consumer prices (average)	2.9	2.4	2.0	2.9	2.8	3.0	3.0	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)										
Gross national saving	15.0	11.7	9.2	13.3	-1.4	8.3	14.0	14.4	15.3	16.3
Government saving	4.8	6.2	8.4	3.5	1.3	2.9	3.5	4.1	4.2	4.3
Private saving	10.1	5.5	0.8	9.8	-2.6	5.3	10.5	10.3	11.1	12.0
Gross fixed investment	22.9	23.4	24.2	25.5	25.5	25.0	23.2	23.0	24.0	25.0
Government investment	7.5	7.7	7.4	9.0	8.7	8.6	8.7	8.5	8.3	8.1
Private investment 1/	15.4	15.7	16.8	16.5	16.8	16.4	14.5	14.5	15.7	16.9
Private credit growth (percent change)	18.3	28.1	28.0	17.2	10.1	13.6	10.6	9.6	9.6	9.7
Public finance (in percent of GDP)										
Revenue	21.6	23.7	26.8	24.5	23.4	23.6	23.6	23.6	23.6	23.6
Of which: Tax revenue	16.9	18.6	21.7	20.2	19.5	20.0	20.2	20.5	20.7	20.8
Grants	1.9	2.1	2.0	2.0	1.9	1.5	1.3	1.0	0.9	0.7
Total expenditure	22.4	23.0	23.8	28.0	29.0	27.7	27.4	26.9	26.8	26.6
Expense	14.8	15.3	16.4	19.0	20.3	19.1	18.8	18.4	18.5	18.5
Net acquisition of nonfinancial assets	7.5	7.7	7.4	9.0	8.7	8.6	8.7	8.5	8.3	8.1
Net lending (+)/borrowing(-)	-0.8	0.7	3.0	-3.5	-5.6	-4.1	-3.9	-3.3	-3.2	-3.1
Net lending (+)/borrowing(-) excluding grants	-2.7	-1.5	1.0	-5.5	-7.5	-5.6	-5.2	-4.4	-4.1	-3.8
Net acquisition of financial assets	3.2	3.5	8.8	0.6	-2.4	-1.4	-0.6	0.5	0.6	0.7
Net incurrence of liabilities	4.0	2.8	5.8	4.1	3.2	2.7	3.3	3.9	3.8	3.7
Government deposits	12.6	14.9	22.2	24.3	19.6	16.8	14.8	14.1	13.4	12.9
Balance of payments (in percent of GDP, unless otherwise indicated)										
Exports (percent change) 2/	9.3	15.5	15.6	16.1	0.3	8.7	8.1	9.4	8.8	8.5
Imports (percent change) 3/	9.8	21.3	18.3	-5.7	15.5	-1.9	9.5	10.1	9.1	8.8
Current account balance (including transfers)	-7.9	-11.8	-15.0	-12.1	-26.9	-16.7	-9.2	-8.6	-8.7	-8.7
(Excluding transfers)	-10.4	-14.1	-17.0	-13.9	-28.6	-18.4	-10.8	-10.1	-10.2	-10.1
Foreign direct investment	12.0	12.6	13.1	13.8	13.7	13.5	13.1	12.7	12.3	11.9
Other flows	3.2	5.1	11.7	0.8	11.3	5.6	6.4	6.2	5.1	4.7
Overall balance	7.3	5.9	9.9	2.5	-1.8	2.4	10.3	10.4	8.8	8.0
Gross official reserves (in millions of U.S. dollars) 4/	12,200	14,628	18,763	21,334	20,541	21,814	24,944	28,344	31,462	34,552
(In months of next year's imports)	6.7	6.9	9.8	9.6	9.4	9.1	9.5	9.9	10.1	10.2
Public external debt (in millions of U.S. dollars)	6,669	7,021	7,597	8,810	9,376	10,137	11,087	12,022	13,122	14,317
(In percent of GDP)	30.0	28.4	28.2	35.2	36.0	36.4	36.9	37.0	37.3	37.5
Public external debt service (in millions of U.S. dollars)	211	266	309	359	377	420	444	472	500	528
(In percent of exports of goods and services)	1.3	1.4	1.5	1.9	2.0	2.0	1.8	1.7	1.6	1.6

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; starting in 2009, includes the new Special Drawing Right (SDR) allocations made by the IMF of SDR 68.4 million; starting 2016, RMB holdings are considered part of reserves following inclusion of RMB in the SDR basket.

Table 3a. Cambodia: Balance of Payments, 2017-2026 (BPM5)

(In Millions of U.S. Dollars, Unless Otherwise Indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Proj.						
Current account (including official transfers)	-1,756	-2,895	-4,067	-3,057	-7,038	-4,689	-2,780	-2,797	-3,087	-3,326
(Excluding official transfers)	-2,306	-3,473	-4,598	-3,504	-7,489	-5,158	-3,271	-3,311	-3,626	-3,873
Trade balance	-4,275	-5,840	-7,253	-3,567	-6,756	-4,773	-5,485	-6,176	-6,790	-7,461
Exports, f.o.b.	11,229	12,973	14,998	17,407	17,465	18,987	20,528	22,458	24,445	26,523
Of which: Garments	8,025	8,844	9,505	8,526	8,874	9,450	10,009	10,715	11,697	12,720
Imports, f.o.b. 1/	-15,504	-18,813	-22,251	-20,974	-24,221	-23,760	-26,013	-28,634	-31,235	-33,983
Of which: Garments-related	-3,505	-4,278	-4,282	-4,019	-4,614	-5,197	-5,955	-6,322	-6,784	-7,250
Petroleum	-1,409	-1,745	-2,426	-2,056	-2,094	-2,252	-2,335	-2,456	-2,616	-2,820
Services and income (net)	763	1,064	1,244	-1,138	-2,021	-1,734	800	1,383	1,610	1,960
Services (net)	1,861	2,392	2,808	-127	-952	-618	1,967	2,615	2,912	3,300
Of which: Tourism (credit)	3,638	4,359	4,770	1,015	239	644	2,898	3,477	4,347	4,999
Income (net)	-1,098	-1,328	-1,564	-1,010	-1,069	-1,115	-1,167	-1,232	-1,301	-1,340
Private transfers (net)	1,206	1,302	1,411	1,201	1,287	1,349	1,414	1,482	1,553	1,628
Official transfers (net)	549	578	531	447	451	469	491	514	539	547
Capital and financial account	3,382	3,978	6,727	4,099	6,557	5,348	5,895	6,182	6,189	6,400
Medium- and long-term loans (net)	582	457	613	853	578	912	1,198	1,530	1,650	1,644
Disbursements	722	646	831	1,211	875	1,244	1,542	1,880	2,005	2,005
Amortization	-153	-189	-224	-357	-297	-331	-344	-350	-356	-359
Foreign direct investment 2/	2,672	3,088	3,561	3,485	3,593	3,772	3,961	4,159	4,367	4,585
Net foreign assets of deposit money banks	79	-226	1,530	596	-302	-317	-317	-317	-317	-317
Other short-term flows	-222	333	668	-1,093	2,443	747	832	600	300	317
Errors and omissions	-8	362	16	-407	0	0	0	0	0	0
Overall balance	1,618	1,445	2,676	635	-481	659	3,115	3,385	3,102	3,073
Financing	-4,115	-3,460	-5,360	-4,731	606	-659	-3,115	-3,385	-3,102	-3,073
Change in gross official reserves 3/	-3,078	-1,445	-2,676	-635	793	-1,273	-3,129	-3,401	-3,118	-3,090
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-10.4	-14.1	-17.0	-13.9	-28.6	-18.4	-10.8	-10.1	-10.2	-10.1
Including official transfers	-7.9	-11.8	-15.0	-12.1	-26.9	-16.7	-9.2	-8.6	-8.7	-8.7
Trade balance (in percent of GDP)	-19.3	-23.7	-26.8	-14.2	-25.8	-17.0	-18.1	-18.9	-19.2	-19.4
Gross official reserves 4/	12,200	14,628	18,763	21,334	20,541	21,814	24,944	28,344	31,462	34,552
(In months of next year's imports)	6.7	6.9	9.8	9.6	9.4	9.1	9.5	9.9	10.1	10.2

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 changes in unrestricted FCDs held as reserves at the NBC, and excludes changes in gold holdings and valuation.

4/ Includes unrestricted FCDs held at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million; starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.

Table 3b. Cambodia: Balance of Payments, 2017–2026 (BPM5)

(In Percent of GDP, Unless Otherwise Indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.				
Current account (including official transfers)	-7.9	-11.8	-15.0	-12.1	-26.9	-16.7	-9.2	-8.6	-8.7	-8.7
(Excluding official transfers)	-10.4	-14.1	-17.0	-13.9	-28.6	-18.4	-10.8	-10.1	-10.2	-10.1
Trade balance	-19.3	-23.7	-26.8	-14.2	-25.8	-17.0	-18.1	-18.9	-19.2	-19.4
Exports, f.o.b.	50.6	52.7	55.4	69.1	66.7	67.8	67.9	68.7	69.0	69.0
Of which: Garments	36.1	36.0	35.1	33.8	33.9	33.7	33.1	32.8	33.0	33.1
Imports, f.o.b. 1/	-69.8	-76.5	-82.1	-83.3	-92.5	-84.8	-86.0	-87.6	-88.2	-88.4
Of which: Garments-related	-15.8	-17.4	-15.8	-16.0	-17.6	-18.5	-19.7	-19.3	-19.2	-18.9
Petroleum	-6.3	-7.1	-9.0	-8.2	-8.0	-8.0	-7.7	-7.5	-7.4	-7.3
Services and income (net)	3.4	4.3	4.6	-4.5	-7.7	-6.2	2.6	4.2	4.5	5.1
Services (net)	8.4	9.7	10.4	-0.5	-3.6	-2.2	6.5	8.0	8.2	8.6
Of which: Tourism (credit)	16.4	17.7	17.6	4.0	0.9	2.3	9.6	10.6	12.3	13.0
Income (net)	-4.9	-5.4	-5.8	-4.0	-4.1	-4.0	-3.9	-3.8	-3.7	-3.5
Private transfers (net)	5.4	5.3	5.2	4.8	4.9	4.8	4.7	4.5	4.4	4.2
Official transfers (net)	2.5	2.4	2.0	1.8	1.7	1.7	1.6	1.6	1.5	1.4
Capital and financial account	15.2	16.2	24.8	16.3	25.0	19.1	19.5	18.9	17.5	16.7
Medium- and long-term loans (net)	2.6	1.9	2.3	3.4	2.2	3.3	4.0	4.7	4.7	4.3
Disbursements	3.3	2.6	3.1	4.8	3.3	4.4	5.1	5.8	5.7	5.2
Amortization	-0.7	-0.8	-0.8	-1.4	-1.1	-1.2	-1.1	-1.1	-1.0	-0.9
Foreign direct investment 2/	12.0	12.6	13.1	13.8	13.7	13.5	13.1	12.7	12.3	11.9
Net foreign assets of deposit money banks	0.4	-0.9	5.6	2.4	-1.2	-1.1	-1.0	-1.0	-0.9	-0.8
Other short-term flows	-1.0	1.4	2.5	-4.3	9.3	2.7	2.8	1.8	0.8	0.8
Errors and omissions	0.0	1.5	0.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	7.3	5.9	9.9	2.5	-1.8	2.4	10.3	10.4	8.8	8.0
Financing	-18.5	-14.1	-19.8	-18.8	2.3	-2.4	-10.3	-10.4	-8.8	-8.0
Change in gross official reserves 3/	-13.9	-5.9	-9.9	-2.5	3.0	-4.5	-10.3	-10.4	-8.8	-8.0
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-10.4	-14.1	-17.0	-13.9	-28.6	-18.4	-10.8	-10.1	-10.2	-10.1
Including official transfers	-7.9	-11.8	-15.0	-12.1	-26.9	-16.7	-9.2	-8.6	-8.7	-8.7
Trade balance (in percent of GDP)	-19.3	-23.7	-26.8	-14.2	-25.8	-17.0	-18.1	-18.9	-19.2	-19.4
Gross official reserves 4/	54.9	59.5	69.3	84.7	78.4	77.9	82.5	86.7	88.8	89.9
(In months of next year's imports)	6.7	6.9	9.8	9.6	9.4	9.1	9.5	9.9	10.1	10.2

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 changes in unrestricted FCDs held as reserves at the NBC, and excludes changes in gold holdings and valuation.

4/ Includes unrestricted FCDs held at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million; starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.

Table 4. Cambodia: General Government Operations, 2017–26 (GFSM 2014)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				Budget	Est.	Budget	Proj.			Proj.		
Revenue	19,387	23,599	29,461	27,251	25,335	21,803	25,443	27,774	30,251	33,090	36,249	39,722
Of which: Nongrant	17,680	21,466	27,251	26,001	23,291	20,711	23,422	25,955	28,614	31,617	34,923	38,528
Tax	15,193	18,561	23,822	23,030	20,882	18,281	21,182	23,529	25,964	28,721	31,752	35,049
Income, profits, and capital gains	3,798	4,367	5,467	…	6,110	4,459	6,221	6,630	7,234	7,906	8,659	9,499
Good and services	9,312	11,694	15,280	…	12,399	11,428	12,775	14,110	16,057	17,924	19,927	22,078
International trade and transactions	1,966	2,355	2,897	…	2,198	2,283	2,022	2,625	2,663	2,882	3,156	3,462
Grants	1,707	2,133	2,210	1,250	2,044	1,092	2,021	1,819	1,637	1,473	1,326	1,193
Other revenues	2,487	2,905	3,430	2,972	2,409	2,430	2,240	2,426	2,650	2,896	3,171	3,479
Total expenditure	20,082	22,941	26,202	30,611	28,935	28,784	31,563	32,593	35,233	37,787	41,215	44,868
Expense	13,335	15,277	18,040	17,418	19,659	17,678	22,059	22,486	24,096	25,871	28,465	31,226
Compensation of employees	6,297	7,413	8,355	9,077	8,992	8,610	8,992	9,981	10,890	11,902	13,165	14,442
Purchase of goods and services	3,650	4,093	4,984	…	4,199	5,129	6,554	5,777	6,303	6,888	7,544	8,276
Interest	288	338	367	…	381	621	508	549	599	655	717	787
Expense not elsewhere classified	3,099	3,433	4,335	…	6,087	3,318	6,005	6,179	6,305	6,426	7,038	7,721
Net acquisition of nonfinancial assets	6,747	7,664	8,161	13,193	9,277	11,106	9,504	10,107	11,137	11,916	12,750	13,643
Of which: Externally financed	4,013	3,981	4,667	…	4,478	…	4,397	5,001	5,876	6,920	7,152	7,463
Net lending (+)/borrowing(-)	-696	658	3,260	-3,360	-3,601	-6,981	-6,119	-4,819	-4,982	-4,696	-4,966	-5,147
Net acquisition of financial assets	2,918	3,467	9,638	…	672	-2,328	-2,631	-1,637	-743	750	860	1,123
Net incurrence of liabilities	3,614	2,809	6,378	3,360	4,273	4,176	3,488	3,182	4,239	5,447	5,826	6,270
Of which: External	2,356	1,877	4,667	3,360	4,478	4,176	4,397	5,001	5,876	6,920	7,152	7,463
Revenue	21.6	23.7	26.8	22.9	24.5	20.0	23.4	23.6	23.6	23.6	23.6	23.6
Nongrant	19.7	21.6	24.8	21.9	22.5	19.0	21.5	22.1	22.3	22.5	22.7	22.9
Tax	16.9	18.6	21.7	19.4	20.2	16.8	19.5	20.0	20.2	20.5	20.7	20.8
Income, profits, and capital gains tax	4.2	4.4	5.0	…	5.9	4.1	5.7	5.6	5.6	5.6	5.6	5.6
Good and services tax	10.4	11.7	13.9	…	12.0	10.5	11.7	12.0	12.5	12.8	13.0	13.1
International trade and transactions tax	2.2	2.4	2.6	…	2.1	2.1	1.9	2.2	2.1	2.1	2.1	2.1
Grants	1.9	2.1	2.0	1.1	2.0	1.0	1.9	1.5	1.3	1.0	0.9	0.7
Other revenues	2.8	2.9	3.1	2.5	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Total expenditure	22.4	23.0	23.8	25.7	28.0	26.5	29.0	27.7	27.4	26.9	26.8	26.6
Expense	14.8	15.3	16.4	14.6	19.0	16.3	20.3	19.1	18.8	18.4	18.5	18.5
Compensation of employees	7.0	7.4	7.6	7.6	8.7	7.9	8.3	8.5	8.5	8.5	8.6	8.6
Purchase of goods and services	4.1	4.1	4.5	…	4.1	4.7	6.0	4.9	4.9	4.9	4.9	4.9
Interest	0.3	0.3	0.3	…	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Expense not elsewhere classified	3.5	3.4	3.9	…	5.9	3.1	5.5	5.3	4.9	4.6	4.6	4.6
Net acquisition of nonfinancial assets	7.5	7.7	7.4	11.1	9.0	10.2	8.7	8.6	8.7	8.5	8.3	8.1
Of which: Externally-financed	4.5	4.0	4.2	…	4.3		4.0	4.3	4.6	4.9	4.7	4.4
Net lending (+)/borrowing(-)	-0.8	0.7	3.0	-2.8	-3.5	-6.4	-5.6	-4.1	-3.9	-3.3	-3.2	-3.1
Net acquisition of financial assets	3.2	3.5	8.8	…	0.6	-2.1	-2.4	-1.4	-0.6	0.5	0.6	0.7
Net incurrence of liabilities	4.0	2.8	5.8	2.8	4.1	3.8	3.2	2.7	3.3	3.9	3.8	3.7
Of which: External	2.6	1.9	4.2	2.8	4.3	0.0	4.0	4.3	4.6	4.9	4.7	4.4
Memorandum items:												
Net lending (+)/borrowing(-) excluding grant	-2.7	-1.5	1.0	-3.9	-5.5	-7.4	-7.5	-5.6	-5.2	-4.4	-4.1	-3.8
Government deposits	12.6	14.9	22.2	…	24.3	…	19.6	16.8	14.8	14.1	13.4	12.9
GDP (in billions of riels)	89,831	99,544	110,014	118,800	103,512	115,213	108,786	117,679	128,396	140,324	153,687	168,593

