



NATIONAL BANK OF CAMBODIA

Riel. Stability. Development.

FINANCIAL STABILITY REVIEW 2020

Macroeconomic Conditions
and Stability

Financial System Conditions
and Assessments

Macro-Financial Linkages and Potential
Risks to Financial Stability

CONTENTS

Foreword.....	VI
Abbreviations	VII
Executive Summary	VIII
I. Macroeconomic Conditions and Stability.....	1
1.1 External Conditions and Stability	1
a) Global Economy.....	1
b) Balance of Payments	2
c) Trade.....	3
d) Service.....	4
e) Remittance	4
f) Financial Account.....	5
g) Exchange Rate Movement and External Stability	7
1.2 Domestic Conditions and Stability	8
a) Economic Growth	8
b) Construction and Real Estate.....	9
c) Monetary Sector.....	11
d) Inflation	12
e) Fiscal Sector.....	13
II. Financial System Conditions and Assessments	17
2.1 Overview of the Banking System's Landscape, Condition and Assessment	17
a) Banking System's Landscape	17
b) Sectoral Credit Analysis	18
c) Bank's Sectoral Credit Growth	19
d) Microfinance Sector	22
e) Credit Quality	23
f) Quality of Credit by the Economic Sector	24
g) Liquidity Position and Funding	27
h) Profitability	29
i) Capital Position.....	31
2.2 Development in Securities and Insurance Sectors	31
a) Equity Market.....	31
b) Bond Market	32
c) Insurance Sector	33

III. Macro-Financial Linkages	35
3.1 Credit-to-GDP Gap.....	35
3.2 Balance Sheet Analysis	35
IV. Outlook and Risks.....	37
Appendix.....	40

TABLE OF FIGURES

Figure 1. World Economic Outlook	1
Figure 2. Cambodia's Balance of Payment.....	2
Figure 3. Exports, Imports, and Trade Balance.....	3
Figure 4. Number of International Tourists (growth) and Purpose of Visits.....	4
Figure 5. Number of International Tourists to Cambodia.....	4
Figure 6. Remittances by country	5
Figure 7. Share of Remittance Inflows by Country	5
Figure 8. FDI Inflows by Sector	5
Figure 9. FDI Flows of Financial Activities	6
Figure 10. FDI Inflows by Source Country	6
Figure 11. Composition of Gross External Debt.....	7
Figure 12. Exchange Market Pressure.....	7
Figure 13. Bilateral and Effective Exchange Rates 2015 = 100	8
Figure 14. International Reserve	8
Figure 15. Reserve Adequacy Indicators	9
Figure 16. Real GDP Growth Contribution	10
Figure 17. Number of Approved Projects by Sector	10
Figure 18. Approved Amount of Construction Projects	11
Figure 19. Share of Approved Projects by Sector by Surface Area in 2020.....	11
Figure 20. Imports of Construction Materials and Equipment.....	11
Figure 21. Deposit and Loan Dollarization.....	13
Figure 22. Contribution to Headline Inflation	13
Figure 23. Fiscal Balance.....	13
Figure 24. ASEAN countries: Budget Balance.....	14
Figure 25. Contribution to Revenue Growth	14
Figure 26. Contribution to Expenditure	15
Figure 27. Government Debt by Main Creditors.....	17
Figure 28. Cambodia's Banking System in 2020.....	18
Figure 29. Share of Assets	18
Figure 30. Share of Credits	18
Figure 31. Share of the Banking Sector's Credits by the Economic Sector	18
Figure 32. Share of the Microfinance Sector's Credits by the Economic Sector	18
Figure 33. Banking System Credit Growth	19
Figure 34. Contribution of the Sectoral Credit to the Total Bank Credit Growth.....	20

Figure 35. Share of Sectoral Credit to Total Credit	20
Figure 36. Major Sectoral Credit Growth.....	20
Figure 37. Share of Sectoral Credit to the Total Credit	21
Figure 38. Major Sectoral Credit Growth.....	21
Figure 39. Household's Credit Growth Contribution	22
Figure 40. Corporate's Credit Growth Contribution.....	22
Figure 41. MDIs' Sectoral Credit Growth Contribution	23
Figure 42. MFIs' Sectoral Credit Growth Contribution.....	23
Figure 43. Non-Performing Loan	23
Figure 44. Banks' NPL Ratios on Loans to Major Business Sectors	24
Figure 45. Banks' NPL ratios in Real Estate and Personal Essential Loans.....	24
Figure 46. Number of Restructured Loan Accounts	25
Figure 47. Amount of Restructured Loans.....	25
Figure 48. Banking System's Restructured Loan Accounts by the Prioritized Economic Sector.....	26
Figure 49. Bank's Restructured Loan Accounts by the Prioritized Economic Sector	26
Figure 50. MDI's Restructured Loan Accounts by the Prioritized Economic Sector	26
Figure 51. MFI's Restructured Loan Accounts by the Prioritized Economic Sector	26
Figure 52. Liquidity Coverage Ratios	27
Figure 53. Liquidity Condition	27
Figure 54. Banks' Funding Sources	27
Figure 55. Banks' Borrowing Funds	27
Figure 56. Microfinance Funding Structure	28
Figure 57. Microfinance Borrowing Funds	28
Figure 58. Top 10 Countries as MFIs' Sources of Funds	28
Figure 59. Source of Fund Proportions.....	28
Figure 60. Banking system's Return on Assets	30
Figure 61. Banking system's Return on Equity	30
Figure 62. Efficiency Ratio.....	30
Figure 63. MDIs' Profit Structure.....	30
Figure 64. MFIs' Profit Structure	30
Figure 65. Capital Adequacy Ratio	31
Figure 66. Cambodia Securities Exchange Index	32
Figure 67. Market Capitalization	32
Figure 68. Average Trading Volume and Value	32

Figure 69. Gross Premium	34
Figure 70. Gross Claim Paid	34
Figure 71. Share of General Insurance Premium	34
Figure 72. Share of Life Insurance Premium	34
Figure 73. Credit-to-GDP Gap	35
Figure 74. Total Financial Position of All Sectors in 2020	35
Figure 75. Intersectoral Position	36

Foreword

Compared to previous years, 2020 was the most challenging one, as the COVID-19 pandemic had a significant impact on the global economy and financial markets. Like other countries, Cambodia was hit hard by the pandemic because the key sectors, including tourism, garments and textiles, and construction, were the most affected. Cambodia's economy recorded a negative growth rate in 2020 after two decades of an average high growth rate of 8 percent. However, despite the impact from the widespread COVID-19 the banking sector in Cambodia remained stable and resilient thanks to the sustainable development of the sector. The total assets in the banking system reached 217 percent of the gross domestic product (GDP) with an annual growth rate of 15.7 percent. Additionally, customer credit reached 140 percent of the GDP with an annual growth rate of 16.9 percent, and the customer deposit had a moderate growth rate of 15.4 percent, reaching 123 percent of the GDP. Nevertheless, the road ahead remains uncertain. Even with signs of economic recovery and the global vaccine rollout, there are still significant uncertainties surrounding the evolution of the pandemic, uneven economic recovery and scarring in some sectors, which will weigh on the future growth potential of the economy.

In response to the pandemic, the National Bank of Cambodia (NBC) introduced numerous measures to cushion any economic and social impacts through supporting measures and regulatory forbearance to the banking system to enable the system to continue to serve the economy. First and foremost, the NBC has eased monetary policy conditions to provide liquidity to banks and financial institutions. In addition, to help relieve the financial burden for individuals and businesses, since April 2020, banks and financial institutions have been allowed to conduct loan restructuring. These measures have helped maintain the credit quality and enhance the liquidity risk management in the banking system, thus keeping a low non-performing loan (NPL) ratio and reasonable profitability. Looking ahead, given the high uncertainty regarding the strength of economic recovery, especially after the February 20 community outbreak of COVID-19, the NBC will continue to stay vigilant and stands ready to introduce more supportive measures that are in line with the government's policies while preserving financial stability. Regarding post-COVID-19, the withdrawal of any policy supports would be well communicated and on a gradual basis to achieve a balance between growth and stability.