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

Table 5. Cambodia: Monetary Survey, 2017–22

	2017	2018	2019	2020	2021	2022
				Proj.		
			(In billions of Riels)			
Net foreign assets	38,425	48,884	60,182	67,364	64,547	69,334
National Bank of Cambodia	49,735	59,246	76,931	86,782	85,532	91,877
Foreign assets	49,252	58,776	76,457	86,292	85,042	91,387
Foreign liabilities	-483	-470	-474	-490	-490	-490
Deposit money banks	33,222	38,985	46,479	51,762	50,568	47,481
Foreign assets	11,439	14,781	15,339	16,662	15,281	12,959
Foreign liabilities	-21,783	-24,204	-31,140	-35,100	-35,286	-34,522
Net domestic assets	40,784	51,356	58,254	69,178	90,092	112,272
Domestic credit	66,813	85,334	106,133	127,353	146,425	170,930
Government (net)	-12,487	-16,220	-23,884	-24,995	-21,310	-19,673
Private sector	79,282	101,554	130,017	152,347	167,734	190,602
Other items (net)	-26,030	-33,978	-47,879	-58,175	-56,334	-58,657
Broad money	79,209	100,240	118,436	136,542	154,639	181,606
Narrow money	9,293	10,024	13,513	15,091	17,357	20,282
Currency in circulation	8,135	9,013	11,906	13,474	15,520	18,135
Demand deposits	1,157	1,010	1,607	1,617	1,838	2,147
Quasi-money	69,916	90,217	104,923	121,451	137,282	161,325
Time deposits	3,633	4,385	5,301	6,902	7,795	10,015
Foreign currency deposits	66,283	85,831	99,622	114,549	129,487	151,309
			(12-month percentage change)			
Net foreign assets	45.8	27.2	23.1	11.9	-4.2	7.4
Private sector credit	18.3	28.1	28.0	17.2	10.1	13.6
Broad money	23.3	26.6	18.2	15.3	13.3	17.4
Of which: Currency in circulation	28.0	10.8	32.1	13.2	15.2	16.9
Foreign currency deposits	23.8	29.5	16.1	15.0	13.0	16.9
	(Contribution to year-on-year growth of broad money, in percentage points)					
Net foreign assets	18.8	13.2	11.3	6.1	-2.1	3.1
Net domestic assets	4.5	13.3	6.9	9.2	15.3	14.3
Domestic credit 1/	14.1	23.4	20.7	17.9	14.0	15.8
Government (net)	-5.0	-4.7	-7.6	-0.9	2.7	1.1
Private sector	19.1	28.1	28.4	18.9	11.3	14.8
Other items (net)	-9.7	-10.0	-13.9	-8.7	1.3	-1.5
Memorandum items:						
Foreign currency deposits (in millions of U.S. dollars)	16,419	21,282	24,378	27,726	31,001	35,831
(In percent of broad money)	83.7	85.6	84.1	83.9	83.7	83.3
Riel component of broad money	12,926	14,409	18,814	21,993	25,152	30,297
(In percent of broad money)	16.3	14.4	15.9	16.1	16.3	16.7
Credit to the private sector (in millions of U.S. dollars)	19,639	25,181	31,816	36,875	40,158	45,136
(In percent of GDP)	88.3	102.0	118.2	147.2	154.2	162.0
Foreign currency loans-to-total loans (in percent)	95.3	93.3	87.9	87.4	87.4	87.4
Loan-to-deposit ratio (in percent) 2/	114.0	110.3	114.7	116.2	113.3	110.1
Velocity 3/	1.1	1.0	0.9	0.8	0.7	0.6
Money multiplier (broad money/reserve money)	2.8	3.0	2.7	3.2	3.1	3.1
Reserve money (12-month percent change)	0.2	0.2	0.3	0.0	0.2	0.2

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: Selected Financial Soundness Indicators (FSIs), 2012–20

(In Percent)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital Adequacy									
Regulatory capital to risk-weighted assets	24.2	24.2	20.4	20.3	20.9	21.9	22.2	21.8	22.7
Capital to assets (leverage ratio)	16.2	16.8	14.4	14.2	14.3	14.0	13.9	13.6	14.2
Asset Quality									
Nonperforming loans to total gross loans	2.2	2.3	1.6	1.6	2.1	2.1	2.0	1.6	1.8
Earnings and Profitability									
Return on equity 1/	11.8	12.1	15.5	16.3	14.5	8.7	9.0	9.9	11.7
Return on assets 1/	2.3	2.4	2.9	2.9	2.5	1.5	1.6	1.8	1.9
Interest margin to gross income	66.5	68.6	72.9	63.1	65.3	61.0	56.3	54.9	39.0
Liquidity									
Liquid assets to total assets	15.3	17.9	16.2	16.6	15.8	15.8	16.5	16.0	16.7
Liquid assets to short-term liabilities	20.3	24.2	23.1	25.4	24.3	24.9	25.7	25.2	26.7
Customer deposits to total non-interbank loans	117.3	104.9	96.2	89.3	93.3	96.1	100.3	92.3	90.5
Sensitivity to Market Risk									
Net open position in foreign exchange to capital	2.7	9.4	4.1	3.6	2.6	2.5	4.0	8.5	8.1

Source: National Bank of Cambodia.

1/ Annualized.

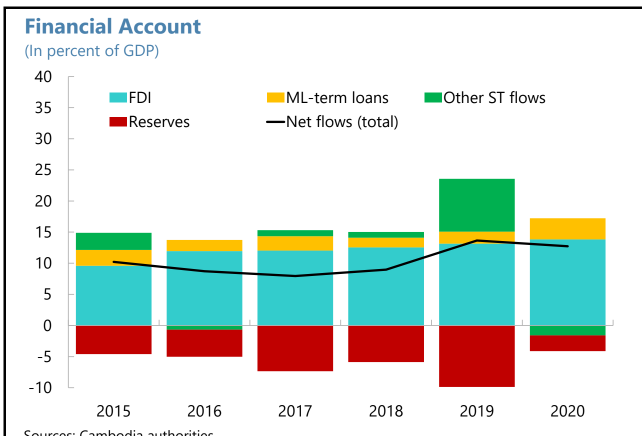
Annex I. External Sector Assessment

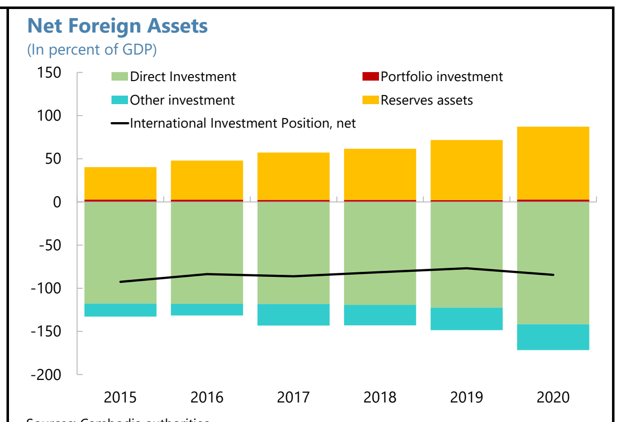
Tourism and garments receipts plunged in 2020 and remittance income slowed. However, import compression, increased exports in other manufacturing products, and a temporary surge in exports of non-monetary gold, left current account balances close to levels observed in 2018 and higher than in 2019. FDI inflows were stable and reserves continued to accumulate. When corrected for temporary factors (especially for tourism and the exceptional gold exports), staff assesses that the external position of Cambodia in 2020 remains substantially weaker than the level implied by medium-term fundamentals and desirable policies, the same classification as assessed in the 2019 Article IV Staff Report.

A. Capital and Financial Account

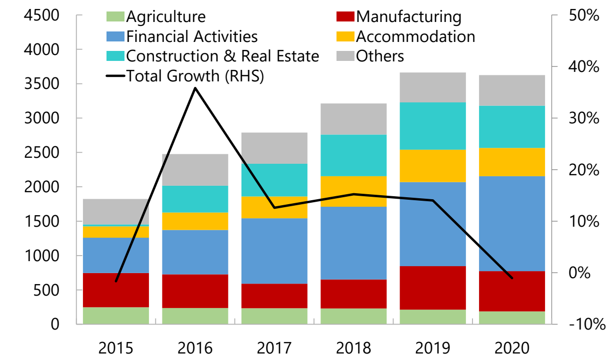
1. **The financial account has remained in large surplus in 2020 (15.2 percent of GDP), owing largely to FDI inflows, particularly from China.** Short-term flows deteriorated to –[3.3] percent of GDP but medium-term loans remained stable at [2.4] percent. The net foreign asset (NFA) position, mainly composed of FDI liabilities, slightly decreased, to -85 percent of GDP by end-2020, from -77 percent of GDP in 2019. Cambodia's NFA position is projected to trend downward over the medium term, in line with continued FDI inflows partly offset by reserves accumulation.

2. **Now standing at 14.1 percent of GDP, FDI inflows increased slightly over 2019 levels.** Investments are concentrated in long-term projects related to real estate, finance, and construction activities; the importance of these sectors has been growing over time. Overall, capital inflows are expected to remain broadly stable over the medium term. Downside risks could materialize, particularly if further volatility arises in the real estate sector. Capital flows appear sufficient to finance current account deficits: the overall balance in 2020 remains positive at 2.5 percent of GDP, despite the large shocks induced by the pandemic.



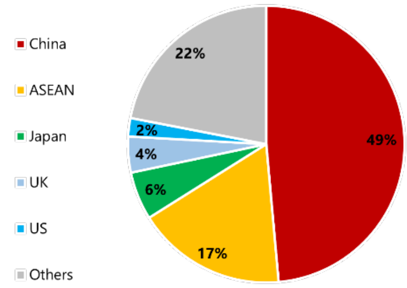


FDI Inflows by Sector
(In million USD, %)



Sources: Cambodia authorities

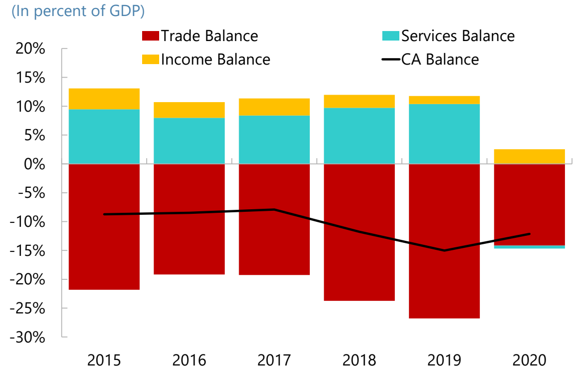
FDI Inflows by Source Country
(In percent, 2020)



Sources: Cambodia authorities

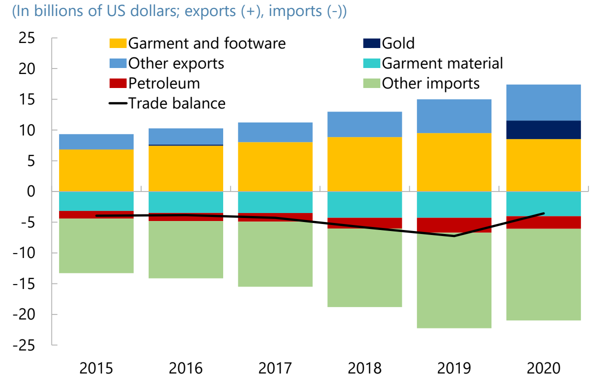
3. Current account. The current account deficit was 12.1 percent of GDP at the end of 2020, a significant improvement compared to the 15 percent of GDP deficit in 2019. The gain was driven by a significant improvement in the trade balance, standing at -14.2 percent of GDP, up from -26.8 percent in 2019. The losses in demand for garments, stemming from decreased consumer demand in the US and EU, were partially compensated by growth in other manufactured exports (bicycles, rubber, and electronic components) to the same markets. The improvement was also strongly driven by a surge in non-monetary gold exports, accounting for 17.3 percent of total 2020 exports, or 12 percent of GDP. The improvement in the trade balance helped to compensate for the large losses in the services balance, which entered negative territory (-0.5% percent of GDP), driven by sharp downturns in tourism receipts. Remittances and other private transfers declined from 5.2 to 4.8 percent of GDP, and net official transfers stood at 1.8 percent (down from 2 percent in 2019).

Current Account Balance
(In percent of GDP)



Sources: Cambodia authorities 1/ Income balance includes official transfers.

Trade Balance and Main Items
(In billions of US dollars; exports (+), imports (-))



Sources: Cambodia authorities

4. Adjustors, CA norm and gap. By the end of 2020, the current account balance stood at -12.1 percent of GDP.

To assess external sustainability, staff has applied adjustors for factors that have a large effect on external balances but are deemed to be temporary.

- The first adjustor relates to impact of the pandemic on tourism. The service balance became negative in 2020 due to the loss of tourism receipts; however, this effect is assumed to be confined to 2020 and 2021, as current trends and progress in the vaccination campaign indicate that a gradual return of foreign tourists may be possible sometime in 2022. This adjustment is deemed to be 4.2 percent of GDP.[1]

- The second adjustor relates to the role of gold exports, which in 2020 had a major impact on the trade balance. Staff has discounted the gold exports in the assessment of the current account position: Cambodia is not a gold producer; the surge in the value of exports (to 12 percent of 2020 GDP) is assumed to be temporary, largely due to private dissaving given rising gold prices.[2] The adjustment is -6.5 percent of GDP, or 55 percent of the total gold exports in 2020.

- Risks related to natural disasters (floods, instable monsoon patterns, droughts) suggest a third and final adjustment to the baseline current account balance, worth 1.3 percent of GDP.

[1] This is an automatic calculation of the EBA-lite model, stemming from the ratio of net tourism balance to GDP in 2019 (14.4 percent); and a coefficient which accounts for a certain degree of scarring in the services sector.

[2] Note that the imports of non-monetary gold have not been recorded in historical BOP statistics. The external position would be even weaker, should these imports be accounted for.

Cambodia: Model Estimates for 2020

(In percent of GDP)

	CA model	REER model
CA-Actual	**-12.1**	
COVID-19 adjustor (+) 1/	4.2	
Additional temporary/statistical factors (+)	-6.5	
Natural disasters and conflicts (-)	-1.3	
Adjusted CA	**-13.1**	
CA Norm (from model) 2/	**-7.0**	
Adjusted CA Norm	**-7.0**	
CA Gap	**-6.1**	**-9.8**
o/w Relative policy gap	2.8	
Elasticity	-0.58	
REER Gap (in percent)	**10.5**	**16.9**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (4 percent of GDP). A statistical adjustment of -6.5% of GDP is applied to take into account the temporary surge in non-monetary gold exports.

2/ Cyclically adjusted, including multilateral consistency adjustments.

- The sum of these adjustors with the actual current account leads to the estimation of an adjusted current account balance of -13.1 percent of GDP for 2020.
- The current account norm, or the balance consistent with long-term fundamentals, is estimated to be -7 percent of GDP.[3]
- The difference between the adjusted CA balance and the norm leads to an estimated current account gap of -6.1 percent of GDP in 2020, suggesting REER overvaluation of 10.5 percent.[4] This implies that Cambodia has an external position substantially weaker than implied by long-term fundamentals.

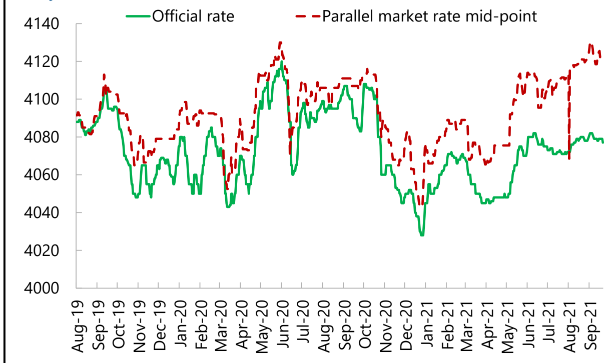
5. Exchange rate. The National Bank of Cambodia (NBC) intervenes in the foreign exchange market to maintain exchange rate stability with the US dollar. From March 2019, the exchange rate agreement was reclassified from “other managed” to “crawl-like”, as, since then, the official exchange rate followed a depreciating trend within a 2 percent band against the US dollar, with a realignment in October 2019. The central bank has maintained the exchange rate within a 2 percent band against

[3] The norm is calculated based on a cross-country regression model, which takes into account long-run fundamentals (expected growth, dependency ratios, population growth, saving ratios, the risk of natural disasters, etc.) and compares the domestic economy with the world average. The norm is also based on the difference between desirable policies, or those needed to achieve long-run balance, and actual policies.

[4] The REER gap is calculated by dividing the CA gap by the elasticity parameter of 0.58. The elasticity is determined by average world elasticities on imports and exports to GDP and the ratio of Cambodia’s imports and exports relative to GDP in 2020.

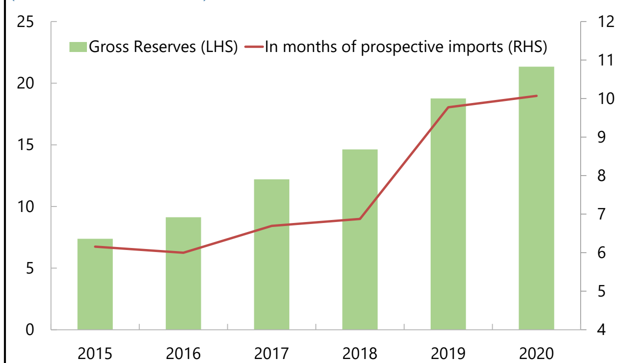
the US dollar during the pandemic, hence the de facto arrangement is now classified as "stabilized", effective June 2020. Parallel market rates are close to official rates, indicating overall confidence in the capacity of NBC to stabilize the currency. Parallel and official rates moved in synchrony up to February 2021. Later trends indicate a slight pressure towards depreciation, possibly linked to rising infection rates and subsequent restrictions to economic activity.

Exchange Rate
(Daily KHR/USD)



Sources: Cambodia authorities

International Reserves
(In billion USD and months)



Sources: Cambodia authorities

6. Reserves: Gross reserves increased by US$2.6 billion last year, driven by the improving current account balance, continued FDI inflows and valuation effects stemming from non-US$ denominated assets.[5] This corresponds to about 10 months of prospective imports, or nearly 85 percent of estimated 2020 GDP. This is a large increase over the 2018 assessment, when reserves at 7 months of prospective imports were already deemed adequate. A high level of international reserves remains advisable, as Cambodia is a highly export-dependent economy, operating in a fixed-exchange rate regime with a high degree of dollarization. Cambodia received approximately US$239 million from the IMF in August 2021 as part of the US$650 billion SDR allocation, equivalent to around 1 percent of Cambodia's gross international reserves.

[5] Gross reserves include FX currency/deposit, high liquid assets denominated in FX currency, SDR, and gold.

Annex II. Risk Assessment Matrix[1]

Nature/source of the shock	Likelihood	Impact	Policies to minimize impact
Conjunctural risks and scenarios			
• **Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries.** • **Global resurgence of the Covid-19 pandemic.**	Medium	Vaccination is proceeding rapidly, with 64% of the population expected to be inoculated by end 2021. A resurgence of domestic cases due to vaccination-resistant variants could pose significant threat to the recovery, with effects felt across all economic sectors. Lower growth abroad due a resurgence of the pandemic could affect exports and remittances, and compromise the return to international travel, with significant effects on domestic GDP and current account balances. FDI are the largest component of capital account and remained stable. Current depreciation pressures seem contained.	Continue vaccination procurement and distribution as planned. Ensure resources are continuously devoted to monitoring domestic virus transmission and the healthcare sector. Potentially, enhance fiscal response to protect vulnerable households and firms.
Disorderly transformations.	Medium	Permanent changes in international travel patterns could damage the tourism industry, a large component of GDP. Labor reallocation away from services may be difficult, and result in a large fraction of the labor force reverting to low-productivity agricultural production. Private debt has been increasing rapidly and many households and businesses would be at severe risk of debt distress if loan forbearance were cut abruptly.	Support for vulnerable households (e.g. cash transfers) should be maintained; exit from loan forbearance should be phased gradually to avoid stalling the economic recovery. Investments in basic and tertiary education and re-training programs for workers should be scaled up, subject to ensuring budget efficiency.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.	Low	The government does not borrow extensively at market rates and the banking sector is largely funded through domestic deposits. Microfinance may be vulnerable to funding obtained from abroad, posing risks to SMEs and the informal sector. The funding of property developers (which often lend to buyers) is not well understood and could be a risk.	Enhance supervision of microfinance institutions. The establishment of Non-Bank Financial Services Authority is a positive development toward supervision of property developers.
Widespread social discontent and political instability.	Low	The political situation has been stable in recent years. Government control over political institutions is strong. The government has enacted several fiscal measures to protect the most vulnerable segments of population during the pandemic.	Continue fiscal support to vulnerable segments of the population and to workers affected by lockdowns/restrictions.
Rising commodity prices amid bouts of volatility.	Medium	Cambodia is a net oil importer and stands to lose from rising oil and energy prices. It depends on raw materials imports for much of its	Policies to counteract rising oil prices are limited, in the short-run. The monetary

[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.

		manufacturing production. Rising commodity prices could reduce households' purchasing power and increase relative poverty.	policy objective is currency stability. Inflation may have distributional consequences that could be managed by fiscal interventions.
Financial system vulnerability	**High**	The Cambodian real estate and construction sector is reputed to draw substantially on credit provided by developers, which fall outside the supervision of the NBC. Substantial loan forbearance in 2020 may have left many financial institutions with weak balance sheet positions.	The establishment of the Non-Bank Financial Services Authority in 2020 is a significant step in the direction of broader supervision of the financial system. Timely collection and disclosure of data on loan performance is crucial. Exit from loan forbearance should be timed carefully.
		Structural risks	
Intensified geopolitical tensions and security risks.	**Low**	An increase in geopolitical tensions in the region could disrupt trade and damage confidence, possibly affecting export markets and/or FDI.	Continue to promote export market diversification, relying on the growing importance of the regional markets.
Cyber attacks	**Medium**	Government and private sector information systems are vulnerable to security breaches.	Enhance guidelines for security in the government and private sector information systems.
Higher frequency and severity of natural disasters related to climate change	**High**	Cambodia is extremely vulnerable to extreme weather events. Floods, droughts and changing monsoon patterns pose a severe threat to agricultural production, a crucial source of income for the most vulnerable segments of the population as well as an important source of exports. Urban areas located close to riverbanks have experienced flooding, which threaten industrial production and housing. Forced migration of large segments of the population may pose social and fiscal challenges.	The National Adaptation Plan (NAP) enacted in 2020 and the Green recovery Action Plan (2021-2023) signal intention to take action to address climate challenges. Important to keep focusing on adaptation, through investment in climate-resilient infrastructure, reforestation and focus on securing agricultural production/food security. In the long run, it is crucial to budget for support to households and firms affected by extreme weather events.

Annex III. Implementation of Past Advice

Safeguarding Fiscal Sustainability and Promoting Inclusion
Many measures have been taken in line with past Fund advice. To meet the spending needed especially for infrastructure, health, and education, in the context of Cambodian SDGs (CSDGs), authorities have made significant progress in sustaining revenues by modernizing revenue administration. However, further reforms are warranted to improve efficiency and equity of the tax system, as recommended. The authorities continue to gradually improve fiscal governance mainly through PFM in line with Fund advice.
Fiscal Policies to Support SDGs
Integrated National Financing Framework (INFF): With the aim to explore new sources and maximize existing source of finance to accelerate the CSDGs achievement, the authorities have started work on developing a best-practice financing framework, that integrates financing for CSDGs from public, private, and blended sources, with the support from UN agencies in Cambodia.
Improving Public Financial Management
Sub-National Budget System Reform 2019–2025: A strategy was adopted to align the sub-national budget system with the overall *Budget System Reform Strategy 2018–2025*, laying out principles for the preparation of a sub-national strategic plan, budget management, and reporting systems. The PIMA assessment of 2019 will also help to inform reform implementation.
Managing fiscal risks from PPPs: The Law on Public-Private Partnerships is being drafted and undergoing public consultations and is expected to be adopted in 2021.
Public Procurement System Reform Strategy 2019–2025: Adopted in 2019, the strategy aims to prepare annual procurement plans and increase transparency, accountability, and competitiveness through e-procurement systems and aligning with the Financial Management Information System (FMIS).
Medium-Term Fiscal Framework (MTFF): The MTFF is developed but not yet finalized. The MTFF will be fully integrated into the 2023 budget process by setting expenditure ceilings for key sectors.
Public Debt Management Strategy (PDMS) 2019–2023: Adopted in 2019, the strategy aims to align debt management with MTFF priorities, including assessing and managing risks from PPPs.

Public Investment Management System Reform Strategy (PIMSRS) 2019-2025: Adopted in 2019, the strategy aims to establish a public investment management system, covering all sources of financing and administration levels.

Mobilizing Tax Revenues

Revenue Mobilization Strategy (RMS): The authorities have implemented the 2014–18 RMS, which has resulted in significant revenue gains, mostly through improved tax administration (an additional 3 percent of GDP revenue gain in three years). The 2019–2023 RMS was officially launched in 2019, with a view to continuing modernization and automation efforts, reviewing tax incentives, and establishing Key Performance Indicators (KPIs) to monitor performance. The authorities began a Tax System Reform Study in July 2021, to complement the RMS. The first draft of the study is expected to be completed by Q1 2023. The study will be conducted through i) literature review on best practices and experience of peer countries, ii) comprehensive assessment of existing tax system, iii) in-depth analysis of tax policies by key tax types and tax administration, iv) review of related tax laws and regulations, and v) preparation of reform strategy or roadmap of tax system reform.

Addressing Macrofinancial Risks

The authorities continue to implement policies to address financial sector vulnerabilities in line with past Fund advice. Within the context of the COVID-19 crisis, progress in addressing real sector related risks has been made with the establishment of the Non-Bank Financial Service Authority (NBFSA). Furthermore, authorities have been promoting use of local currency and financial market development. At the same time, authorities have stepped up their efforts to achieve the adoption of full risk-based supervision, in accordance with past recommendations. Consistent with previous Fund advice, the crisis management framework has been an important topic on the agenda. Credit growth has naturally slowed, due to the impacts of COVID-19.

Moderating credit growth

Delayed implementation of the regulation on capital buffers in banking and financial institutions (BFIs): This regulation, issued by the NBC in February 2018, aimed to increase the resilience of BFIs. In March 2018, the NBC issued a circular setting the countercyclical capital buffer (CCyB) to 0 percent. The full implementation of capital conservation buffer has been delayed until further notice as an emergency response to improve banking and financial institution liquidity.

Continued implementation of regulation on the liquidity coverage ratio (LCR):
The NBC has continued to implement the LCR regulation issued in December 2015, requiring banks and MFIs to gradually move to maintaining the minimum liquidity at 100 percent of their projected 30-day net cash outflows by January 1, 2020. During the COVID-19 crisis, the authorities decided to reduce the required LCR according to each institution’s conditions.

Addressing real estate sector risks
Establishment of the Non-Bank Financial Service Authority (NBFSA): In January 2021, the NBFSA was established with the promulgation of the Law on Organization and Functioning of Non-Bank Financial Service Authority. The new authority will regulate and supervise insurance, securities, social security, accounting and audit, and real estate institutions and trusts and pawnshops.
Enhancing regulation and supervision
Continued transformation towards full risk-based and forward-looking supervision: In August 2020, the NBC issued a new regulation on the structure and function of the Banking Supervision General Department, while also adopting liquidity ratio and capital ratio stress testing to measure the resilience and soundness of BFIs, in line with international best practices.
Updating the definition of capital: With IMF technical assistance, the NBC is currently updating the regulation to define BFIs' capital in accordance with Basel III core principles and international best practice.
Comprehensive crisis management framework
Establishment of a deposit protection scheme (DPS) and a special resolution regime (SRR) Unit: In line with Fund advice, the NBC in December 2020 issued a regulation establishing a DPS and SRR Unit—a dedicated team to work on the preparation of regulatory framework and other necessary tasks related to the implementation of a DPS and SRR.
Preparation of laws on SRR and DPS: Following IMF technical assistance, the NBC is currently working on a draft Law on SRR and a law on DPS to strengthen the financial safety net. These laws complement the existing prompt corrective action (PCA) and emergency liquidity assistance (ELA) mechanisms, the key layers of a comprehensive crisis management framework.
Financial sector oversight
Law on anti-money laundering and combating the financing of terrorism (AML/CFT): The new law took immediate effect on June 27, 2020 and replaces the previous law on AML/ CFT from 2007 and its subsequent amendment in 2013. Regulations made under the previous laws continue to be in force.
Increasing the use of local currency
Continued facilitation of local currency liquidity: The NBC has continuously implemented Liquidity Providing Collateralized Operations (LPCOs), with a total injection of 5.9 trillion KHR (around US$1.45 billion) in 2020, or 24.5 percent year on year growth.

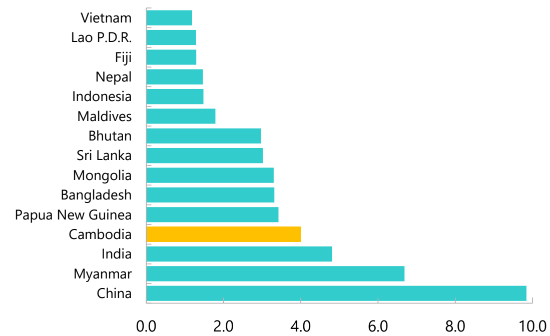
Supporting Progress Towards SDGs
Progress has been made in advancing structural reforms to improve competitiveness and diversification, promote sustainable development, and strengthen governance, broadly in line with previous Fund advice. Efforts have gone into addressing the barriers that constrain the ease of doing business and improving investment laws in Cambodia. However, while development spending has increased, more efforts in integrating SDGs into planning and policy-making processes would be warranted for authorities to achieve SDGs targets and gains in economic welfare. Progress on addressing governance vulnerabilities and corruption according to Fund recommendations has been gradual. Authorities have strengthened anti-corruption efforts, but there has been limited progress on a law on the protection of whistleblowers.
Improving competitiveness and diversification
Improving competitiveness: The authorities continue to lower transportation costs and improve trade facilitation. These include dissolving the Kampuchea Shipping Agency & Brokers (KAMSAB) and the Cambodia Import-Export Inspection and Fraud Repression Directorate General (CAMCONTROL) and other measures. Two new draft laws, namely the law on investment and the law on special economic zones, are expected to be completed and promulgated in 2021.
Improving diversification: The authorities continue to develop strategies that would help Cambodia diversifies its exports products. One example is the introduction of National Cassava Policy in 2020. The authorities also work on drafting a five-year development strategy for the country's garment, footwear, and travel goods.
Promoting growth and inclusiveness: To achieve the objectives set in the Industrial Development Policy 2015–2025 (IDP), the authorities have recently introduced several measures, including establishing an SME bank to support domestic manufacturing firms, providing tax incentives to SMEs in priority sectors, and establishing a Skill Development Fund and an Entrepreneurship Promotion Fund to support SMEs and narrow skill mismatches.
Governance and regulatory reforms
ACU: The Anti-Corruption Unit (ACU) has yet to complete the draft law on the protection of whistleblowers and witnesses to better align national laws with the UN Convention Against Corruption. **Land registration:** The land registration process accelerated with about 80 percent of unofficial deeds being registered. The government's plan is to legalize all registered deeds by 2021. **Rule of law:** Work on developing legislation for a commercial court is ongoing, while the National Commercial Arbitration Center (NCAC) is playing an active role in resolving commercial cases.

Regulatory environment: Authorities announced plans to simplify the process for setting up a business. In 2020, Cambodia Data Exchange platform (CamDX) and the online business registration platform was launched.
Addressing data gaps and improving data quality
Continued development of enhanced General Data Dissemination System(e-GDDS): Cambodia participates in the e-GDDS linked to the IMF's Dissemination Standards Bulleting Board (DSBB). The National Summary Data Page (NSDP) hosted on the Central Bank website aims to provide access to the national economic statistics.
Continued development of a residential property price index: Initiated in 2019, work continues to compile the index, which will be fill a gap in national macroeconomic data and provide a crucial tool for macroprudential policy.
Improving external sector statistics: IMF technical assistance has proceeded to help the NBC improve the quality of external sector data, such as for foreign direct investment data and investigate International Merchandise Trade data mismatches.
Enhancing coverage of non-bank financial corporations in monetary and financial statistics (MFS): Technical assistance from the Fund has been provided to the NBC to improve MFS, including incorporating insurance sector balance sheet data.
Rebasing of GDP: The National Institute of Statistics has been working on rebasing GDP by adopting 2014 GDP as base year, but work has not yet been finalized.
Compiling and disseminating government finance statistics (GFS): Technical assistance from the Fund has been provided to the Ministry of Economy and Finance to review existing data gaps and support the reconciliation of general government data in GFS, monetary and financial statistics, and balance of payments and international investment position statistics.
National strategy for the development of statistics (NSDS) 2019-2023: The National Institute of Statistics will conduct sectoral assessments of social, economic, natural resources statistics and develop the NSDS following the guidelines issued by OECD's PARIS21 Secretariat.

Annex IV. Capacity Development Strategy

1. Cambodia has been an extensive user of Fund capacity development (CD). Within the Asia Pacific region, Cambodia is one of the largest recipient of TA resources (see the chart below). Cambodian authorities are highly appreciative of Fund CD activities and view them as invaluable in building economic institutions and their capacity to design and implement sound macroeconomic policies.[1]

IMF TA Delivery for APD Country, FY 2020
(In million US dollars)



Sources: IMF ICD database

2. While Cambodia marked robust economic performance over the past two decades, significant challenges remain amid the COVID pandemic. Ranked as one of the world's fastest-growing economies over the past two decades prior to the COVID pandemic, Cambodia also made important progress towards SDGs. Amid the COVID pandemic, Cambodia, however, continues to face many challenges in maintaining macroeconomic stability and further advancing sustainable and inclusive growth. For example, the financial sector has grown rapidly over the past decade and vulnerabilities have elevated; large infrastructure gaps and mounting development spending needs pose challenges for fiscal management; and structural constraints to sustained strong and inclusive growth include a narrow economic base, inadequate competitiveness, and underdeveloped business climate.

A. Recent CD Activities

3. The large volume of CD has been integrated well with Fund surveillance. High-quality CD remains central in strengthening the effective implementation of Fund policy advice and bolstering our engagement with the authorities**.** Reflecting key economic challenges, the main surveillance priorities identified in the surveillance process include: addressing macro-financial risks; safeguarding fiscal sustainability and promoting inclusion; and supporting progress toward SDGs. CD is then focused on strengthening institutions, policy frameworks, and technical skills to address these issues.

4. Recent CD activities are consistent with surveillance priorities and cover COVID-related issues. The priorities include: (i) addressing macro-financial risks; and (ii) safeguarding fiscal sustainability. At the same time, recent CD activities also responded to the increased demand for COVID-related issues.