This Financial Stability Review 2020 outlines the recent development of the financial sector and its challenges. Moreover, it discusses the future outlooks and risks that the financial sector faces amid the uncertainty of the domestic, regional, and global economies due to the COVID-19 pandemic. I hope that the review will contribute to a greater understanding among financial industry players, academia, development partners, and relevant stakeholders on financial stability in Cambodia.

Finally, I would like to express my appreciation to the Financial Stability Committee of the NBC for their hard work in accomplishing their tasks. In addition, I would like to extend my gratitude to the line ministries, public institutions, and development partners for their excellent cooperation and support. With the current situation, a collaborative mechanism among financial sector regulators and stakeholders is necessary to facilitate a timely detection of risks in the financial system and take measures to prevent risks from escalating into a systemic concern. I look forward to the continued support and cooperation to enhance our surveillance over the financial stability.

Phnom Penh, May 28, 2021



CHEA CHANTO
Governor
National Bank of Cambodia

Abbreviations

ADB	Asian Development Bank
AFD	Agence Francaise de Developement
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BOP	Balance of Payments
Brexit	Withdrawal of the United Kingdom from the European Union
CAR	Capital Adequacy Ratio
CBC	Credit Bureau Cambodia
CCB	Countercyclical Capital Buffer
CSX	Cambodia Securities Exchange
EBA	Everything but Arms
ECB	European Central Bank
EMP	Exchange Market Pressure
EU	European Union
FCD	Foreign Currency Deposits
FDI	Foreign Direct Investment
FI	Financial Institution
FOB	Free-on-Board
FSI	Financial Soundness Indicators
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report (publication by the IMF)
GTF	Garments, Textiles, and Footwear
GTI	Grand Twins International
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KHR	Khmer Riel Currency
LCR	Liquidity Coverage Ratio
LTV	Loan-to-Value
MDI	Microfinance Deposit-Taking Institution
MEF	Ministry of Economy and Finance
MFI	Microfinance Institution
MLMUPC	Ministry of Land Management, Urban Planning and Construction
NBC	National Bank of Cambodia
NIS	National Institute of Statistics
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PAS	Port Autonome de Sihanoukville (Sihanoukville Autonomous Port)
PPAP	Phnom Penh Autonomous Port
PPSEZ	Phnom Penh Special Economic Zone
PPWSA	Phnom Penh Water Supply Authority
RE	Real Estate
RGC	Royal Government of Cambodia
ROA	Return on Asset
ROE	Return on Equity
SQM	Square Meter
TA	Technical Assistance
U.K.	United Kingdom
USD	US Dollar Currency
WB	World Bank
y-o-y	Year-on-Year

Executive Summary

Although the global economy in 2020 recorded worse growth than the Global Financial Crisis of 2008–2009, the financial and banking sector remained resilient. The COVID-19 crisis that created both demand and supply shocks hit the global economy in 2020, and as a result, the global growth was negative at -3.3 percent. However, due to the accommodative global financial conditions and the fact that the financial and banking sector has stronger capital and liquidity than during the Global Financial Crisis, the sector has been resilient to shocks.

As an open economy that relies heavily on external sectors, Cambodia experienced a negative growth rate of -3.1 percent in 2020 for the first time since 1994. The most affected sectors include tourism and exports of garments and footwear. Tourism was hit hard by the pandemic, with the decline of international tourist arrivals by -80.2 percent and the number of domestic tourists also slightly declined. Meanwhile, although exports of garments and footwear decreased by -9.7 percent and -11.6 percent, respectively, exports of electrical parts, bicycles, rice and rubber increased significantly, which reflects the country's economic diversification. The total foreign direct investment (FDI) slightly decreased by -1 percent, but FDI to the financial and banking sector recorded a positive growth of 12.8 percent due to re-invested earnings and brought-in capital for new banks. Remittances significantly declined by -17 percent because of weak economic activities and lockdowns in several migrant-hosting countries. Moreover, though the construction and real estate sector slowed down, the agriculture sector still recorded a positive growth owing to the increased labor availability that was laid off by the exposed sectors, even if the sector was partly affected by the extreme weather conditions.

Amid the COVID-19 shock, the government's cash transfer program and tax relief have mitigated the impacts of COVID-19 on businesses and workers, while fiscal and debt positions remained sound. The Royal Government of Cambodia (RGC) has introduced a stimulus package to support the individuals and firms who were heavily affected by the impacts of COVID-19. Despite the increase in government expenditure coupled with the decline in revenue collection widened the fiscal deficits, the fiscal position remained sound, which was reflected in the high government savings. Meanwhile, the government debts remained sustainable at 32.8 percent of the GDP, which is lower than the threshold of 40 percent.

In 2020, inflation remained relatively subdued at 2.9 percent, while Khmer riel (KHR) slightly depreciated against the US dollar (USD). The higher food price, especially at the beginning of the COVID-19 pandemic, contributed to increasing the inflation rate. However, this was offset by the decline in the price of oil-related items. As a result, although the inflation rate increased from 1.9 percent in 2019 to 2.9 percent in 2020, this rate was low and manageable. At the same time, the exchange rate of the KHR against the USD slightly depreciated because of the fall in domestic economic activities, which resulted in low demand for local currency coupled with the reduced inflows of foreign currencies. Meanwhile, the international reserves have accumulated USD 21.3 billion, which is equivalent to 11 months of prospective imports of goods and services. This has strengthened the exchange rate stability and the public's confidence in the Khmer riel and Cambodia's economy.

Cambodia's banking system was resilient with strong capital and liquidity buffers for both banks and microfinance institutions, despite the unprecedented shock. The capital and liquidity positions of the banking system remained adequate, as reflected by higher capital adequacy ratios (CAR) and liquidity coverage ratios (LCR) than the regulatory requirement. Banks', MDIs', and MFIs' CARs equaled 23.7 percent, 19.8 percent, and 38.9 percent, respectively, which were higher than the capital requirement of 15 percent. The LCRs of banks and MDIs equaled 162.5 percent and 240.4 percent, respectively, which were also higher than the liquidity benchmark of 100 percent. In addition, the profitability of the banking system remained sustainable with a slight decline in the return on asset (ROA) and return on equity (ROE) for banks from 1.9 percent and 9.8 percent in 2019 to 1.7 percent and 8.7 percent in 2020, respectively. Similarly, the MDIs recorded the same ROA of 2.9 percent, although their ROE decreased from 17.7 percent to 14.8 percent. For MFIs, the ROE and ROA decreased from 2.2 percent and 6.3 percent to 1.9 percent and 4.5 percent, respectively.

The robustness of the banking system could also be reflected by a low non-performing loan (NPL) ratio. In 2020, the credit growth in the banking system was recorded at 16.9 percent to support economic activities, despite a reduction from 27.3 percent in 2019. Meanwhile, the credit quality remained good, reflected by low NPL ratios for both the banking and microfinance sectors. The NPL ratio for the banking system slightly increased from 1.7 percent in 2019 to 2.1 percent in 2020; however, this was favored by loan restructurings in the most affected sectors.

The implementation of micro-prudential regulations in the past decades coupled with the intervention measures by the NBC have built up the resilience of the banking system. During the last two decades, micro-prudential regulations, such as raising the minimum registered capital and liquidity coverage ratio and managing the systemic risks, have been continuously strengthened, which has greatly improved the capital position and liquidity risk management. The robustness of the banking system allowed the NBC to ease financial conditions amid the pandemic. As a result, banks and financial institutions continue to provide credits to the economy. In addition, since April 2020, banks and financial institutions have been allowed to conduct loan restructuring in prioritized sectors. This timely intervention has helped lessen the burden of debtors facing a major revenue decline caused by the pandemic.

In 2021, the vaccine rollout implemented by the government would support the economic recovery. Given the expected improvement of the global economy in 2021, Cambodia's economic growth was projected to record a 4 percent growth rate. However, this projection remains highly uncertain, as it depends on the recovery of the partner countries and the successful containment of the community outbreak. Nonetheless, the global vaccination rollout and Cambodia's recent access to COVID-19 vaccines will help to alleviate these risks and support economic recovery.

In these uncertain times, the NBC will continue to support the government's economic recovery plans, and the withdrawal of policy supports will be gradual and carefully planned. The NBC will continue to collaborate with the relevant authorities and stakeholders to ensure financial, economic, and social stability. Furthermore, the withdrawal of policy supports will be done gradually, cautiously, and in line with the evolution of the pandemic and attendant recoveries. The NBC will be proactive and stands ready to introduce additional measures based on the circumstances to ensure a balance between growth and stability

I. MACROECONOMIC CONDITIONS AND STABILITY

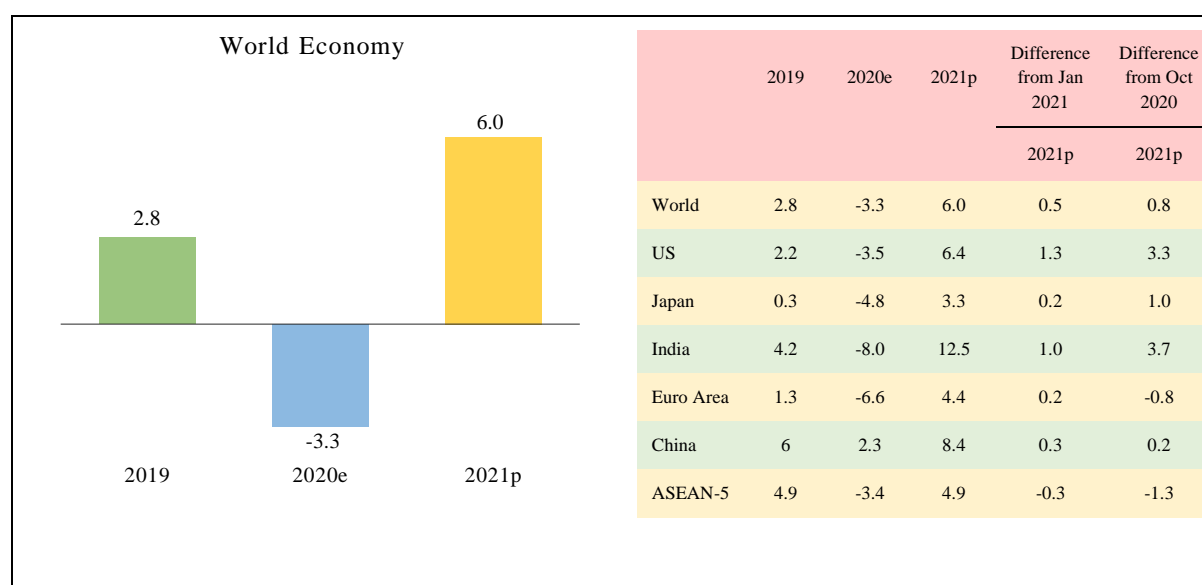
1.1 External Conditions and Stability

a) Global Economy

The contraction of global growth in 2020 was larger than it had been during the Global Financial Crisis in 2008, which was mainly due to the novel COVID-19 pandemic; however, the recovery speed for the 2021 growth is ambitious. The International Monetary Fund (IMF) has revised the global growth estimation to -3.3 percent in 2020 from its earlier projection¹. The 2020 economic downturn was severe compared to -1.67 percent in 2009 and 2.8 percent in 2019, while the outlook for global economic growth in 2021 is 6 percent. The COVID-19 pandemic hit the global economy hard in early 2020, especially in the tourism sector, production chain, asset price, and all economic structures. In addition, the spread of COVID-19 has forced many countries to enforce lockdowns and restrict movement, which threatens household and firm incomes, raises the unemployment and job layoff rates, increases production line suspension, and lowers consumption. At the same time, trade tension, climate change, and protectionism remain.

On average, the global economy was stronger than October's projected momentum across regions in the second half of 2020, including the euro area, the US, China, Japan, India, and Korea, while the U.K. and ASEAN got worse. As stated in the World Economic Outlook, which was updated in April 2021, the US, Japan, India, and China performed better, while the euro area and ASEAN-5 performed worse compared to the last projections in October 2020 (Figure 1). Nevertheless, the speed of recovery remains uncertain and depends on the global availability of the vaccine rollout, the magnitude of the policy support, the success of containment measures, and the clear tackling of the underlying problems. Meanwhile, inflation is expected to be well below the central banks' targets at 1.5 percent in the advanced economies and over 4 percent for emerging markets and developing economies, which is lower than the historical average of the group.

Figure 1. World Economic Outlook



Source: IMF WEO Update, January 2021

¹ The IMF's growth projections were -4.4 percent in October 2020 WEO and -3.5 percent in January 2021.

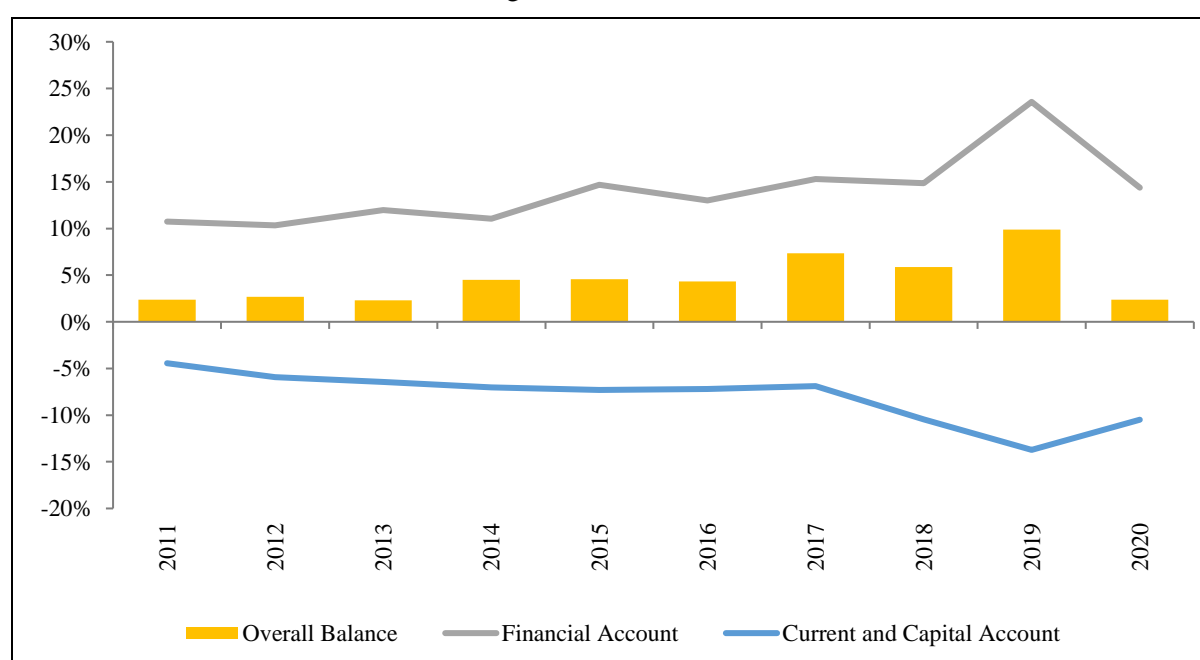
Global financial conditions against liquidity strains have eased following the major disruptions to the global economy that were caused by the COVID-19 pandemic while the banking sector remains in good standing. Most central banks have employed an expansionary monetary policy, including both quantitative easing and a low policy rate to support economic activities during the pandemic. The US Federal Reserve lowered the policy rate close to zero, while the European Central Bank (ECB) announced expansions of asset purchase programs. Meanwhile, most central banks in the region, such as China, India, Indonesia, Korea, Malaysia, Philippines, Thailand, and Vietnam, retained the accommodative monetary policy. Moreover, banks remained resilient because they were well capitalized and had high liquidity buffers combined with a continuous policy support to sustain the credit flow of households and firms. However, banks would be facing a profitability problem in the context of a low-interest-rate environment and an increase in NPL after policy support actions come to an end.

b) Balance of Payments

In 2020, Cambodia's balance of payment continued to record a surplus that was lower than that of 2019. The overall balance recorded a surplus of 2.3 percent of the GDP compared to 9.8 percent of the GDP in 2019, which was mainly due to lower inflows into the financial account, while the capital and current account deficit narrowed (Figure 2). Meanwhile, the current and capital account recorded a deficit of 10.3 percent of the GDP (13.7 percent of the GDP in 2019), which is an improvement of 3.4 percent of the GDP.