- **Addressing macro-financial risks (Table 1).** Supporting efforts to address elevated macro-financial risks and following-up on the pilot exercise for enhanced macro-financial surveillance,

[1] BUFF/ED/18/145.

TA has focused on strengthening banking supervision and regulation, including through the presence of a long-standing resident advisor in banking supervision and regulation. This TA also covers an issue of regulatory forbearance to tame the COVID shocks on the financial sectors. Other TA has included financial stability analysis; liquidity forecasting and interbank market development (with regular support from the regional advisor from Capacity Development Office in Thailand (CDOT) on monetary policy and foreign exchange operations); stress testing; development of strategy to encourage the use of the local currency; and gearing up for establishing a bank resolution regime framework and a deposit protection scheme.

Table 1. Recent Surveillance and TA Integration in the Monetary and Financial Sector

Surveillance Focus: Addressing Macro-Financial Risks		
Issue	**Recent TA Focus**	**Key Results**
Upgrade regulation and supervision; build liquidity and capital buffers	Upgrading regulation framework of the banking sector	Upgraded regulations and supervisory processes for credit risk and reporting requirements; minimum capital requirement; capital buffer; a new framework for prompt corrective action (PCA); liquidity coverage ratio (LCR) and liquidity management framework.
Promote development of the interbank and FX markets	Liquidity forecasting and monetary operations	Improved liquidity management and forecasting; interbank market development, introduced local currency instruments including NCD*1 and LPCO*2, and established online trading platform.
Promote local currency use	Strategy for promoting the use of local currency	A market based, gradual strategy for promoting the use of local currency is prepared.
Systematic financial stability analysis	Strengthening systemic financial stability analysis at the NBC	Established a fully dedicated division to systemic financial stability analysis; and published the first-ever Financial Stability Report (FSR).

***1 NCD (Negotiable Certificate of Deposit), *2 LPCO (Liquidity-Providing Collateralized Operation)**

- **Safeguarding fiscal sustainability (Table 2).** Regular TA on public financial management (PFM) and treasury management coordinated through CDOT regional advisors has helped improve spending efficiency, and fiscal reporting and governance. The MEF has also been supported by a resident MTBF (Medium-Term Budget Framework) advisor. Macro-fiscal semi-structure model has been developed by MEF towards MTFF (Medium-Term Fiscal Framework) with the support from IMF/ICD experts. Reflecting the need to increase revenues under the authorities' revenue mobilization strategy (RMS), authorities have received TA on strengthening customs administrations.

Table 2. Recent Surveillance and TA Integration in the Fiscal Sector

Surveillance Focus: Safeguarding Fiscal Sustainability		
Issue	**Recent TA Focus**	**Results**
PFM - Improve expenditure efficiency	-PFM (FMIS*1, COFOG*2, IPSAS*3, and treasury management); -MTFF (Medium Term Fiscal Framework)	-Supported rolling out Phase II of the FMIS -Improved fiscal reporting, fiscal management and budgeting, treasury, and accounting issues.
Macro-fiscal Capacity	Capacity building in macro-fiscal areas	Improved MEF's macroeconomic and revenue models, developed tools to monitor and update macro projections in-year and a MTFF.
Ensure sustained revenue improvement	-Customs administration -Tax administration diagnostic for RMS (2019–-23)	-Supported GDCE in developing enforcement strategy, the ICT strategy, and strategic and operational planning functions. -Priority areas identified in the tax policy review and tax administration diagnostic are included in the new RMS (2019–23).

***1 FMIS (Financial Management Information System),**
***2 COFOG (Classification of the Functions of Government),**
***3 IPSAS (International Public Sector Accounting Standard)**

- **Statistics.** Recent TA on statistics has focused on improving data quality and availability in external (ESS), government (GFS), and monetary and financial sector statistics (MFS). Fund CD has also supported development of a residential property price index (RPPI), while CDOT/STA organized regional webinar on consumer price index (CPI) continuity during the COVID pandemic. Consistent with the need for broad improvements in data provision for surveillance, TA on statistics helps compile and disseminate data to support policy analysis, formulation, and detect economic risks and vulnerabilities. TA to support Cambodia's participation in the e-GDDS and the launch of a National Summary Data page (NSDP) have improved data transparency.

- **Training.** Standard ICD training program (face-to-face prior to the COVID outbreak and through online after the COVID outbreak) has supported general macroeconomic capacity development needs of Cambodian officials. CDOT/ICD has supported country's "Interagency Economic Core Group (ECG)" mainly for developing macro-framework (basic financial programming). ECG is expected to play a key role in strengthening macroeconomic analysis and forecasting, while ICD has also been supporting the MEF on macro-fiscal modeling as an input into the MTFF. Cambodia has benefitted from several regional and country-specific training aimed at enhancing the quality of statistics (e.g., external sector statistics, government financial statistics) to support decision making.

B. Forward Looking CD Priorities

5. Looking ahead, Fund CD can play a pivotal role in Cambodia's transitions to the next phase of its development. Fund CD can contribute to enhancing institutional capacity to effectively design, implement, and monitor policies in securing macroeconomic stability and sustaining strong and inclusive growth. Forward looking CD priorities are informed by an evolving multi-year surveillance strategy and CD matrix (Table 3). The multi-year strategy covers traditional macroeconomic issues, enhanced focus on macro-financial issues, topics that fall under Fund key commitments to support countries in achieving their Sustainable Development Goals (SDGs) as well as emerging Fund issues.

6. CD priorities:

- **Addressing macro-financial risks**. Building on progress made, further measures are needed to address elevated financial sector vulnerabilities, especially in the real estate sector. This includes effective implementation of past measures, further targeted prudential measures, such as raising risk weights for real-estate lending, introducing a crisis management framework with a deposit protection scheme, and continued upgrading of regulation and supervision. Promoting further financial market development and encouraging local currency use would increase resilience. Further TA will be needed to address strategic deficiencies in AML/CFT.

- **Safeguarding fiscal sustainability.** Spending pressures should be well-managed, and priority given to growth-enhancing infrastructure and development spending. Sustaining revenues will require modernizing revenue administration and policies to improve efficiency and equity. Debt management will face new challenges with the increase in potential contingent liabilities from Public Private Partnerships (PPPs) and introduction of a domestic debt market. Introduction of a medium-term fiscal and budget framework (MTFF/MTBF) will help safeguard fiscal sustainability via improved budget planning and fiscal risk management. Improvements in multiple fronts are needed to strengthen fiscal governance. Against this backdrop, activities should focus on supporting revenue mobilization and debt management, improving fiscal governance and strengthening capacity.

- **Supporting progress towards SDGs.** Continued structural reforms are needed to increase competitiveness, encourage diversification, and expand financial inclusion. There is also room for fiscal policies to better support inclusion, through shifting taxes towards progressive revenue sources and re-orienting expenditure towards priority infrastructure, and health and education spending.

- **Statistics.** While activities should continue to support broad-based improvements in data availability, quality, frequency, and transparency, management of macro financial risks, safeguarding fiscal sustainability and inclusive growth also requires expanded coverage of existing datasets as well as new datasets to address emerging needs. Data provision is broadly adequate for surveillance, but shortcomings in terms of coverage, accuracy and timeliness hamper analysis. For example, budget formulation and reporting are still based on the TOFE system (based on GFS 1986) as opposed to the GFS 2014 standard; national accounts statistics suffer from several weaknesses (including outdated base year, inadequate estimates of the GDP expenditure components, and limited quarterly national accounts data); gaps in real estate statistics prohibit more informed assessment of risks in the sector and to undertake respective policy options; and slow implementation of the national statistics strategy lead to segmented, unreliable, and inconsistent macroeconomic statistics that are not keeping pace with a fast growing economy.

- **Addressing governance vulnerabilities and corruption.** Fiscal governance should be further strengthened through reforms to revenue administration, public financial management and procurement focused on increasing spending efficiency, improving transparency and reducing opportunities for corruption. Additional efforts are also needed to improve the regulatory environment, strengthen the rule of law and push ahead with anti-corruption agenda.

C. CD Strategy

7. **Going forward, several caveats would be warranted to make CD more effective.** With further strengthening forward-looking integration of CD and surveillance as described above, enhancing TA design to instill a broad-based reform agenda, strong commitment from the authorities, overarching HR management to build lasting capacity, and flexibility of CD delivery are crucial for the success of CD:

- **Tailoring**. TA design needs to take full consideration of authorities starting point, absorption capacity and time required to instill a broad-based reform agenda. CD needs to recognize capacity constraints including often limited absorptive capacity, scarcity of resources, and possible political concerns. This should include a better tailoring of CD, based on careful prioritization and sequencing, with proposing incremental reforms to ensure sustainability.

- **Ownership**. Strengthening country ownership at all stages of CD interventions (scoping, initiation, execution, and implementation) would further enhance traction. Country authorities play a leading role throughout the CD process, with due consideration to institutional and capacity constraints. Close ongoing dialogue between Cambodia authorities and the Fund strengthens the scoping of CD needs in line with country priorities, with tailoring the technical and policy advice to local conditions and institutional capacity, while allowing for mid-course corrections where needed, and ultimately results in improved traction and impact.

- **Human resource management**. Overarching human resource management in the counterparts are needed to build lasting capacity. It is important to modernize authorities' HR strategy to conduct (and update regularly) a mapping of all key functions and significant business processes in each agency, build staffing and identify most needed resources and urgent gaps in skills based on these outcomes, and to enhance the efficiency of staff allocation and associated CD management.

- **Flexibility of delivery.** While the areas of CD focus will largely not change, it is crucial to pay attention to flexible delivery of CD including training modules, targeted follow-up TA and workshops as part of TA delivery; and assess more systematically the extent of training needed to allow the effective implementation of TA recommendations. Capacity challenges make it essential that training is an integral part of TA missions, including to explain major findings and recommendations. In addition to formal TA and training, peer learning and outreach, including by resident representatives, has proven to be effective modes of CD delivery.

Table 3. Cambodia: Multi-Year Strategic Surveillance and CD Matrix

	Macro-Critical	Traction	2019	2021	2022	CD
Traditional macroeconomic issues	HIGH	HIGH	✓	✓	✓	✓
1. Macro-financial Issues, 1/						
Capital Inflows and Spillovers	HIGH	HIGH	✓	→		✓
Financial Stability, Deepening and Inclusion	MEDIUM	MEDIUM	✓	→		✓
Financial Cycle and Macro-implications	HIGH	HIGH	✓	→	→	✓
Balance Sheet Analysis	N/A	N/A			✓	
Macroprudential Policy	HIGH	MEDIUM	✓	→	→	✓
Financial Supervision and Regulation	HIGH	HIGH	✓	→	→	✓
Macroeconomic Shocks and Financial Stress	HIGH	HIGH	✓	→	→	✓
2. SDGs/FfD Commitments						
Domestic Revenue Mobilization	HIGH	HIGH	→	→	✓	
Infrastructure Investment 2/	HIGH	HIGH	✓	→	→	✓
Building Policy Space/Economic Resilience	MEDIUM-HIGH	MEDIUM		✓	→	✓
Environmental Sustainability, Equity/inclusion	MEDIUM	MEDIUM	✓	→		
Fragile and Conflict-Affected States	N/A	N/A				
Domestic Financial Market Promotion	HIGH	HIGH	✓	→		✓
Data enhancement	HIGH	MEDIUM	✓	→	→	✓
3. Emerging Issues						
Gender	LOW	LOW			✓	✓
Income Inequality, 3/	MEDIUM-HIGH	MEDIUM	✓	→		
Climate Change	MEDIUM	LOW			✓	
Governance	HIGH	MEDIUM	✓	→	→	✓
Social Spending	MEDIUM	MEDIUM		✓	→	

Key: ✓= focus; → = follow up on previous year(s)

Notes:

1/ Pilot for enhanced macro-financial surveillance (2016) and mainstreaming macro-financial surveillance (2017).

2/ Pilot for infrastructure investment (2016, 2017).

3/ Pilot for inequality (2018).

Annex V. Crisis Policy Measures

Fiscal Measures

The government redirected spending to priority areas of healthcare, social protection, and support for businesses, and planned interventions for 2020-2021 included:

- A package worth US$60 million was allocated for virus testing, containment, and treatment.

- Social assistance of more than US$760 million, including US$506 million for monthly cash transfers to poor and vulnerable households and US$260 million cash for job support. Measures to target poorer households are being scaled up with more frequent updates of IDPoor, especially because of the extent of informal work and returned migrant workers. US$123 million has been allocated for wage subsidies and skill training program for suspended workers in the garments and tourism industries. Launched in June 2021, the government provided one-time only cash assistance to vulnerable individuals and families whose livelihoods were affected by the lockdown measures in Phnom Penh, Krong Takhmau, and Krong Preah Sihanouk. One-time only cash assistance will also be provided to families whose members have contracted COVID-19 and/or died from COVID-19 nationwide.

- In June 2021, the government extended until the end of September i) a subsidy for garment and tourism sectors; ii) tax exemptions for the tourism and aviation sectors; and iii) the cash relief program for poor and vulnerable families.

- Several tax-relief measures, collectively worth around US$120 million, were introduced, such as to businesses in the aviation and hospitality sectors, a stamp tax exemption on housing transactions (for units less than US$70,000 in value), and on loan interest repayments.

- The government allocated US$200 million to provide credit guarantees for business under the Business Recovery Guarantee Scheme, in addition to packages issued to SMEs in the manufacturing sector (US$50 million) and SMEs in the agricultural sector (US$80 million). US$270 million has been reserved as additional financing facility for these schemes.

- In addition, the government has advised landlords to avoid terminating leases or evicting tenants in cases of late rental payments.

- Other spending was rationalized in FY2020, yielding savings of roughly US$900 million, of which around US$500 million was from capital spending. In May 2021, the government announced a revision of FY2021 planned budget expenditure to save money and divert fund to address prioritized issues, including combating COVID-19 and addressing negative socio-economic impact caused by the community outbreak.

Monetary and Financial Measures

The National Bank of Cambodia (NBC) implemented four measures to improve liquidity in the banking system early in the crisis: (i) delaying additional increases in the Capital Conservation Buffer; (ii) cutting minimum bidding interest rate in its Liquidity Providing Collateralized Operations, decreasing banks' funding costs in domestic currency; (iii) cutting the interest rate on Negotiable Certificates of Deposit (the collateral for LPCOs), to encourage banks to disburse loans; and (iv) lowering required reserves that banking and financial institutions must maintain at NBC both for local (riel) and foreign currency (US$) to 7 percent until further notice.

The NBC has also issued guidelines to allow financial institutions to restructure loans to borrowers experiencing financial difficulties (but still performing) in priority sectors (tourism, garments, construction, transportation and logistics) and then extended to all sector temporarily by the end of 2021. In February 2021, NBC called for banks and financial institutions to restrict dividend payment to shareholders for audited profit in 2020. In April 2021, the NBC issued an announcement encouraging the use of electronic payment services instead of bank notes. In June 2021, the NBC issued a circular for banks and financial institutions to review and classify their restructured loans as well as do enough provisioning aiming at preserving financial stability and to further support economic activities sustainably.

The government has also encouraged financial institutions to ease fees and penalties. In addition, the government has called on real estate developers to implement the Joint Statement of the Ministry of Economy and Finance and the National Bank of Cambodia on the outcome of the meeting on Real Estate Issues of 22 March 2021 to ease payments conditions for their customers during the COVID-19 pandemic.

Annex VI. The Evolution of Social Protection in Cambodia

Cambodia lacked social protection mechanisms before the advent of the COVID crisis. During 2020, it rapidly implemented a mechanism to deliver emergency cash transfers. The government now intends to incorporate this into an extensive new system of assistance across life cycles and vulnerable groups.

A. Before the Crisis: Limited Protections

1. Cambodia had several social protection schemes before the crisis, but programs were relatively limited:

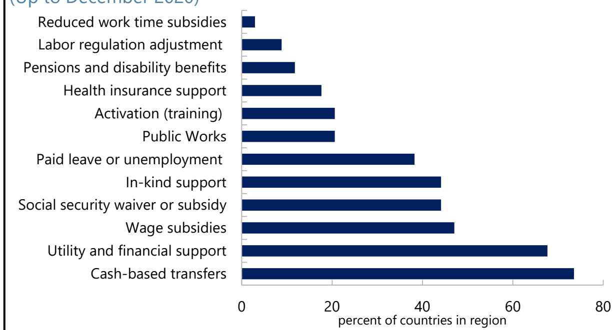
- A cash transfer system for poor pregnant women and children aged 0 to 2 years, covering 78,060 beneficiaries (25,162 children).
- A scholarship program for school children, covering 122,228 children in primary grades 1 to 6 in and 90,784 secondary school pupils in school year 2019/20.
- A disability program covering 11,000 beneficiaries, but only in some geographic areas.
- Cambodia had two types of state-backed health insurance schemes targeting specific target groups: one directed at the poor, and community-based health insurance schemes (supported by NGOs).
- Employment injury insurance was extended to workers and employees, but only formal workers.
- The social security system provided pensions, but only to civil servants; only around 7 per cent of the total population received retirement pensions.

2. As in most low-income countries, statutory unemployment insurance was not available. But some of the social assistance mechanisms typically employed by peer countries in the region were not available at in Cambodia, notably social assistance for the elderly (table).

B. During the Crisis: Introduction of Cash Transfers

New Measures in Asia-Pacific Countries During the COVID Crisis

(Up to December 2020)



Sources: Social Protection and Jobs Responses to COVID-19 : A Real-Time Review of Country Measures (June 12, 2020) (English). COVID-19 Living Paper Washington, D.C. : World Bank Group.

3. **The social protection system was expanded significantly during the pandemic.** Many governments in the region introduced cash transfers—indeed, this was the most frequently used new measure during 2020. In [July] 2020, the Cambodian government introduced the Cash Transfer Program for the Poor and Vulnerable Households.