The current account deficit narrowed to 11.3 percent of the GDP in 2020 from 15 percent of the GDP in 2019. This improvement was largely driven by the decreased deficits of the merchandise goods balance (13.5 percent of the GDP) and the primary income (2 percent of the GDP). Additionally, the surplus of net services switched to a deficit of 0.4 percent of the GDP from a net surplus of 10.4 percent of the GDP, whereas the secondary income surplus and capital account surplus recorded a lower inflow of 1.1 percent of the GDP and 0.4 percent of the GDP, respectively.

Figure 2. Cambodia's Balance of Payment
Percentage of the GDP, 2011–2020

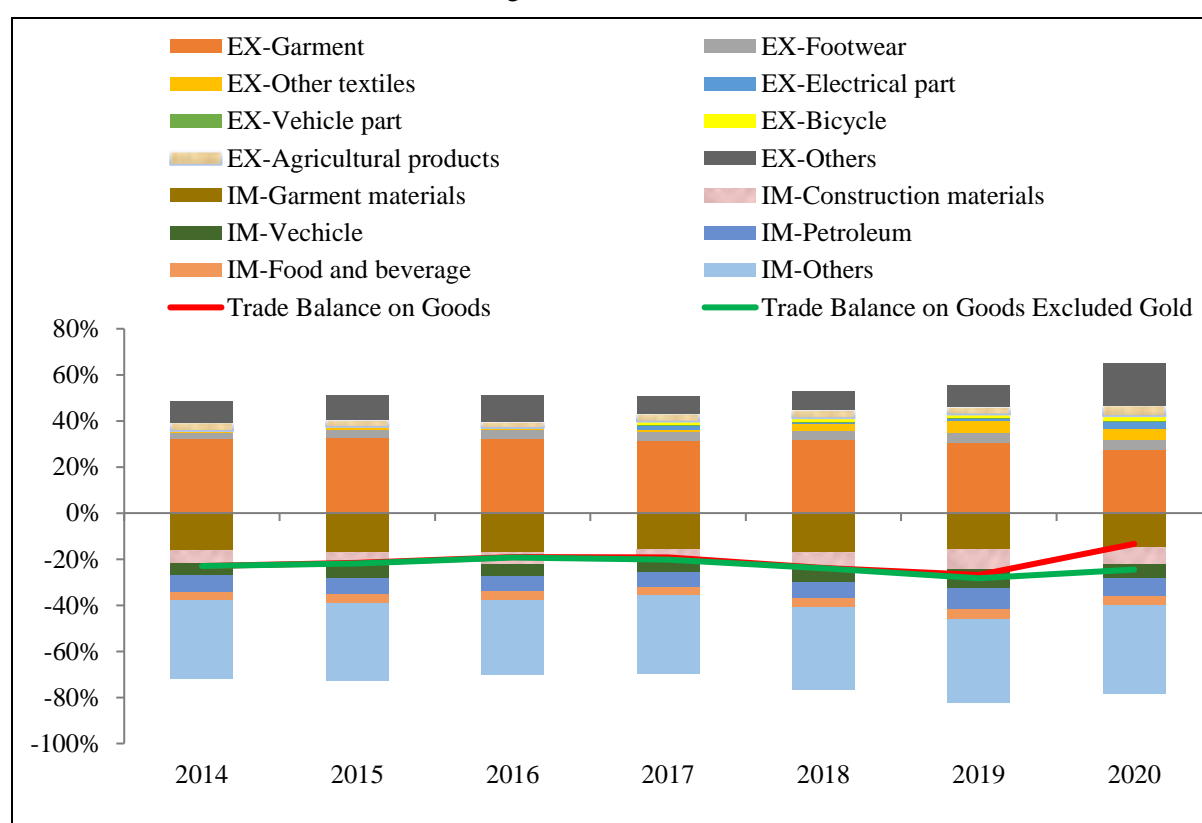


Source: National Bank of Cambodia

c) Trade

The merchandise goods deficit improved during the COVID-19 pandemic due to the contraction in imports for domestic demand. In 2020, the merchandise goods deficit reduced to only 13.2 percent of the GDP compared to 26.7 percent last year. The imports of goods declined by -5.4 percent, which reflected the shrinking domestic demand for imported goods, including the imports of vehicles (-33 percent), construction materials and equipment (-12.2 percent), petroleum (-14.9 percent), and garment materials (-5.8 percent). Additionally, the imports of food and beverages recorded a slight increase (Figure 3). Notably, exports increased by 16.5 percent² compared 15.6 percent in 2019 due to an increase in gold³ exports and exports of other goods, including textiles (1.8 percent), electrical parts (150 percent), bicycles (27.4 percent), rice (12 percent), and rubber (24.1 percent). However, supply constraints due to lockdowns and travel restrictions, and a lower demand from most countries resulted in a significant contraction of exports of garments and footwear by -9.7 percent and -11.6 percent, respectively (Figure 3). The exports to the EU, UK, and Japan decreased by -15.8 percent, -15.4 percent, and -7.7 percent, respectively. Nonetheless, exports to the US (30.5 percent of the total exports) increased by 18.2 percent compared to 46.3 percent in the previous year, and exports to ASEAN (21.6 percent of total exports) were 270 percent higher compared to 3.5 percent in the previous year.

Figure 3. Exports, Imports, and Trade Balance
Percentage of the GDP, 2014–2020



Source: General Department of Customs and Excise, and National Bank of Cambodia staff calculation

² Exports, excluding gold, decreased by -1.1 percent.

³ shared 17.5 percent to total exports in 2020

d) Service

Service transactions were abruptly interrupted by the pandemic, which resulted in a deficit of the net exports of services for the first time. In 2020, the net service exports registered a deficit of \$123 million compared to a surplus of \$2,812 million in 2019. This was mainly due to the reduced international visitor arrivals. Service exports declined by -68 percent compared to an increase of 11.6 percent last year, which was mostly due to the decreased travel exports by -78.6 percent. There were only 1.3 million visitor arrivals to Cambodia, which is an 80.2 percent decline compared to the 6.6 percent growth in 2019. As shown in Figure 4, the growth rate of visitor arrivals started a downward trend in the second quarter of 2020 as the result of the COVID-19 outbreak, which was curbed by the travel restrictions of many countries around the world.

Figure 4. Number of International Visitors (growth and Purpose of Visits)
In percent, 2014 – 2020

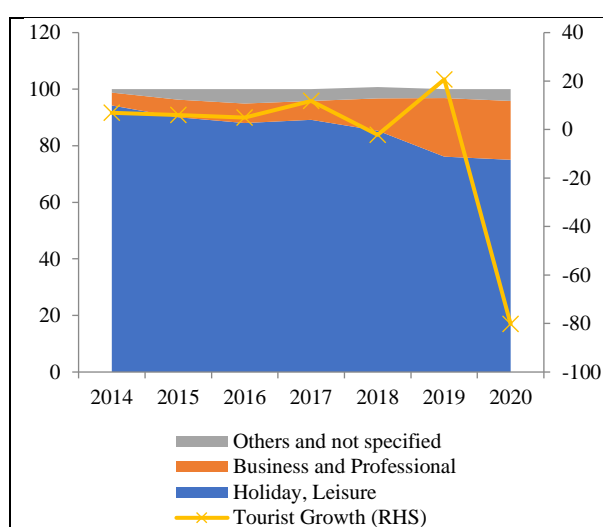
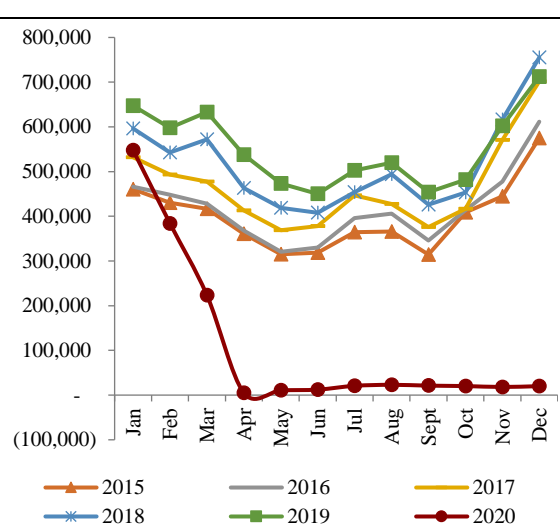


Figure 5. Number of International Tourists to Cambodia
2015-2020



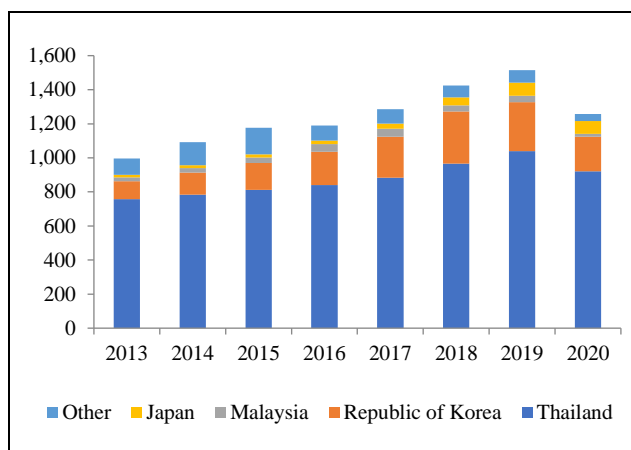
Source: Ministry of Tourism and Migration Department of Ministry of Interior

e) Remittance

Remittances declined sharply due to weak economic activities and travel restrictions in several migrant-hosting countries. Remittances decreased by -17 percent from USD 1.5 billion in 2019 to USD 1.2 billion in 2020. Thailand (accounting for 73 percent of the total) recorded a decrease of -11 percent, followed by Korea (16 percent share), which declined by -30 percent, Japan (6 percent share), which decreased by -4 percent, and Malaysia (1.4 percent share), which dropped by -51 percent. The COVID-19 pandemic has exacerbated economic activities, especially businesses, thus reducing demand for labor. Many Cambodian migrants returned home, and only a small number of new migrants were allowed to migrate during the pandemic. The number of Cambodian migrant workers in 2020 was 1.2 million, which was an 8 percent decrease from 1.3 million migrants in 2019.⁴

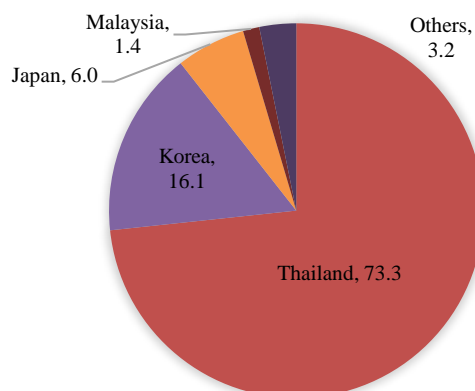
⁴ Ministry of Labour and Vocational Training

Figure 6. Remittances by Country
In million USD, 2013 – 2020



Source: National Bank of Cambodia

Figure 7. Share of Remittance Inflows by Country
In percent, 2020



f) Financial Account

FDI inflows contracted slightly in 2020 amid the contraction in non-banking sectors. The total FDI inflows, mainly to financial, construction and real estate, and manufacturing sectors, were recorded at USD 3.5 billion in 2020 and declined by -1 percent due to uncertainty over the evolution of the COVID-19 pandemic. The financial sector, which accounted for about one-third of the total FDI, continued a positive growth rate of 12.8 percent in 2020 compared to 15.8 percent in 2019 due to an increase in reinvested earnings, additional capital injection of banks, newly opened banks, and status transformations from microfinance institutions to commercial banks (see Figure 9). Meanwhile, the FDI to non-banking sectors decreased by -9.4 percent, of which the FDI to the construction and real estate sector (17 percent share of the total FDI) decreased by -10.6 percent, and the FDI to manufacturing (16.2 percent), dropped by -7.4 percent (see Figure 8).

Figure 8. FDI Inflows by Sector
In million USD, 2014 - 2020

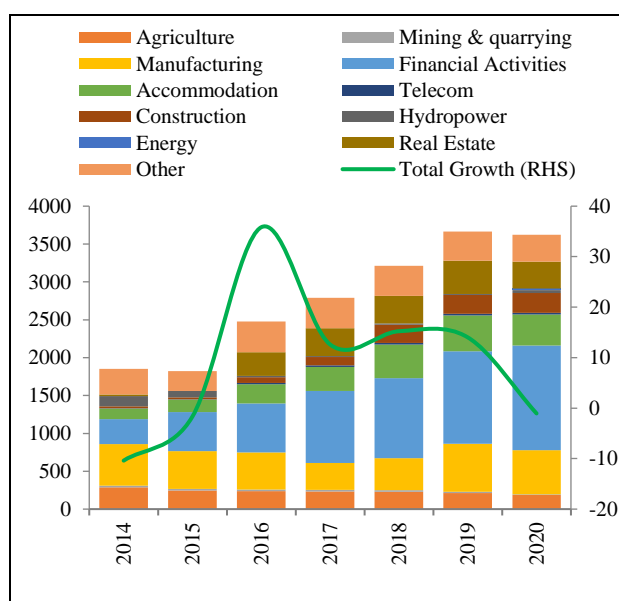
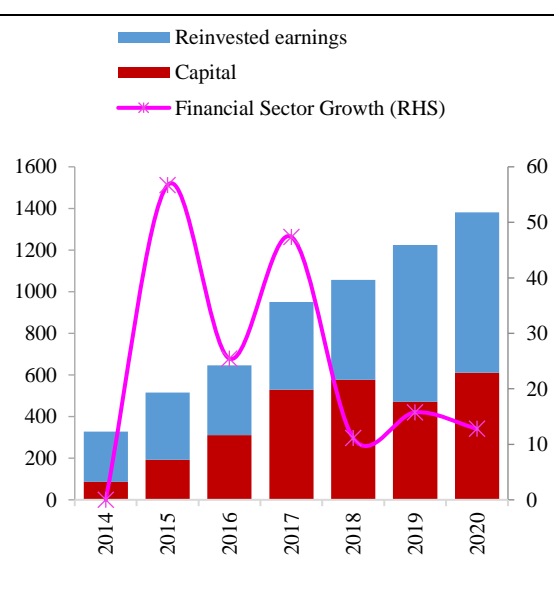


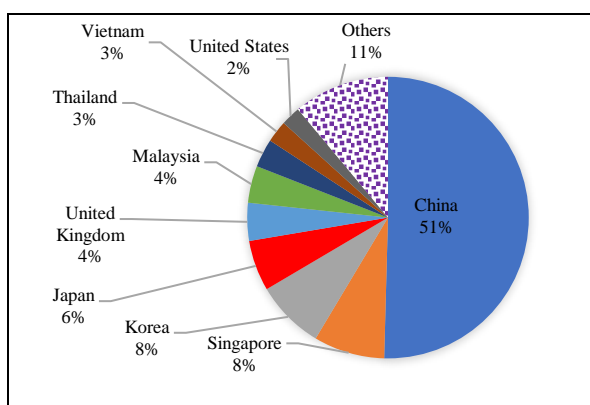
Figure 9. FDI Flows of Financial Activities
In million USD, 2014 - 2020



Source: Council for the Development of Cambodia and National Bank of Cambodia

China has been the leading source of FDI inflows to Cambodia. In 2020, the FDI inflows from China accounted for 51 percent of the total FDI, followed by Singapore (8.2 percent), Korea (7.9 percent), Japan (5.8 percent), UK (4.4 percent), Malaysia (4.2 percent), and Thailand (3.3 percent) (see Figure 10). The FDI inflows from China are mainly to the garments and footwear, hydropower, real estate, finance, and accommodation sectors.