4. **There were two issues that the government had to address quickly.**

- The first issue was how to target the transfer. An existing system—so-called ID Poor, which had been in development with UNDP—was adapted for this purpose, along with prior experiences of working with local communities to identify those in need. Those households classified as being absolute priorities (PoorID1) or facing significant challenges (PoorID2) were approved to receive the digital cash transfers; about 710,000 households (corresponding to 2.8 million people) received the cash transfer in 2020. The transfers averaged about US$45 per month, corresponding to about 33 percent of monthly household income for those at the 25th percentile of the distribution in 2019/2020. All told, the transfers were worth [US$502] million.

- The second issue was the delivery of the transfer. This was addressed quickly by upgrading the existing digital cash transfer method used for pregnant women and vulnerable groups to cover more people from the ID poor system. Cash is transferred directly from the Ministry of Social Affairs, Veterans and Youth Rehabilitation to recipients via electronic payments. Recipients are notified by SMS alerts to present ID cards and Equity Cards to the nearest Wing agent (a private bank partnered to the cash transfer program) which allows them to withdraw cash.

Monitoring occurs at two levels: at the central government level, the focus is on assessing the impact and benefits that the people received, while monitoring at the local level focuses on identifying and solving problems arising from the process of cash transfers. In 2021, targeting has been refined to take into account both poverty and COVID-related vulnerability.

C. Beyond the Crisis: Toward Greater Social Insurance

5. **In May 2021, cash assistance was extended.** Support is now provided to low-income families residing in lockdown areas, families whose members died from COVID-19, and families whose members have COVID-19. The eligible families who have been identified by the government will received a minimum one-time only cash assistance to ease the payment for food, water, and electricity; the extra assistance is given on top of any other assistance that the families have already received.

6. In June 2021, the government announced plans for a Family Package of Integrated Social Assistance Program. The aim is to implement social protection that strengthens families' ability to cope against shocks and enables them to invest in human capital and achieve long-lasting prosperity.

7. The Family Package would considerably expand social protection in Cambodia. The whole life cycle would be covered, by emergency support, health care, social care, child protection, child benefits and feeding, and disability and old-age allowances. The assistance would be delivered through a combination of cash transfers (not only emergency but also for pregnant women and young children, persons with disabilities, to the elderly, and scholarships), social services, and complementary (in-kind) services. The Package explicitly cites goals to be sensitive to gender, disability, and HIV/AIDS factors.

8. The government intends to implement the package over next five years. The first step is to build on the ID Poor system, refining the mechanism to identify at risk households. The following steps will be registration and enrolment of those falling into at-risk groups, development of electronic delivery mechanisms, and monitoring of risks and compliance. [(At this stage, there are no estimates of costs.)]

Table. Social Security Measures in Cambodia and Other Countries Before the COVID Crisis

Social Security Measures in Cambodia and Other Countries Before the COVID Crisis

	Old-age, survivor	Sickness and maternity	Accidents and diseases	Unemployment	Household benefits
Bangladesh	Disability, old-age, invalid and survivor	Sickness, maternity, medical	Work injury, death	-	-
Bhutan	Old-age, disability, survivor	Medical, sickness, parental	Disability and survivor	-	Cash and in-kind to needy
Cambodia	-	Medical, maternity	Disability and survivor	-	-
Indonesia	Old-age, disability, survivor, burial	Medical, sickness, parental	Disability and survivor	Severance payments	-
Lao PDR	Old-age, disability, survivor	Sickness, birth, maternity, funeral	Disability and survivor	Statutory insurance	-
Malaysia	Old-age, disability, survivor, funeral	Sickness, maternity, medical, funeral	Disability and survivor	Statutory insurance	-
Myanmar	Old-age, disability, survivor	Sickness, parental, funeral	Disability and survivor	Statutory insurance	Means-tested education allowance
Philippines	Old-age, disability, survivor, funeral	Sickness, medical, maternity	Disability and survivor	Severance payments	Social assistance for needy residents
Thailand	Old-age, disability, survivor, funeral	Sickness, medical, maternity	Disability and survivor	Statutory insurance	Child allowance
Vietnam	Old-age, disability, survivor, funeral	Sickness, medical, parental, birth	Disability and survivor	Statutory insurance	Range of child, parent, disability, sickness and education allowances

Source: International Social Security Association

Annex VII. Cambodia and Climate Change[1]

This annex covers (i) what are the climate change risks to Cambodia; (ii) what is the carbon intensity of Cambodia and which industries produce most emissions (e.g., the comparison of industries within Cambodia and Cambodia's carbon intensity compared to peers), and (iii) the Cambodia's policy steps.

A. Climate Change Risks for Cambodia

1. **Cambodia experiences frequent floods, droughts, and storms**[2]**.** Cambodia has a humid tropical climate with high temperature—average of 25-27°C with maximum of around 38 °C and minimum of around 17°C as a baseline[3]. Cambodia is heavily influenced by the annual monsoon season that typically begins in mid-May and lasts through the end of October. The dry season stretches from November to April, with less rain, little wind, and much lower humidity. The monsoons deliver approximately three-fourths of the country's annual rainfall, especially along the central alluvial plains of the Mekong and Tonle Sap Rivers that comprise roughly 80 percent of the country's landmass. The annual rainfalls could be varied in part due to El Nino events with warmer and drier conditions. During 1993 and 2020, Cambodia has faced many climate-related disaster events including 20 floods, 5 droughts, 6 tropical storms and 1 famine, with at least US$1.5 billion of estimated damage from these events.[4]

2. **Cambodia is projected to experience warming in the future**. Under the highest emissions pathway—Representative Concentration Pathways (RCP) 8.5, Cambodia would face the warming of 3.1°C by the 2090s against the baseline conditions over 1986-2005. In addition, increases in annual maximum and minimum temperatures are expected to be larger than the rise in average temperature, increasing pressures on human health, livelihoods, and ecosystems[5].

3. **Climate change risks agriculture, industry, and tourism sector.** The drought and floods in 2020 highlighted that the large agricultural sector is dependent on regular monsoon seasons, while fluctuations in Mekong river flows affect irrigation, fishing, and transportation for industry and land tourism. Without action, the population exposed to an extreme river flood could grow by around 4 million by the 2040s, while the damming of the Mekong River as well as the large-scale dams built on its tributaries may alter

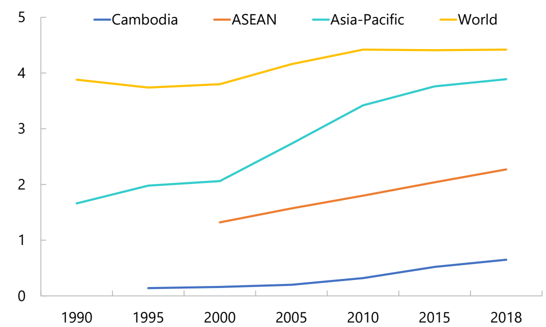
[1] Prepared by the IMF Resident Representative Office in Cambodia
[2] CFE-DM, December 2020, *Cambodia Disaster Management Reference Handbook*
[3] World Bank and Asian Development Bank, August 2021, *Climate Risk Country Profile: Cambodia*
[4] CRED (Center for Research on the Epidemiology of Disasters), Emergency-Events Database (EM-DAT)
[5] World Bank and Asian Development Bank, August 2021, *Climate Risk Country Profile: Cambodia*

future flood dynamics[6]. Projected climate change trends indicate more severe floods and droughts, which is projected to reduce absolute GDP by 9.8% in 2050[7].

B. Carbon Intensity in Cambodia

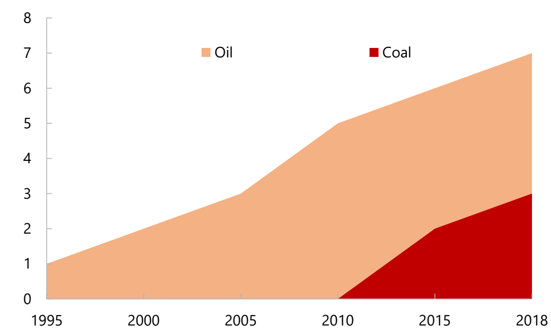
4. CO2 emission per capita for Cambodia is low with at 0.65 tons in 2018 compared to World's 4.42, Asia-Pacific's 3.89, and ASEAN's 2.27 (Figure 1). In terms of energy source, oil contributes to CO2 emission by 70% in 2018, while coal takes the remaining in the same year (Figure 2). By sector, transport sector is a key driver for the CO2 emission, and is projected to play a prominent role in the coming years due to increasing urbanization and motorization[8].

CO2 Emissions Per Capita, 1990-2018
(Tons of CO2 per capita)



Source: International Energy Agency, 2021.

Cambodia CO2 Emissions by Energy Source
(In metric ton of CO2)



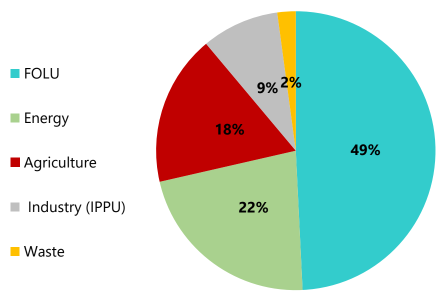
Source: International Energy Agency, 2021.

5. However, overall greenhouse gas (GHG) emissions are projected to increase. The updated Nationally Determined Contribution (updated NDC in 2020) indicates that overall greenhouse gas (GHG) emissions are projected to increase to 155 million tons of CO2 in 2030 (around almost 1 tons of CO2 per capita), growing from 2016 estimate by 24%. Forestry and other land use (FOLU) are the highest emission contributor in Cambodia. Emission from all Business-As-Usual (BAU) scenarios are steadily increasing by 2030 with the highest emissions contributor from FOLU sector (49%), followed by energy (22%) and agricultural sectors (18%) (Figure 3). Waste contributes the lowest among all sectors, while adding in energy and FOLU put total BAU emission at almost 160 million ton of CO2 per year by 2030. IMF projects[9] growth of emission under its BAU scenario at

[6] World Bank and Asian Development Bank, August 2021, *Climate Risk Country Profile: Cambodia*
[7] National Council for Sustainable Development (NCSD), 2018, Addressing Climate Change Impacts on Economic Growth in Cambodia (CEGIM)
[8] The National Council for Sustainable Development, 2015. *GHG Emissions Inventory and Mitigation Plan for the Road Transport Sector in Cambodia*
[9] IMF, 2021, Fiscal Policies to Address Climate Change in Asia and the Pacific.

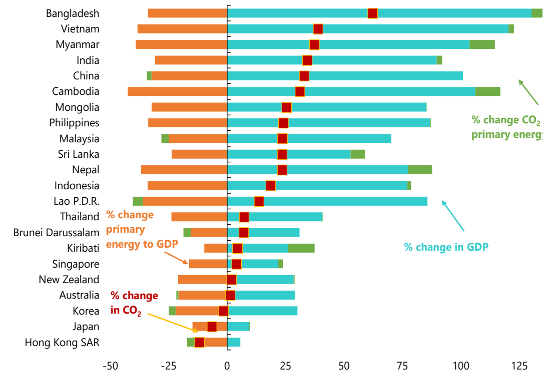
more than 30% (from 2017 to 2030) for Cambodia mainly driven by fast economic growth (Figure 4).

Sectoral Share of GHG Emissions in 2030



Sources: Updated NDC in 2020

Baseline CO2 Emission Change
(In percentage change from 2017 to 2030)



Source: Dabla-Norris et al., "Fiscal policies to address climate change in Asia and the Pacific", IMF Asia and Pacific and Fiscal Affairs Departments, 2021.

C. Cambodia's policy steps

6. Cambodia has made efforts to mainstream climate change into policy framework.

- **National strategy**. Cambodia adopted the first national framework addressing climate change—Cambodia Climate Change Strategic Plan (CCCSP) 2014-2023. Under this framework, climate change has been integrated into sectoral planning as 14 ministries adopted respective action plans encompassing adaptation[10] and made way into sub-national planning. Climate change has also addressed at the National Strategic Development Plan (NSDP) since 2009 and at the Rectangular Strategy Phase IV (2019-2023) as a pillar.

- **National target**. Cambodia ratified the 2015 Paris Agreement and made important commitments in its original Nationally Determined Contributions (NDC) including a reduction of GHG emissions by 27% and increased forest cover to 60% by 2030. Cambodia updated its NDC in December 2020, presenting both the baseline and national targets for GHG reductions and climate change mitigation / adaptation. This updated NDC estimated that the emissions reduction with the FOLU by 2030 under the NDC scenario will be approximately 64.6 million tCO2e/year (42% reduction by 2030, of which around 60% is from the FOLU) (see the table below). According to this

[10] NCSD. *Climate Change Policies and Plans*. Accessed in March 2021.

updated NDC, the total funding required for mitigation and adaptation actions would be over US$ 5.8 bil and US$2 bil respectively.

Sector	BAU 2016 emissions ($MtCO_2e$)	BAU 2030 emissions ($MtCO_2e$)	NDC 2030 Scenario ($MtCO_2e$)	NDC 2030 reduction ($MtCO_2e$)	NDC 2030 emission reduction %
FOLU	76.3	76.3	38.2	-38.1	-50%
Energy	15.1	34.4	20.7	-13.7	-40%
Agriculture	21.2	27.1	20.9	-6.2	-23%
Industry (IPPU)	9.9	13.9	8.0	-5.9	-42%
Waste	2.7	3.3	2.7	-0.6	-18%
Total	125.2	155.0	90.5	-64.5	-42%

(Source) The authorities, Updated Nationally Determined Contribution (NDC), Dec 2020

7. The authorities will aim for green recovery from COVID-19 pandemic. The Prime Minister Hun Sen shared his perspectives on promoting inclusive and green recovery from COVID-19 pandemic at the second Seoul Summit for Partnering for Green Growth and the Global Goals 2030 (P4G) in May 2021 by sharing the following key points. In response, the authorities plan to craft the Post-COVID Economic Recovery Plan 2021-23 by including green recovery.

- **Principle.** Continuing to promote and support the principles of globalization through openness in international trades to enhance trade and economic growth, as well as adhering to multilateralism framework in addressing issues in all areas, especially related to climate change.

- **Green development.** Strengthening and expanding regional and international cooperation in relation to sustainable development and promoting the mainstreaming of the concept of green development, particularly in agriculture, urbanization, transportation infrastructure, circular economy, digital economy, and renewable energy.

- **Sustainable finance.** Promoting the development of sustainable finance by creating a favorable environment to mobilize additional resources to ensure the sustainability of actions related to climate change prevention through formulation and implementation of green financing mechanism, Public-Private Partnership (PPP) mechanism, etc.

- **Incentives.** Introducing incentives and key reform measures to encourage start-ups to innovate green business models and to encourage the private sector to enhance their focus in green investments, including the investments with positive spillovers on society and economy, and commercial investments in areas such as in green technologies and renewable energy.

- **Infrastructure.** Promoting the development of green infrastructure and addressing basic infrastructure gaps by emphasizing the importance of promoting sustainable and responsible investments as well as enhancing the efficiency of utilization and investments in all sectors though promoting and incentivizing green industry development and the use of green technologies.

- **Capacity.** Enhancing the capacity for mitigation and adaptation to climate change through conserving natural resources, developing green parks and cities, and building stronger capacity on research in responding to climate change as well as the needs in dealing the natural disasters.

8. National Bank of Cambodia (NBC) has also been making efforts to address climate change in the financial sector.

- **Green finance/green bond**. NBC set policy on investment guideline related to Environmental, Social and Governance (ESG), and NBC was the first one to invest in green bond among ASEAN member States. The Bank for International Settlements (BIS) launched an open-ended fund for central bank investment in green bond in Sep 2019. NBC is a member of the Advisory Committee and one of the first members of the bond.

- **ESG Guideline**. NBC has also continued to call for banks and financial institutions (BFIs) to put policies in place to promote green finance and environment-friendly investments. On the regulatory side, NBC is promoting ESG by applying lower risk weight/ provision to ESG loans. As part of the ASEAN community, NBC looks at setting some policy along the line of the ASEAN ESG policy especially on sustainable finance. BFIs have a code of conduct on ESG as well, and loans will be granted to activities with mitigating pollution, climate change, deforestation and so on.

INTERNATIONAL MONETARY FUND

CAMBODIA

November 10, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of September 30, 2021)

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	256.69	102.00

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 [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
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 and Payments System

Cambodia's de facto exchange regime is classified as *stabilized arrangement*. The *de jure* regime is a *managed float*. 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 on January 1, 2002. Cambodia maintains an exchange system that is free of 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 last Article IV consultation discussions were held in Phnom Penh during September 30 – October 11, 2019. The Executive Board concluded the Article IV consultation (IMF Country Report 19/387) on December 6, 2019.

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. Yasuhisa Ojima has been the IMF Resident Representative for Cambodia since September 2019.