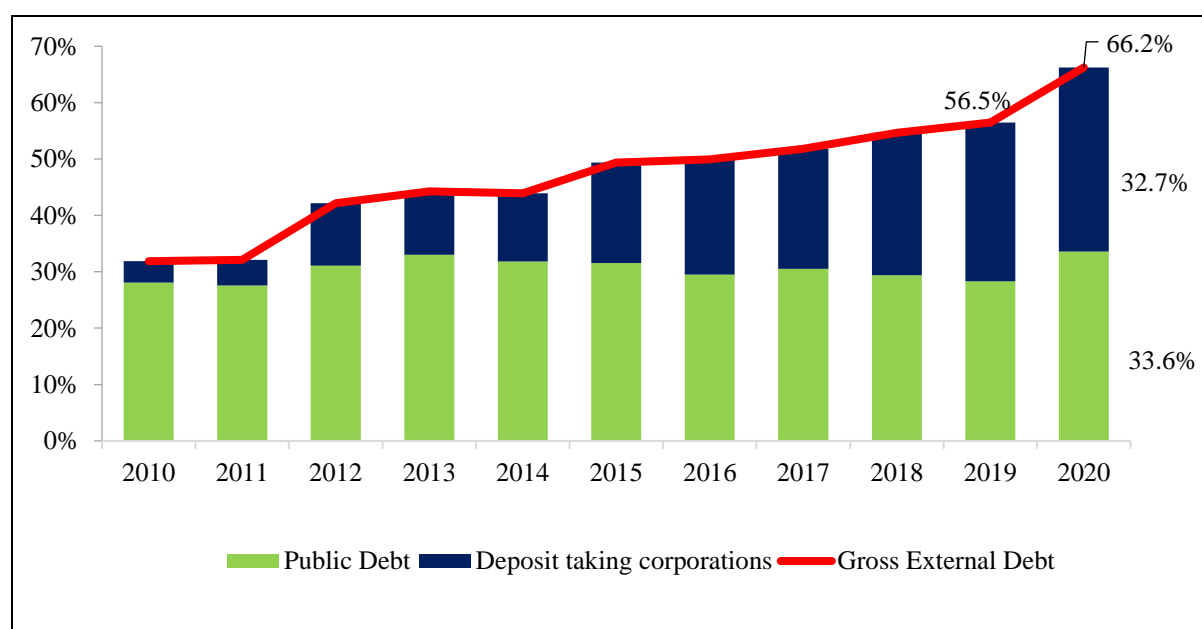
Figure 10. FDI Inflows by Source Country
In percent, 2020



Source: National Bank of Cambodia

By the end of 2020, the gross external debt⁵ grew by 14.5 percent (y-o-y) to USD 16 billion due to the robust growth in government debt. The government external debt accounted for 99 percent of the total government debt and rose by 16 percent (y-o-y), reaching USD 8.8 billion; all of which were long-term credit. The growth of deposit-taking corporations' gross external debt decelerated to 13.3 percent (y-o-y) compared to 25.2 percent in the previous year, reaching USD 8.6 billion (33 percent of the GDP), of which 56 percent (USD 4.9 billion) were long-term borrowing.

Figure 11. Composition of Gross External Debt
Percentage of the GDP



Source: General Department of National Treasury

⁵ External debt covers external borrowings by Public (the government, and central bank) and deposit-taking companies only.

g) Exchange Rate Movement and External Stability

Cambodia's exchange rate market pressure is manageable, while the nominal exchange rate slightly increased.⁶ In 2020, the exchange market pressure remained within the standard deviation, even though it rose in March 2020 (Figure 12), while the value of riel—against the US Dollar slightly depreciated but remained stable. Compared to 2019, the nominal effective exchange rate (NEER) slightly rose for the second half of 2020, while the real effective exchange rate (REER) is well below the NEER due to the lower inflation of the main trading partners, except Vietnam (Figure 13).

Figure 12. Exchange Market Pressure
Jan 2018 – Dec 2020

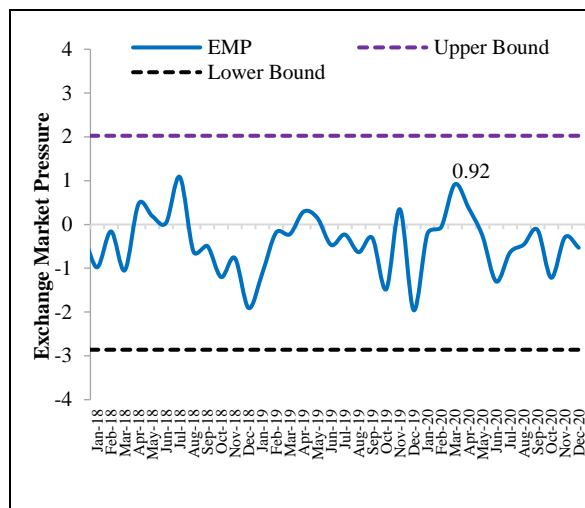
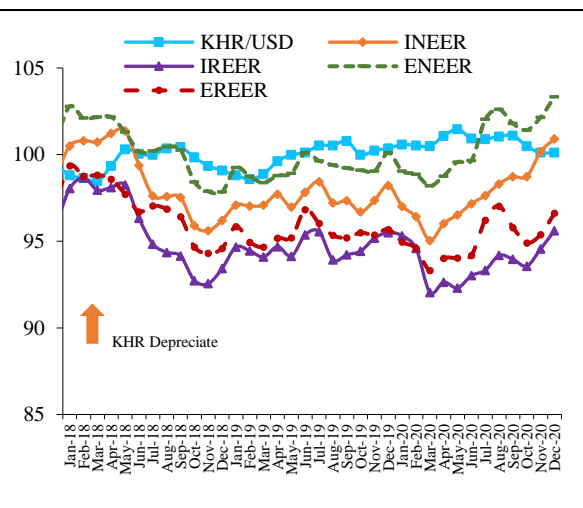


Figure 13. Bilateral and Effective Exchange Rates
2015 = 100, Jan 2018–Dec 2020



Source: National Bank of Cambodia staff's calculation

The international reserve continued to accumulate and enhance market confidence in the local currency and economy. The international reserve, which was recorded at USD 21.3 billion at the end of 2020, increased by 14 percent. This was equivalent to more than ten months of prospective goods and services imports, which is higher than the minimum benchmark of three months for developing countries. The ratio of gross foreign reserves to broad money was 63.3 percent, which was well above the standard benchmark of 20 percent. In addition to this, the gross foreign reserve to the GDP ratio was 76.2 percent, and the reserve to the foreign currency deposit ratio was 75.5 percent. However, in the context of high dollarization and the managed floating exchange rate regime, the country needs to accumulate more reserves as buffers to maintain macro-economic and financial stability (see Figure 14 and 15).

⁶ The methodology to estimate exchange market pressure is shown on page 9 of the Financial Stability Review 2018.

Figure 14. International Reserve
(2010–2020)

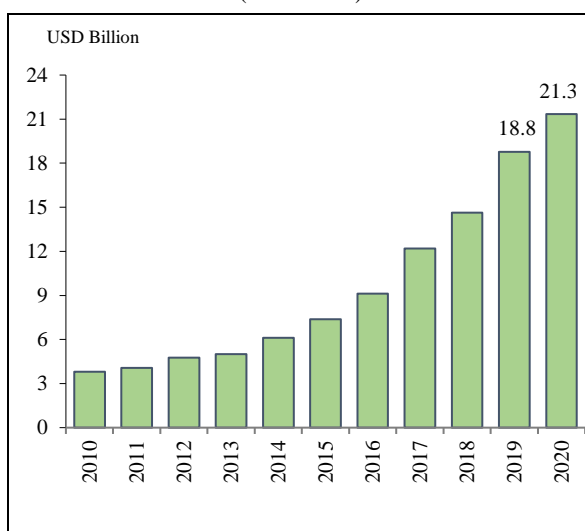
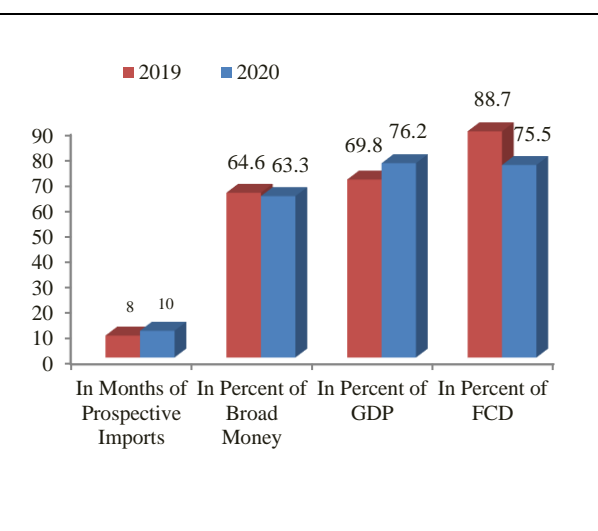


Figure 15. Reserve Adequacy Indicators



Sources: National Bank of Cambodia's staff calculation

1.2 Domestic Conditions and Stability

a) Economic Growth

Cambodia's economic growth declined by -3.1 percent in 2020 due to the severe impact of the COVID-19 pandemic. The key growth drivers, such as tourism, manufacturing, and construction, which strongly rely on external demand, have been the most affected by the COVID-19 pandemic, whereas agriculture recorded a positive growth.

The tourism sector has been hit hard by the pandemic, which contributed to -1.5 percent to the GDP growth. Due to the restrictions and fear of infection, the number of international visitor arrivals declined sharply by -80.2 percent (compared to an increase by 6.6 percent in 2019) to only 1.3 million visitors. Given the negative impact of the pandemic on international travel, the tourism sector depended almost entirely on domestic tourism. However, the domestic tourists, accounting for 77.6 percent of the total tourists only partially lessened the impact on hotel, restaurant, and travel-related businesses.

The manufacturing sector has declined, which is reflected by the demand shock triggered by the pandemic and contributed -0.6 percent to the GDP growth. As the COVID-19 outbreak persisted, exports of manufactured goods, including garments and footwear, fell by -9.9 percent, while the exports of non-garment products, particularly electrical parts, vehicle spare parts, bicycle, and other agriculture products, displayed a positive growth. Moreover, the total production value in this sector declined by -35.3 percent,⁷ in which manufacturing for exports and the domestic market fell by -43 percent and -12 percent, respectively.

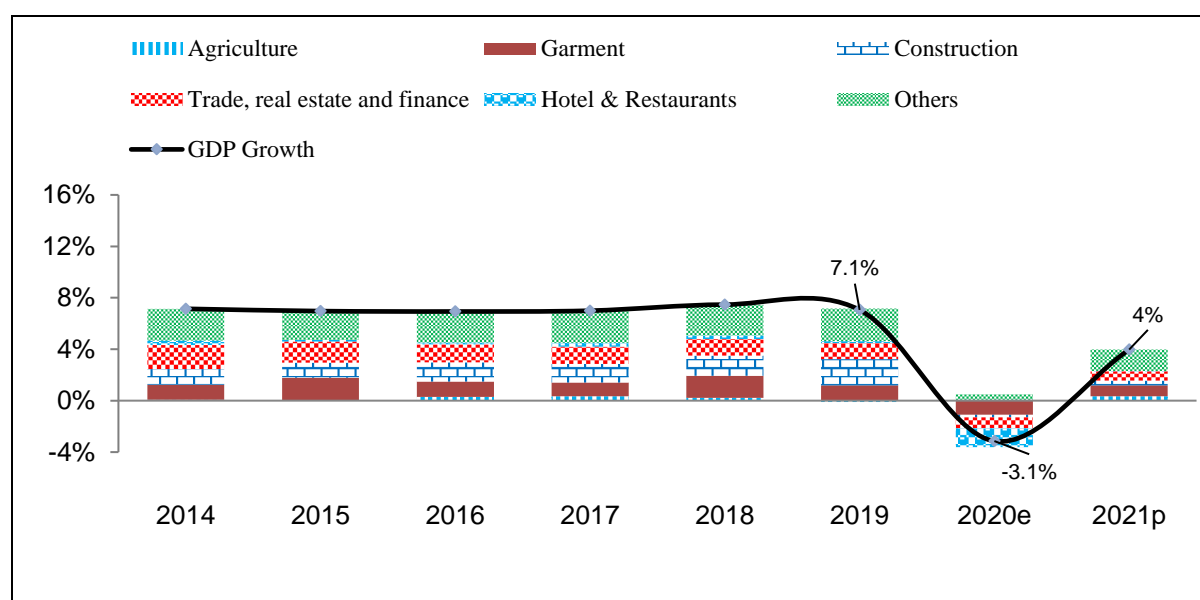
Although the tourism and manufacturing sectors felt the immediate pressure, the construction and real estate sector followed as the COVID-19 pandemic continued into 2020. Construction contributed -0.2 percent to the GDP growth and registered a negative growth, as reflected by a slowdown in the growth of the number of construction projects, and the drop of importing construction materials, and equipment (see Section B for more details).

⁷ The figure only includes large manufacturing enterprises based on the data from Ministry of Industry, Science, Technology and Innovation.

Amid the pandemic, the agriculture sector continued to increase slowly and contributed 0.06 percent to the GDP growth. Even though the agriculture sector was partly affected by drought and flash flood episodes, the sector recorded a positive growth thanks to the increased labor available from the workers being laid off by the service and industry sectors. There has been an increase in foreign direct investment, public and private inflows into agriculture as more investors are interested in developing and diversifying the agriculture sector.

Figure 16. Real GDP Growth Contribution

2014-2021p



Sources: National Institute of Statistics and National Bank of Cambodia's staff Calculation

b) Construction and Real Estate

After expanding rapidly over the last several years, the construction and real estate sector experienced a negative growth since some development projects were put on hold. According to the Ministry of Land Management, Urban Planning and Construction (MLMUPC), the number of approved construction projects grew by 1 percent in 2020 compared to 45.5 percent in 2019, with 4,841 projects receiving the green light (Figure 17). As shown in Figure 18, the value of investment in construction decreased by -32.1 percent over the course of 2020, from 11.4 billion USD in 2019 to about 7.8 billion USD. Similarly, the total surface areas of approved projects declined by -26.9 percent in 2020 to around 17 million square meters, of which residential, commercial, and industrial projects made up the largest share of approved projects, accounting for 46.1 percent, 31.8 percent, and 14.6 percent of the total projects, respectively. Moreover, the FDI inflows to the construction and real estate sector fell by -10.6 percent (accounting for 17 percent of the total FDI). It is worth mentioning that the total bank loan for the construction and real estate's activities, which was around 18 percent of the total bank loans, expanded at a slower growth of 23 percent in 2020, which has eased some concerns about the overheating property market in the country.

Imports of construction materials and equipment also declined notably, while the domestic supply of cement continued to increase. In 2020, the import of cement and steel dropped by -48.3 percent and -43.3 percent, respectively, while the import of construction equipment had a slower growth of 7.5 percent. This decreased the total imports of construction materials and equipment by -12.2 percent (to USD 2,020.5 million). Meanwhile, five domestic cement factories produced 7.9 million tons of finished products⁸, an increase of 7 percent from 2019. This signifies an increasingly important role of domestic production in reducing reliance on imports of cement.