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

MAIN WEBSITES OF DATA

National Bank of Cambodia (www.nbc.org.kh)

Exchange rates
Balance of payments

Ministry of Economy and Finance (www.mef.gov.kh)

Government budget
Fiscal revenue, expenditure, and financing
Public Debt Bulletin

National Institute of Statistics (www.nis.gov.kh)

Consumer Price Index
National accounts
Population census
Labor force survey
Socioeconomic survey
Household survey

National Summary Data Page
(https://www.nbc.org.kh/english/economic_research/NSDP.html)

STATISTICAL ISSUES

(June 2021)

I. Assessment of Data Adequacy for Surveillance
General. Data provision is broadly adequate for surveillance. Extensive technical assistance (TA) has been provided by the Fund, United Nations Development Program, Asian Development Bank (ADB), and World Bank, as well as by bilateral partners, leading to substantial capacity improvements. Despite the progress made in improving data and statistics, several shortcomings in macroeconomic data still hamper timely and comprehensive analysis.
National accounts. The reliability of the national accounts is impacted by an outdated base year (2000). The Cambodian economy has rapidly evolved, as has its informal sector which is using technology to increase value-added (such as in the transportation sector). Sectors such as agriculture and construction lack adequate volume measures, and more broadly the absence of relevant price deflators underscore the need for upgrading statistical techniques and data sources used for compiling GDP by output. For GDP by expenditure, data source constraints impact in particular, the measurement of gross capital formation. The NIS is currently revising the sources and methods for compiling national accounts, assisted by SIDA and UNESCAP; and is urged to complete and disseminate the rebased GDP. Implementing practices to assure the integrity of the rebased national accounts, such as by publicly announcing in advance a planned release date and/or advance notice of the impending methodological changes would promote transparency. The availability of high frequency indicators such as quarterly GDP and a production index would support more agile monitoring of economic developments.
Price statistics. With recent technical assistance from the Fund (April 2021), the NBC is implementing a work program to compile a residential property price index (RPPI) to facilitate the monitoring of price developments in the real estate market. A prototype RPPI for internal review is expected in early 2022.The compilation of the consumer price index (CPI) suffers from outdated weights—drawn from the 2004 Cambodia Socio-Economic Survey-based household expenditure data—and insufficient geographic coverage, as well as delays in data dissemination. The NIS is planning to update the CPI series, using 2014 household expenditures to update the basket and weights. A producer price index (PPI) is under development as part of broader efforts to strengthen price measures for the national accounts.
Government finance statistics (GFS). The Ministry of Economy and Finance (MEF) is making steady progress on improving government finance (GFS) and public sector debt statistics (PSDS). As an outcome of Fund TA, annual GFS for budgetary central and local governments are compiled following the *Government Finance Statistics Manual 2014 (GFSM 2014)*. A consolidated general government series is not yet available as the MEF is working on the source data for extrabudgetary units (public administrative establishments). A prototype financial balance sheet for the budgetary central government has also been compiled. To facilitate policy dialog, promoting the use of GFS would improve budget planning and enhance data transparency. To this end, streamlining the budget table with the GFSM2014 framework would enhance comparative analysis of actuals and projections. The authorities are also encouraged to report quarterly PSDS to the Joint World Bank-IMF database; and to actively monitor public private partnerships (PPPs) with a view to covering any emerging (and/or contingent) liabilities.

Monetary and financial statistics (MFS). The NBC reports monthly monetary data using STA's standardized reporting forms (SRFs) for the central bank and other depository corporations (ODCs). As a result of a TA mission conducted in 2017, the NBC also started reporting monetary data for other financial corporations (OFCs). However, the reported data for OFCs cover only the specialized banks, which constitutes around one percent of the financial sector. OFC data needs to be improved to include all OFCs (e.g. insurance companies (ICs), non-deposit taking microfinance institutions (NDTMFIs) and leasing companies). Further, there is little information to gauge the exact size of the shadow banking sector which includes institutions such as real estate developers, pawn shops and payment service providers. A recent MCM diagnostic review of the NBC's IT needs for regulatory reporting—which provides source data for MFS—has proposed a roadmap to support NBC's efforts to fully automate regulatory reporting. Future work on streamlining data collections by simplifying and harmonizing reporting requirements and templates should take full account of MFS and FSI compilation requirements. A recent remote MFS mission assisted in improving the framework for compiling the SRF for ODCs, using a new chart of accounts as source data and for expanding the coverage of the SRF for OFCs to include NDTMFIs. In addition, the NBC, the Ministry of Economy and Finance, and the Insurance Association of Cambodia have agreed on a work plan to collect data from ICs.	
Financial sector surveillance/financial access. The NBC reports to the Fund all core and nine encouraged FSIs for deposit takers, two FSIs for OFCs, one FSI for households, and two FSIs for real estate markets on a quarterly frequency and with one quarter timeliness.. Several series and indicators of the Financial Access Survey (FAS), including the two indicators—commercial bank branches per 100,000 adults and ATMs per 100,000 adults—used to monitor Target 8.10.1 of the SDGs are disseminated.	
External sector statistics. Cambodia's quarterly balance of payments and international investment position (IIP) are compiled by the NBC according to the Balance of Payments and International Investment Position Manual, sixth edition (BPM6). There are gaps in coverage, resulting from source data limitations; and some components are compiled on the basis of estimation methods. There is scope for improving the data on inward foreign direct investment (FDI)— a key component of Cambodia's external transactions and positions, as estimation draws heavily on FDI approvals. Other areas of the financial account also have gaps, including for other investment of nonfinancial corporations (trade credits and other debt liabilities). External debt statistics do not cover borrowing by resident nonfinancial corporations. The General Department of Customs and Excise (GDCE) produces monthly and quarterly external trade data; the monthly data are regularly provided to NBC for estimate goods in the balance of payments. Technical assistance is ongoing under the Project on Improvement of External Sector Statistics which is funded by the government of Japan and executed through the IMF Capacity Development Office in Thailand (CDOT). In July 2020, TA from IMF CDOT assisted in improving coverage and estimation methods for trade in goods, focusing on persistent mirror discrepancies with a major potential impact on the current account balance and, hence, the most important from the surveillance point of view. More recently, TA has focused on streamlining the compilation for inward FDI of banks, microfinance institutions, and nonfinancial corporations; and on the coverage of gross reserve assets.	
II. Data Standards and Quality	
Cambodia participates in the IMF's General Data Dissemination System (e-GDDS). Its National Summary Data Page (NSDP) was launched on May 30, 2018. **(https://www.nbc.org.kh/english/economic_research/NSDP.html)**	No data ROSC are available.

Cambodia: Table of Common Indicators Required for Surveillance

(As of October 1, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	9/29/2021	9/30/2021	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	7/2021	9/2021	M	M, 2 month lag	M
Reserve/Base Money	7/2021	9/2021	M	M, 2 month lag	M
Broad Money	7/2021	9/2021	M	M, 2 month lag	M
Central Bank Balance Sheet	7/2021	9/2021	M	M, 2 month lag	M
Consolidated Balance Sheet of the Banking System	7/2021	9/2021	M	M, 2 month lag	M
Interest Rates[3] (Loan and Deposit rates)	7/2021	9/2021	M	M, 2 month lag	M
Consumer Price Index	8/2021	9/2021	M	M, 1-2 month lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General	7/2021	9/2021	M	M, 1-2 month lag	M
Revenue, Expenditure, Balance and Composition of Financing—Central	7/2021	9/2021	M	M, 1-2 month lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/2021	9/2021	S	S, 3 month lag	S
External Current Account Balance	Q2/2021	9/2021	Q	Q, 3 month lag	Q
Exports and Imports of Goods and Services	Q2/2021	9/2021	Q	Q, 3 month lag	Q
GDP/GNP	2020	9/2021	A	A, 6 month lag	A
Gross External Debt	Q2/2021	9/2021	Q	Q, 3 month lag	Q
International Investment Position	Q2/2021	9/2021	Q	Q, 3 month lag	Q

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annual (S), Annually (A), Irregular (I), and Not Available (N/A).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Deposit and loan rates.
[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.

CAMBODIA

November 10, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Anne-Marie Gulde Wolf and Bjorn Rother (IMF), and Hassan Zaman and Marcello Estevão (IDA)

Prepared by Staff of the International Monetary Fund and the International Development Association

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	*Yes. Application of customized stress scenario to account for exceptional and transitory factors during 2020 related to the pandemic.*

The Debt Sustainability Analysis[1] indicates that Cambodia remains at low risk of external and overall debt distress. The current debt carrying capacity[2] is consistent with a medium classification. The baseline macroeconomic scenario reflects fallouts from the COVID-19 shock on growth, exports (notably, the tourism sector), and revenues. The total PPG debt-to-GDP ratio is projected to rise by around 5 percentage points during the next decade. Under standard settings, one of the debt burden thresholds is breached, which would imply a moderate risk rating. On an exceptional basis owing to the largely temporary impact of the pandemic, 2020 was dropped from the calculations of historical average and variances, equivalent to multiplying the calculated standard deviation by a lower factor to align it with the pre-pandemic stress test parameters through a customized stress test, which has been used for the risk ratings through the application of judgment. On this basis, the sustainability threshold is not breached in the stress scenario. Overall, the analysis shows that the overall risk of debt distress is low, but debt sustainability is vulnerable to further shocks to exports and growth. These findings reinforce the importance of implementing reforms to increase the economy's resilience to external shocks and encourage export and economic diversification, and efforts to mobilize fiscal revenue and further enhance public financial management.

[1] This debt sustainability analysis was conducted using the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) approved in 2017.

[2] Cambodia's Composite Indicator (CI) index, based on April 2021 WEO update and the World Bank's 2019 CPIA, indicates that the county's debt carrying capacity is medium (2.966). The country classification is downgraded from a strong rating (3.075) applied in the 2019 DSA.

PUBLIC DEBT COVERAGE

1. The 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 external borrowing, and SOEs do not contract non-guaranteed external 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. The contingent liabilities stemming from PPPs (5.3 percent of GDP)[3] and financial market (5 percent of GDP) are included in the stress test scenario (text table 2).

Text Table 1. Public Sector Debt Coverage

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

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, and only lending (including on-lending) from the government is available in current practice
PPP	35	percent of PPP stock	5.3	PPP stock based on staff estimates
Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)			10.3	

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%.

BACKGROUND ON DEBT

2. Cambodia's external public debt stood at around US$8.8 billion (35 percent of GDP) in 2020. The external debt-to-GDP ratio has remained stable around 30 percent of GDP since 2012 but increased by 7 percent of GDP in 2020, on the back of an economic contraction and fiscal responses amidst the COVID-19 shock. Bilateral debt continues to account for 69 percent of total external debt, with more than half of it owed to China (text table 3). External debt has been accrued on concessional terms, and the PV was

Text Table 3. External Public Debt (2020)

	In million of U.S. dollars	In percent of GDP	In percent of external debt
Total	8810.4	35.0	100
Multilateral	2728.6	10.8	31.0
Bilateral	6,081.8	24.1	69.0
of which: China	3,901.4	15.5	44.3

Sources: Cambodia authorities; and IMF estimates.

[3] The PPP stock is estimated at around 15 percent of GDP in 2020, using IMF's Investment and Capital Stock Dataset and information provided by the authorities.

around 24 percent of GDP at end-2020. The debt stock includes legacy arrears to the Russian Federation and the United States of about 2.5 percent of GDP[4]. As the status of negotiations of these arrears remains unchanged compared to the previous DSA, this analysis assumes no debt restructuring.

3. Public domestic debt remains negligible. Public domestic debt comprised only non-marketable bonds issued by SOEs, and the outstanding debt (about US$1.6 million as of end-2019) had been fully repaid in early 2020. To support financial market development, the authorities are planning to issue, for the first time, local-currency government bonds over the next few years[5], while strengthening market infrastructure to manage the whole cycle of domestic securities (e.g., issuance, registration, and trading).

4. PPPs have been considered a useful option to finance needed investment projects, given expected diminished access to concessional financing and slow progress in developing domestic debt markets. The PPP stock grew more than twofold between 2010 and 2015, and was estimated at around 15 percent of GDP in 2020. In line with past Fund recommendations, the authorities have been taking welcome steps to strengthen the PPP framework, including a system for risk assessment and the necessary legal, regulatory, and institutional arrangement for PPP management.[6]

5. The stock of private external debt in Cambodia is not published by the authorities and is excluded from this analysis. Staff estimates private external debt at about 35 percent of GDP in 2020[7]. Risks emerging from excessive external borrowing by the private sector could increase the government's exposure to contingent liabilities.

BACKGROUND ON MACRO FORECASTS

6. The Covid-19 pandemic has taken a deep toll on Cambodia's economy. Despite a wide array of policy responses to support demand and liquidity[8], a collapse in external demand put significant strain on Cambodia's growth drivers, such as tourism and garment exports. Staff estimates a contraction of -3.1 percent in 2020, after previous years of 6-7 percent growth. With a gradual recovery starting from this year, economic activity is projected to return to pre-COVID levels over the medium term under the baseline

[4] Based on Cambodia Public Debt Statistical Bulletin (see Table 13 "Old Debt Under Negotiation"). Data reflects principal amounts, i.e., excluding any accumulated interest. The arrears relate to obligations made by the government in the early 1970s, which have been refuted by subsequent governments. The issue is still before the Paris Club. As these arrears continue to be disputed, they do not trigger a determination of an 'in debt distress' risk rating.

[5] 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 NBC as a fiscal agent and arranging the issuance operations.

[6] For example, a central PPP unit had been established under the Ministry of Economy and Finance, and a new law on PPP is expected to be approved and implemented in 2021.

[7] According to CEIC data, the total external debt amounted to US$17.7 billion in 2020, and private debt can be estimated at about US$8.9 billion after deducting PPG external debt.

[8] The measures included (i) improving liquidity in the banking system through lowering required reserves and cutting interest rates, (ii) facilitating bank loan restructuring, (iii) redirecting resources to healthcare, (iv) loans and guarantees to affected small businesses, (v) tax breaks, wage subsidies, and support for firms retaining workers, and (vi) cash transfers to vulnerable households.

scenario. Despite the near-term downturns, longer term projections remain broadly in line with the previous DSA (text table 4).

Text Table 4. Baseline Macroeconomic Assumptions (2020-2030)

	Previous DSA (2019)					Current DSA (2021)				
	2020	2021	2022	2023	2024-2030	2020	2021	2022	2023	2024-2030
Real GDP (%, YOY)	6.8	6.7	6.6	6.6	6.5	-3.1	2.2	5.1	5.9	6.4
Inflation (%, YOY)	2.7	2.7	2.9	3.0	3.4	-2.9	2.9	3.0	3.0	3.2
Primary Deficit (% to GDP)	1.4	1.1	2.1	2.6	3.0	3.1	5.2	3.6	3.4	2.9
Current Account Deficit (% to GDP)	13.2	13.3	12.1	10.6	9.6	11.8	26.7	16.5	9.0	8.5

Sources: staff estimates and projections

- *Growth and inflation.* Growth is expected to pick up to around 2 percent in 2021, supported mainly by stronger demand for manufactured goods. As domestic demand rebounds and transitory factors related to the COVID-19 shock recede, growth is projected to recover its potential of 6.5 percent from 2026 onward. GDP deflator inflation remained subdued at 2.9 percent last year due to low energy prices and a slowdown in economic activity and is expected to persist around 3 percent in line with the broadened recovery.

- *External sector.* The current account deficit is expected to widen further to 27 percent of GDP in 2021 as tourism remains stagnant with travel restrictions and temporary improvement in goods trade in 2020 (e.g., gold exports) recedes. Over the medium term, the current account deficit is estimated to narrow as the tourism sector normalizes and the real estate and credit cycles mature. On the back of continued FDI inflows and substantial import compression, gross reserves increased in 2020 to US$21.3 billion (10 months of imports)[9]. In line with expected wider fiscal deficits, external debt disbursements are estimated to increase by 2027 before reducing gradually throughout the projection period. External debt is projected to reach 38.1 percent of GDP by 2028.

- *Fiscal sector*. The primary fiscal balance turned into a deficit (3.1 percent of GDP) in 2020. It is projected to widen to 5.2 percent of GDP in 2021, led by continued spending demands and a slowdown in tax revenues. In the near term, staff assumes that the authorities prioritize healthcare and social assistance while restraining other current and capital spending in the context of the persistent impact of the COVID-19 shock. The fiscal deficit is expected to remain at around 3.5 percent through 2022-2023 before easing back. Accordingly, a gradual drawdown in government deposits (from around 24 percent of GDP at end-2020) is expected to partly meet rising financing needs over the medium term[10].

[9] Gross reserves stood at 84.7 percent of GDP in 2020 and are projected to rise to around 90 percent of GDP (about US$ 45 billion) at the end of the decade.

[10] The analysis estimates that the government deposit decreases to around 13 percent of GDP by 2026 due to a drawdown to meet the financing gap and deceleration of government savings accumulation.

7. Financing assumptions reflect the expected domestic debt issuance while external debt remains a dominant source. The level of external borrowing is set at around 4.2-4.4 percent of GDP over the medium term[11], before declining to 3.9 percent of GDP by 2030 as the fiscal deficit narrows and domestic financing is facilitated. During the projection horizon, new external debt is expected to have an average maturity of 24 years and a nominal interest rate of around two percent. Consistent with the authorities' plan, the analysis assumes that the authorities issue long-term domestic bonds from 2024 onward[12], and the annual amount increases gradually, from 0.4 percent of GDP in 2024 to about 1 percent of GDP in 2041. The outstanding PPG domestic debt is therefore estimated to reach around 5 percent of GDP by 2041, accounting for about 13 percent of the total outstanding PPG debt.

8. The realism tools suggest that macroeconomic and fiscal assumptions are broadly reasonable (Figure 4). The baseline fiscal adjustment is feasible with a 0.5 percent point increase in the primary deficit-to-GDP ratio over the next 3-year period. The growth path projection is higher than suggested by fiscal multipliers, mainly reflecting the recovery from the COVID-19 shock (especially the recovery of external demand for manufactures). The contribution of public capital to GDP growth in the baseline scenario is broadly in line with historical values.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. Cambodia's debt carrying capacity is classified as medium, changed from a strong rating of the previous DSA. Cambodia's composite indicator (CI)[13] score based on the 2021 April WEO and 2019 CPIA data corresponds to a medium rating. Compared to the 2019 DSA, when classified as strong, the CI score has briefly declined due to a relative economic slowdown and reduced remittance flows. The corresponding debt thresholds have been lowered from the previous DSA. For example, the PV of external debt-to-GDP benchmark decreased from 55 to 40 percent (text table 5 and 6).

Text Table 5. Cambodia CI Index

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.966	Meduim 2.989	Strong 3.075

[11] However, the amount of external debt disbursement in 2021 (around 3.3 percent of GDP) is expected to be lower than previously forecast, on the back of a large initial drawdown from government deposits (about US$ 1 billion in 2021) in response to heightened financing needs in the post-COVID phase.

[12] Given the lack of bond market infrastructure and expected drawdowns of the government deposit by 2023, the analysis assumes a more gradual path of the government bond issuance than implied by the authorities' preliminary plan (from 2022).

[13] The revised LIC-DSF determines the debt sustainability thresholds by calculating a CI. The CI is a function of the World Bank's Country Policy and Institutional Assessment (CPIA) score, international reserves, remittances, individual

(continued)

Text Table 6. Debt Burden Thresholds

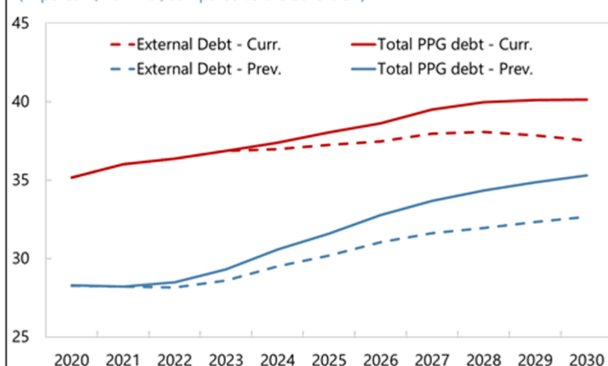
EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23
TOTAL public debt benchmark			
PV of total public debt in percent of GDP	35	55	70

10. **The DSA includes standardized stress tests, a customized stress scenario on exports, contingent liability stress tests, and a tailored stress test for a natural disaster shock.** In the case of the exports shock scenario, the shock is customized (¶12). The contingent liability stress test is based on the quantification of potential risks stemming from PPPs (5.3 percent of GDP) and the financial market (5 percent of GDP). A tailored stress test for a natural disaster shock is added to the standardized stress test scenarios. 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. The cost of natural disasters is estimated at US$235 million per year (World Bank[14]). This analysis applies the default settings for this one-off shock in the template, including a significant mitigation cost of 10 percent of GDP (around US$2.7 billion) and a fall in GDP growth and exports using an interaction coefficient of 1.5 and 3.5, respectively.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

11. **Under the baseline scenario, external debt remains well below thresholds.** In line with a wider fiscal deficit over the medium term, external debt is projected to gradually rise from 36 percent of GDP in 2021 to 38.1 percent of GDP in 2028, before stabilizing at around 37 percent of GDP in early 2030s (text figure 1). In present value terms, the external debt-to-GDP ratio remains relatively flat, around 28 percent (below the threshold of 40 percent) over the medium term (Figure 1). On the back of a large share of concessional loans, the debt service-to-exports and debt service-to-revenue ratios remain far below their indicative benchmarks throughout the forecast horizon.

Text Figure 1. External and Total PPG Debt-to-GDP Ratio
(in percent, nominal, compared to the 2019 DSA)



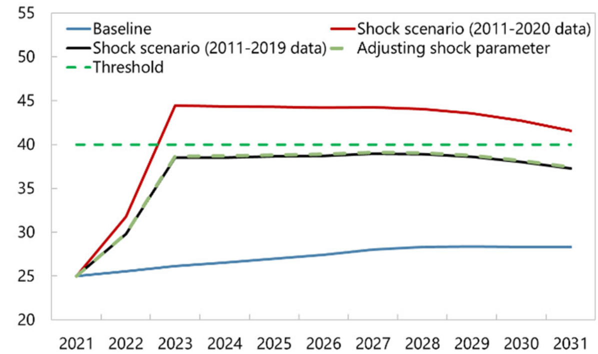
Sources: staff estimates and projections

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.

[14] See World Bank (2018), "Cambodia; Sustaining Strong Growth for the Benefit of All".

12. Stress tests point to the vulnerability of the external debt dynamics to exports shock. A decline in export growth remains the main risk to debt sustainability, as in the Debt Sustainability Assessment for the 2019 Article IV consultation. As shown in Figure 1, the standard exports shock would breach the 40 percent threshold for the ratio of the present value of external debt to GDP from 2023 to 2032, by 4 percentage points on average. This mechanical breach of the threshold is, however, driven by transitory factors stemming from the Covid crisis: Cambodia's exports fell by 8.3 percent in 2020, substantially due to travel restrictions[15], compared with growth of 15.3 percent on average from 2011 to 2019. Staff believes the large shocks to tourism and exports during 2020 had an exceptional and sizable temporary element, such that lasting impact on the trend in economic activity is expected to be substantially smaller than the initial impact. Given this, staff used a customized stress scenario, based on the pre-pandemic stress test parameters by dropping 2020 from the calculations of historical average and variances. This is equivalent to multiplying the calculated standard deviation by a lower factor (0.7)[16] to align it with the pre-pandemic stress test parameters and to maintain comparability across countries and standard stress tests. In this scenario, the ratio of the present value of debt to GDP remains slightly below the threshold (Text Figure 2). The other three external debt burden indicators remain below their thresholds over the projection period even without excluding the 2020 data.

Text Figure 2. the PV of External debt-to-GDP ratios
(in percent)



Source: staff estimates

13. Public debt closely follows the external debt dynamics. Under the baseline, the total PPG debt level is expected to trend upward from 36 percent of GDP in 2021 to 40.1 percent of GDP in 2030, with an increased domestic financing mix (around 2.6 percent of GDP). The PV of total debt-to-GDP ratio is estimated to reach 31.1 percent in 2030 but remain well below the 55 percent benchmark. The debt service-to-revenue ratio is estimated to pick up briefly over the long term, along with a rising share of domestic debt (Figure 2). The stress tests indicate that PPG debt is vulnerable to shocks to growth. Under the growth shock scenario, the PV of total debt-to-GDP ratio rises to 47 percent by 2030 but does not breach the indicative threshold of 55 percent.

[15] The 2020 data lowered the 10-year average exports growth by 2.4 percent while increasing one standard deviation by 3 percent. Accordingly, the magnitude of the shock (historical average minus one standard deviation) rose by 5.4 percent due to 2020 exports.

[16] Given that the standard deviation based on 2011-2019 data (6.8 percent) is around 70 percent of the 10-year (2011-2020) based standard deviation (9.8 percent).

RISK RATING AND VULNERABILITIES

14. Cambodia remains at low risk of external and overall debt distress. External and total PPG debt levels are expected to increase by around 2 percent of GDP over the next 5-year period, driven by rising financing needs stemming from recovery supports and deteriorated external conditions amidst the pandemic. Stress tests indicate that Cambodia's debt sustainability remains vulnerable to shocks to exports and growth. However, in the customized stress scenario, sustainability indicators do not exceed their thresholds.

15. The authorities should continue to maintain fiscal discipline and public debt management while promoting long-term growth. Given the risks from the pandemic and of increased poverty and labor market scarring, targeted and managed fiscal measures can help accelerate the near-term recovery. This reinforces the importance of preserving macroeconomic stability, diversifying the economy, and maximizing spending efficiency and the successful implementation of the revenue mobilization strategy. Finally, the authorities should focus on closing data gaps, in particular regarding data on external private debt and the PPP stock.

Authorities' Views

16. The authorities broadly agreed with the findings of the DSA exercise. The Ministry of Economy and Finance noted that their internal DSA analysis had reached the same conclusion of low risk of debt distress. They viewed the medium-term macroeconomic dynamics as more optimistic, pointing to the Economic Recovery Plan (currently being established) and prospective benefits from the Regional Comprehensive Economic Partnership and bilateral FTAs. Also, the authorities expressed a strong commitment to debt sustainability and prudent debt management while emphasizing continued efforts to develop a domestic debt market.

Figure 1. Cambodia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2021-2031

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

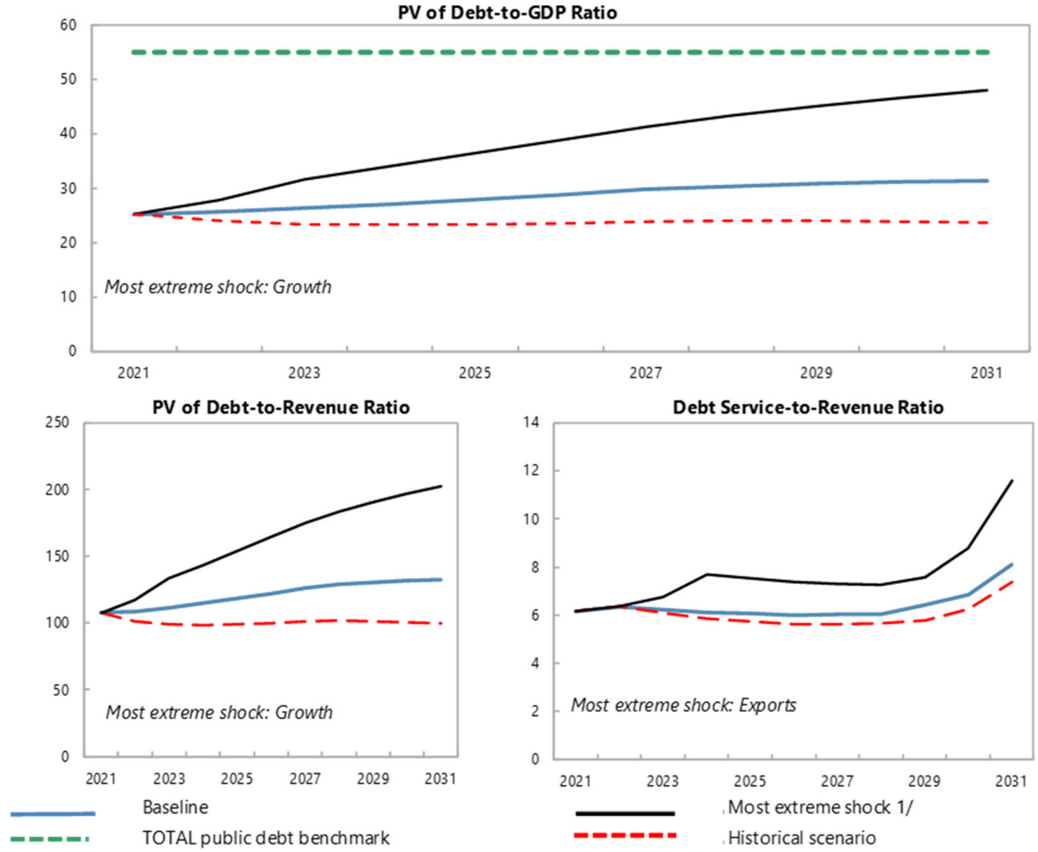
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	1.7%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	7	7

* 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 2031. 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, 2021-2031



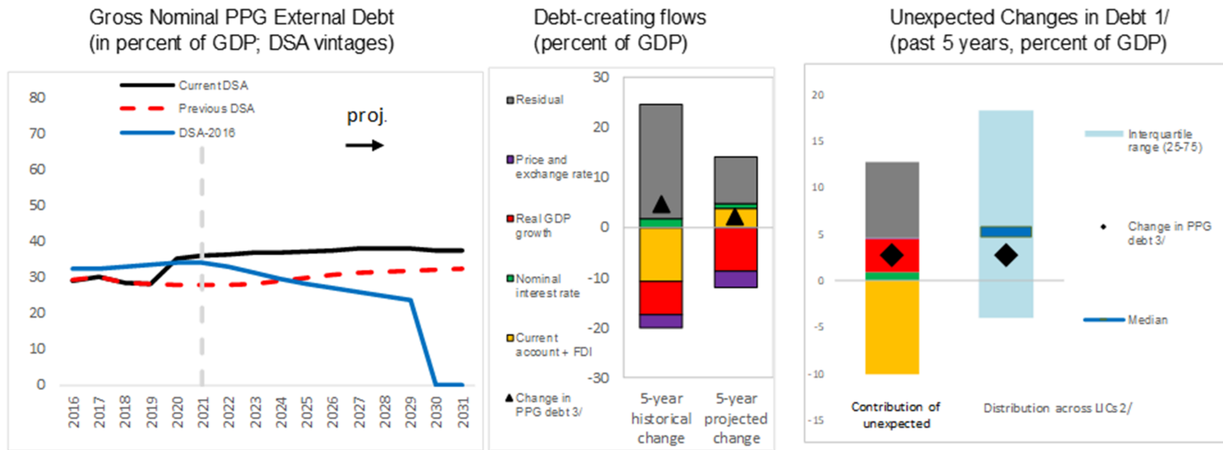
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	92%	95%
Domestic medium and long-term	8%	5%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	2.0%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.7%	2.0%
Avg. maturity (incl. grace period)	7	7
Avg. grace period	6	6
Domestic short-term debt		
Avg. real interest rate	-2.9%	2.0%

* 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.

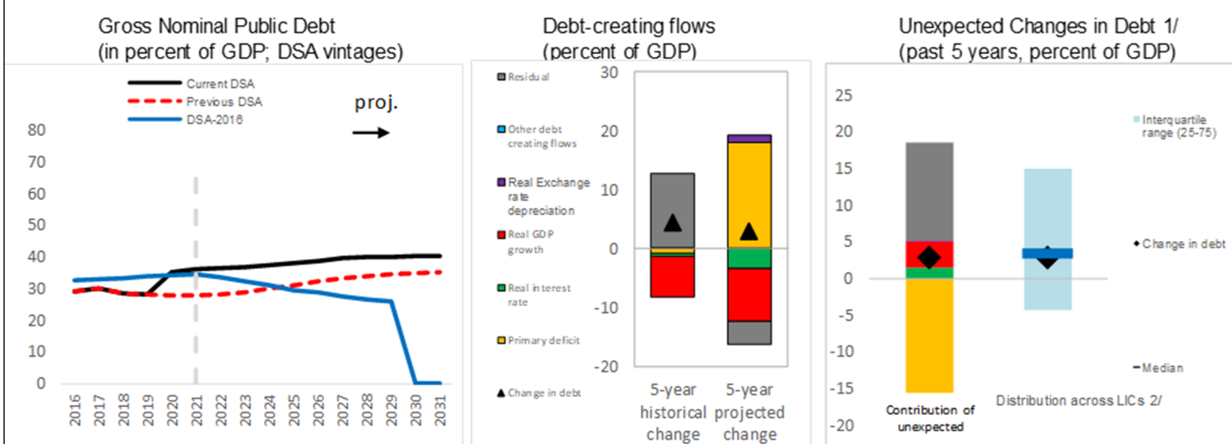
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. 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



Public debt



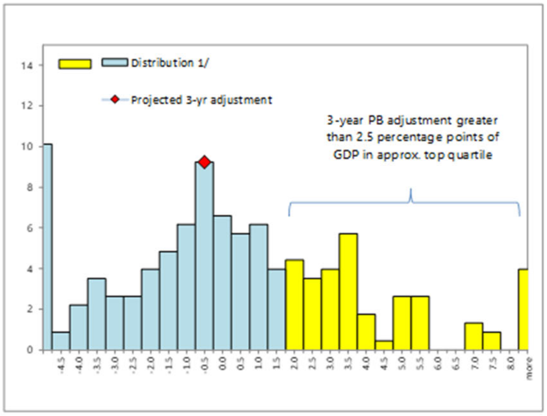
1/ Difference between anticipated and actual contributions on debt ratios.

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.

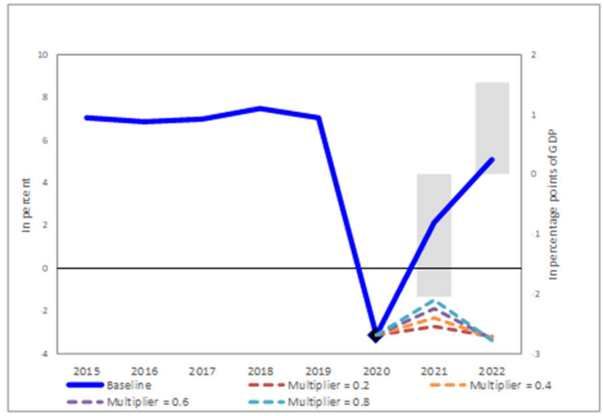
Figure 4. Cambodia: Realism Tools

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



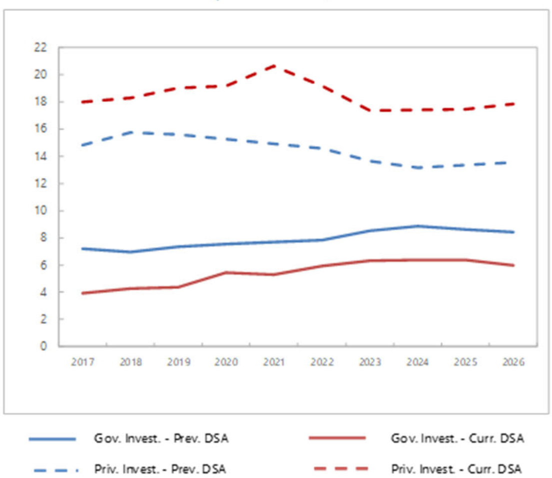
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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)



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

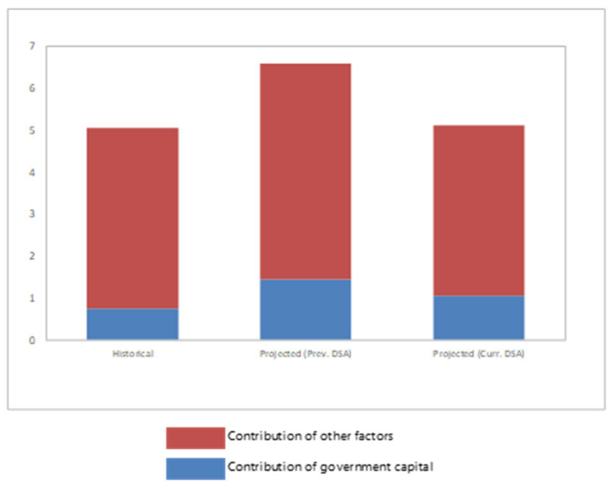
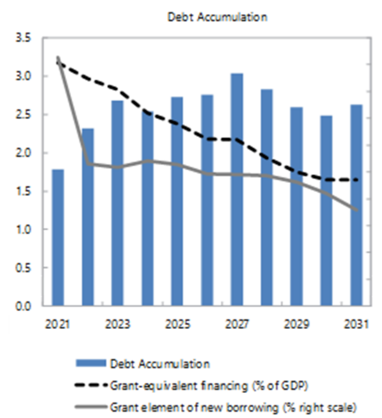
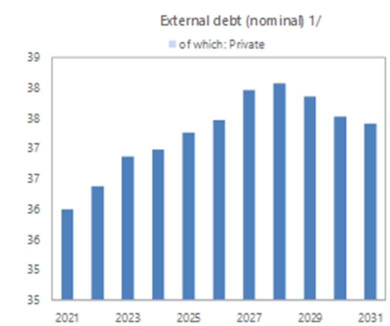


Table 1. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2018-2041

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	28.4	28.2	35.2	36.0	36.4	36.9	37.0	37.3	37.5	37.4	33.7	30.1	37.3
of which: public and publicly guaranteed (PPG)	28.4	28.2	35.2	36.0	36.4	36.9	37.0	37.3	37.5	37.4	33.7	30.1	37.3
Change in external debt	-1.5	-0.2	6.9	0.8	0.4	0.5	0.1	0.3	0.2	-0.1	-0.6		
Identified net debt-creating flows	-4.2	-1.1	0.4	12.4	1.6	-5.9	-6.2	-5.8	-5.5	-3.1	0.3	-4.8	-2.7
Non-interest current account deficit	11.4	14.7	11.8	26.7	16.5	9.0	8.4	8.5	8.4	8.6	8.2	9.4	10.9
Deficit in balance of goods and services	14.0	16.4	14.7	29.4	19.2	11.6	10.9	11.0	10.8	11.1	10.8	13.2	13.4
Exports	74.9	77.8	76.8	72.5	74.6	83.5	85.9	86.4	86.8	85.3	78.4		
Imports	88.9	94.2	91.4	101.9	93.8	95.1	96.8	97.4	97.6	96.4	89.2		
Net current transfers (negative = inflow)	-7.6	-7.2	-6.5	-6.6	-6.5	-6.3	-6.1	-5.9	-5.7	-4.8	-3.4	-8.5	-5.7
of which: official	-2.4	-2.0	-1.8	-1.7	-1.7	-1.6	-1.6	-1.5	-1.4	-1.3	-1.1		
Other current account flows (negative = net inflow)	5.1	5.4	3.6	3.9	3.8	3.7	3.6	3.5	3.2	2.3	0.7	4.7	3.2
Net FDI (negative = inflow)	-13.1	-13.5	-13.8	-13.7	-13.5	-13.1	-12.7	-12.3	-11.9	-9.9	-6.5	-12.4	-11.9
Endogenous debt dynamics 2/	-2.6	-2.3	2.5	-0.6	-1.5	-1.8	-1.9	-2.0	-2.0	-1.8	-1.4		
Contribution from nominal interest rate	0.3	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.6		
Contribution from real GDP growth	-2.0	-1.8	0.9	-0.7	-1.7	-2.0	-2.1	-2.2	-2.2	-2.2	-2.0		
Contribution from price and exchange rate changes	-0.9	-0.8	1.2	...	...	...	...	...	...	...	...		
Residual 3/	2.7	0.9	6.5	-11.6	-1.2	6.4	6.4	6.1	5.7	3.0	-0.9	5.7	2.9
of which: exceptional financing	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	–	...	24.2	25.0	25.5	26.2	26.5	27.0	27.4	28.3	25.8		
PV of PPG external debt-to-exports ratio	–	...	31.5	34.5	34.2	31.3	30.9	31.3	31.6	33.2	32.9		
Total external debt service-to-exports ratio	–	...	107.6	116.2	115.8	117.3	117.8	118.9	120.0	121.2	107.2		
PPG debt service-to-exports ratio	1.4	1.5	1.9	2.0	2.0	1.8	1.7	1.6	1.6	1.9	2.0		
PPG debt service-to-revenue ratio	5.0	4.6	6.3	6.7	6.8	6.6	6.4	6.2	6.0	6.8	6.5		
Gross external financing need (Million of U.S. dollars)	-135.3	622.5	-162.6	3777.5	1283.2	-791.0	-941.9	-854.1	-829.9	143.0	4771.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.5	7.1	-3.1	2.2	5.1	5.9	6.1	6.3	6.5	6.5	6.5	6.1	5.9
GDP deflator in US dollar terms (change in percent)	3.1	2.9	-4.0	1.8	1.8	1.9	1.9	1.9	1.9	2.5	3.1	2.2	2.1
Effective interest rate (percent) 4/	1.3	1.3	1.2	0.5	0.6	0.5	0.5	0.6	0.7	1.3	1.9	1.2	0.8
Growth of exports of G&S (US dollar terms, in percent)	16.3	14.4	-8.3	-1.9	10.2	20.8	11.2	9.0	8.9	8.6	8.7	12.9	9.2
Growth of imports of G&S (US dollar terms, in percent)	19.8	16.7	-9.8	15.8	-1.5	9.4	10.0	9.0	8.8	8.7	8.7	12.1	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	39.3	35.3	35.2	35.4	35.3	34.9	33.6	31.6	–	35.2
Government revenues (excluding grants, in percent of GDP)	21.6	24.8	22.5	21.5	22.1	22.3	22.5	22.7	22.9	23.4	24.0	18.3	22.7
Aid flows (in Million of US dollars) 5/	527.1	544.2	497.4	992.9	807.8	840.0	836.3	893.9	873.7	939.5	845.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.2	3.0	2.8	2.5	2.4	2.2	1.6	1.1	–	2.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	61.0	53.3	49.7	48.5	46.1	44.3	37.5	32.3	–	45.8
Nominal GDP (Million of US dollars)	24,599	27,088	25,192	26,187	28,020	30,239	32,688	35,412	38,424	59,010	146,910		
Nominal dollar GDP growth	10.8	10.1	-7.0	4.0	7.0	7.9	8.1	8.3	8.5	9.1	9.8	8.6	8.1
Memorandum items:													
PV of external debt 7/	...	...	24.2	25.0	25.5	26.2	26.5	27.0	27.4	28.3	25.8		
In percent of exports	...	...	31.5	34.5	34.2	31.3	30.9	31.3	31.6	33.2	32.9		
Total external debt service-to-exports ratio	1.4	1.5	1.9	2.0	2.0	1.8	1.7	1.6	1.6	1.9	2.0		
PV of PPG external debt (in Million of US dollars)			6099.7	6550.3	7156.7	7907.6	8675.1	9565.4	10541.0	16724.5	37863.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.8	2.3	2.7	2.5	2.7	2.8	2.6	2.1		
Non-interest current account deficit that stabilizes debt ratio	13.0	14.9	4.8	25.9	16.2	8.5	8.3	8.2	8.2	8.7	8.8		

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





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. Residuals in 2020 increased on the back of widened fiscal deficit in response to the COVID-19 shock.

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.

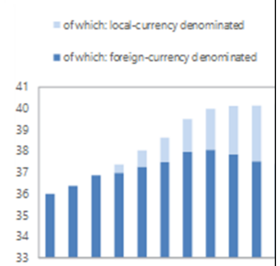
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

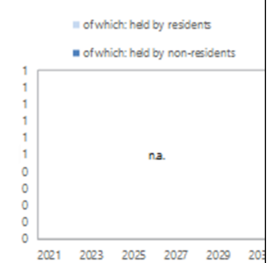
Table 2. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018-2041
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	28.5	28.2	35.2	36.0	36.4	36.9	37.4	38.0	38.6	40.2	38.6	30.1	38.5
of which: external debt	28.4	28.2	35.2	36.0	36.4	36.9	37.0	37.3	37.5	37.4	33.7	30.1	37.3
Change in public sector debt	-1.5	-0.2	6.9	0.8	0.4	0.5	0.5	0.7	0.6	0.0	-0.3		
Identified debt-creating flows	-3.6	-5.3	5.6	3.5	1.1	0.8	0.2	0.1	0.1	0.1	-0.1	-0.6	0.5
Primary deficit	-1.0	-3.3	3.1	5.2	3.6	3.4	2.9	2.9	2.9	2.8	2.4	1.2	3.2
Revenue and grants	23.7	26.8	24.5	23.4	23.6	23.6	23.6	23.6	23.6	23.6	24.1	20.9	23.6
of which: grants	2.1	2.0	2.0	1.9	1.5	1.3	1.0	0.9	0.7	0.3	0.0		
Primary (noninterest) expenditure	22.7	23.5	27.6	28.5	27.2	27.0	26.5	26.5	26.5	26.5	26.4	22.1	26.8
Automatic debt dynamics	-2.6	-2.0	2.5	-1.7	-2.5	-2.6	-2.7	-2.8	-2.8	-2.7	-2.4		
Contribution from interest rate/growth differential	-2.4	-2.0	0.9	-1.7	-2.5	-2.6	-2.7	-2.8	-2.8	-2.7	-2.4		
of which: contribution from average real interest rate	-0.3	-0.1	0.0	-1.0	-0.7	-0.6	-0.6	-0.5	-0.5	-0.3	-0.1		
of which: contribution from real GDP growth	-2.1	-1.9	0.9	-0.7	-1.7	-2.0	-2.1	-2.2	-2.3	-2.4	-2.4		
Contribution from real exchange rate depreciation	-0.2	0.0	1.6	...	...	...	...	...	...	...	...		
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
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		
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		
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		
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		
Residual	2.1	5.1	1.4	-2.6	-0.8	-0.3	0.4	0.6	0.5	-0.1	-0.3	1.5	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	24.3	25.2	25.7	26.3	27.1	27.9	28.7	31.3	30.8		
PV of public debt-to-revenue and grants ratio	...	...	99.5	107.5	108.8	111.6	114.8	118.5	122.0	132.2	127.9		
PV of public debt-to-revenue ratio	...	...	108.2	116.8	116.4	118.0	120.2	123.0	125.8	133.7	128.1		
Debt service-to-revenue and grants ratio 3/	4.6	4.3	5.8	6.2	6.4	6.2	6.1	6.1	6.0	8.1	8.8		
Debt service-to-revenue ratio 3/	5.0	4.6	6.4	6.7	6.8	6.6	6.4	6.3	6.2	8.2	8.8		
Gross financing need 4/	0.1	-2.2	4.5	6.6	5.1	4.9	4.3	4.3	4.3	4.7	4.5		
in billions of U.S. dollars	19.4	-582.9	1143.9	1728.3	1436.8	1476.8	1413.7	1524.3	1656.2	2792.5	6567.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.5	7.1	-3.1	2.2	5.1	5.9	6.1	6.3	6.5	6.5	6.5	6.1	5.9
Average nominal interest rate on external debt (in percent)	1.3	1.3	1.2	0.5	0.6	0.5	0.5	0.6	0.7	1.3	1.9	1.2	0.8
Average real interest rate on domestic debt (in percent)	-0.1	-1.7	6.1	-2.3	-2.3	-2.4	-2.5	2.0	1.9	1.4	0.7	0.9	0.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.8	-0.1	5.3	...	...	...	...	...	...	...	...	-0.1	...
Inflation rate (GDP deflator, in percent)	3.1	3.2	-2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.6	4.3	2.0	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	10.7	10.7	13.8	5.7	0.2	4.9	4.1	6.3	6.5	6.5	6.4	9.3	5.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.5	-3.1	-3.8	4.3	3.3	2.9	2.4	2.2	2.3	2.8	2.7	-2.1	2.7
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		

Definition of external/domestic debt	**Currency-b**
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, 2021-2041 (In percent)

	Projections 1/											
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2041
PV of debt-to GDP ratio												
Baseline	25	26	26	27	27	27	28	28	28	28	28	26
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2021-2031 2/	25	21	23	24	25	26	27	27	27	27	26	7
B. Bound Tests												
B1. Real GDP growth	25	27	29	29	30	30	31	31	31	31	31	29
B2. Primary balance	25	27	29	30	30	30	31	31	31	31	31	27
B3. Exports	25	32	**44**	**44**	**44**	**44**	**44**	**44**	**44**	**43**	**42**	31
B4. Other flows 3/	25	28	31	31	31	32	32	32	32	32	31	27
B5. Depreciation	25	32	29	30	30	31	32	32	33	33	33	32
B6. Combination of B1-B5	25	32	34	35	35	35	36	36	36	35	35	29
C. Tailored Tests												
C1. Combined contingent liabilities	25	32	33	33	33	33	33	34	34	33	33	29
C2. Natural disaster	25	33	33	34	34	34	35	35	35	35	35	32
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.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio												
Baseline	35	34	31	31	31	32	32	33	33	33	33	33
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2021-2031 2/	35	28	27	28	29	30	31	32	31	31	30	9
B. Bound Tests												
B1. Real GDP growth	35	34	31	31	31	32	32	33	33	33	33	33
B2. Primary balance	35	36	35	34	35	35	35	36	36	36	36	34
B3. Exports	35	44	57	55	55	54	55	54	54	53	52	43
B4. Other flows 3/	35	38	37	36	36	37	37	37	37	37	37	34
B5. Depreciation	35	34	27	27	28	28	29	30	30	30	31	32
B6. Combination of B1-B5	35	42	38	40	40	40	41	41	41	41	40	37
C. Tailored Tests												
C1. Combined contingent liabilities	35	43	39	38	38	38	39	39	39	39	39	37
C2. Natural disaster	35	45	40	40	40	40	41	41	42	42	42	41
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.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio												
Baseline	2	2	2	2	2	2	2	2	2	2	2	2
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2021-2031 2/	2	2	2	2	2	2	2	2	2	2	2	1
B. Bound Tests												
B1. Real GDP growth	2	2	2	2	2	2	2	2	2	2	2	2
B2. Primary balance	2	2	2	2	2	2	2	2	2	2	2	2
B3. Exports	2	2	2	3	2	2	2	2	2	3	3	3
B4. Other flows 3/	2	2	2	2	2	2	2	2	2	2	2	2
B5. Depreciation	2	2	2	2	2	1	1	1	2	2	2	2
B6. Combination of B1-B5	2	2	2	2	2	2	2	2	2	2	2	2
C. Tailored Tests												
C1. Combined contingent liabilities	2	2	2	2	2	2	2	2	2	2	2	2
C2. Natural disaster	2	2	2	2	2	2	2	2	2	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.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio												
Baseline	7	7	7	6	6	6	6	6	6	6	7	6
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2021-2031 2/	7	7	6	6	6	6	6	6	6	6	6	4
B. Bound Tests												
B1. Real GDP growth	7	7	7	7	7	7	7	6	7	7	8	7
B2. Primary balance	7	7	7	7	7	6	6	6	6	7	8	7
B3. Exports	7	7	8	9	9	8	8	8	8	9	12	9
B4. Other flows 3/	7	7	7	7	7	7	6	6	7	7	8	7
B5. Depreciation	7	9	8	8	7	7	7	7	7	8	7	8
B6. Combination of B1-B5	7	7	8	8	7	7	7	7	7	9	9	8
C. Tailored Tests												
C1. Combined contingent liabilities	7	7	7	7	7	7	7	6	7	7	7	7
C2. Natural disaster	7	7	7	7	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.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	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, 2021-2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	25	26	26	27	28	29	30	30	31	31	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	25	24	23	23	23	23	24	24	24	24	24
B. Bound Tests											
B1. Real GDP growth	25	28	32	34	36	39	41	43	45	47	48
B2. Primary balance	25	27	30	30	31	32	33	33	33	33	34
B3. Exports	25	30	40	40	41	41	41	42	41	41	40
B4. Other flows 3/	25	28	31	32	32	33	34	34	35	35	34
B5. Depreciation	25	31	30	29	28	27	26	25	24	23	22
B6. Combination of B1-B5	25	26	27	27	27	28	29	30	30	30	31
C. Tailored Tests											
C1. Combined contingent liabilities	25	33	33	34	34	35	36	36	36	36	36
C2. Natural disaster	25	33	34	35	35	36	37	38	38	38	38
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	108	109	112	115	118	122	126	129	130	131	132
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	108	101	99	98	99	99	101	102	101	101	100
B. Bound Tests											
B1. Real GDP growth	108	117	133	143	154	164	175	183	190	197	203
B2. Primary balance	108	116	126	128	131	134	138	140	141	142	142
B3. Exports	108	128	170	171	172	174	176	176	175	174	170
B4. Other flows 3/	108	120	132	135	138	140	144	146	146	146	145
B5. Depreciation	108	134	127	122	118	114	111	107	103	99	95
B6. Combination of B1-B5	108	112	116	113	116	120	124	126	128	129	130
C. Tailored Tests											
C1. Combined contingent liabilities	108	139	141	143	145	148	151	152	153	153	153
C2. Natural disaster	108	141	143	147	150	153	157	160	161	162	162
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	6	6	6	6	6	6	6	6	6	7	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	6	6	6	6	6	6	6	6	6	6	7
B. Bound Tests											
B1. Real GDP growth	6	7	7	7	7	7	7	8	8	9	11
B2. Primary balance	6	6	6	7	6	6	6	6	7	8	9
B3. Exports	6	6	7	8	8	7	7	7	8	9	12
B4. Other flows 3/	6	6	7	7	7	6	6	6	7	8	9
B5. Depreciation	6	7	8	8	7	7	7	7	7	7	8
B6. Combination of B1-B5	6	6	6	6	6	6	6	6	6	7	8
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	7	7	7	7	7	7	8	7	9
C2. Natural disaster	6	6	7	7	7	7	7	7	8	8	9
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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.