Additionally, market indicators in the real estate sector showed different trends over the course of 2020. Land values remained constant over the year, which is similar to other regional cities. Phnom Penh saw a limited amount of transactional activity, as buyers stayed in the wait-and-see mode. According to CBRE, more activities were witnessed with smaller land plots located further away from the city center, as economic pressures caused by the pandemic forced middle-tier investors to make transaction decisions. Over the year, the condominium supply increased by 17.6 percent, with 3,778 units added to the total supply. However, this increase is likely to be dwarfed by the forecasted completions in 2021, when the sector is expected to add almost 11,000 units. Centrally owned office space saw the average occupancy trend decrease by -1.8 percent. This adjustment compounded the negative trend over the year to a total reduction of -7.8 percent. It is yet to be seen how effective the strata title options will be in drawing tenants away from centrally owned buildings, which would add further pressure regarding occupancy and rent in 2021. The November 28 COVID-19 outbreak affected the retail/supermarket sector and resulted in the temporary closure of some retail venues, which did little to encourage footfall. However, Christmas and New Year sales drew crowds to many of the retail centers. Google's Mobility Tracker recorded average footfall to be approximately -18 percent over the year vs. the pre-COVID baseline in February 2020.

Figure 17. Number of Approved Projects by Sector
2016–2020

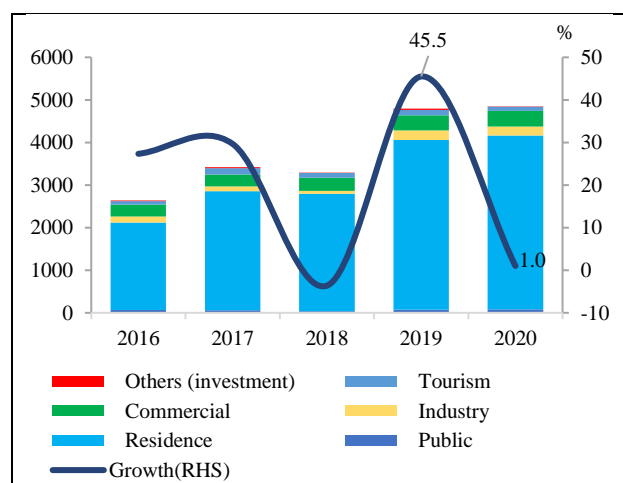
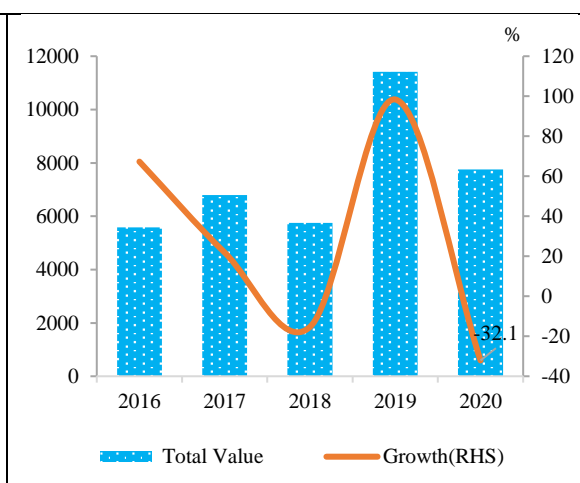


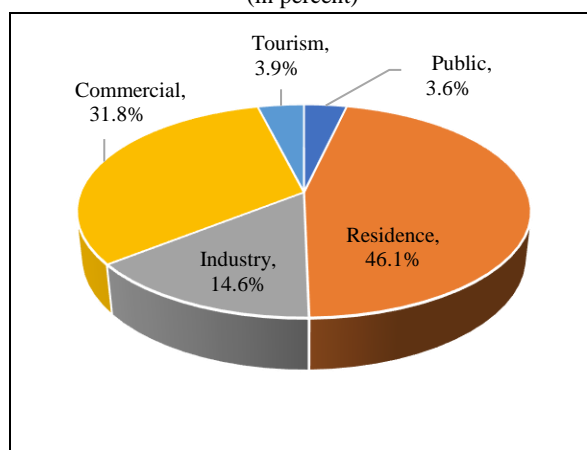
Figure 18. Approved Amount of Construction Projects
In million USD, 2016–2020



Source: Ministry of Land Management, Urban Planning and Construction

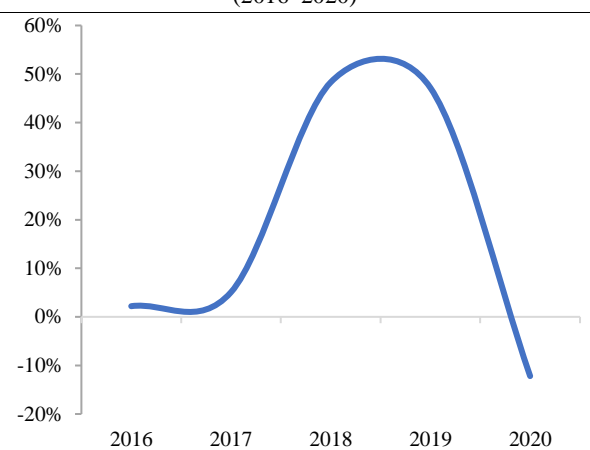
⁸ According to an article by the Phnom Penh Post on 9 February 2020.

Figure 19. Share of Approved Projects by Sector by Surface Area in 2020
(in percent)



Source: Ministry of Land Management, Urban Planning and Construction

Figure 20. Imports of Construction Materials and Equipment
(2016–2020)

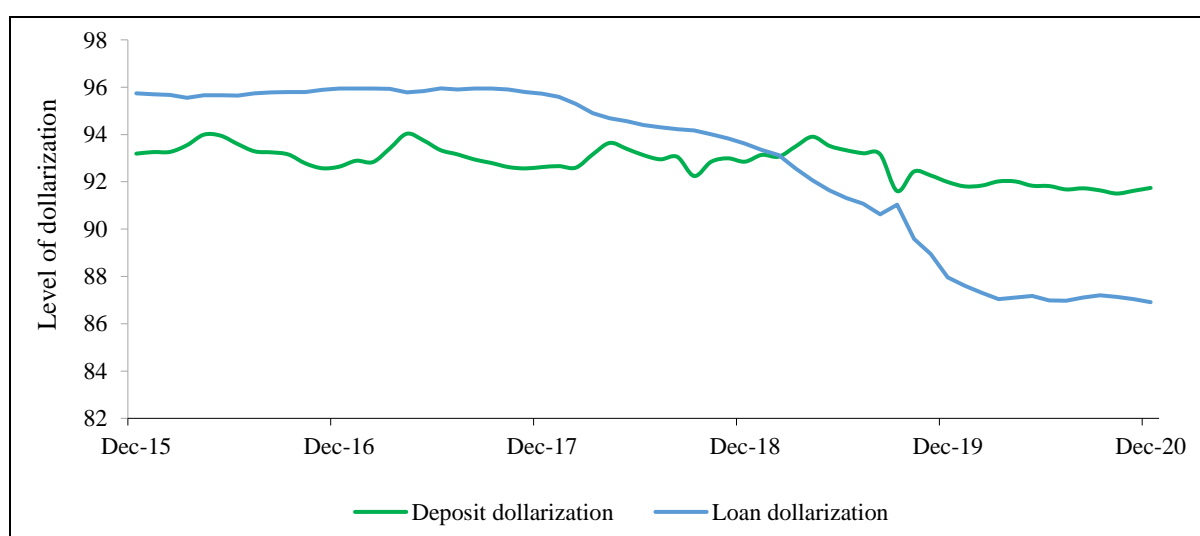


Source: General Department of Customs and Excise, and National Bank of Cambodia's staff calculation

c) Monetary Sector

In 2020, broad money (M2) growth decelerated in line with economic activities, and the level of dollarization remained high. The M2 grew at 15.3 percent, which was lower than the previous year (18.2 percent) and the average of the last five years (21 percent). This slower growth was due to the slowdown in economic activities. Over the past few years, the demand for riel has gradually increased due to efforts by the NBC and the Royal Government of Cambodia (RGC) to promote the use of the riel. However, the level of dollarization⁹ remained at a high level of 83.7 percent (compared to 84.1 percent in 2019). Meanwhile, foreign currency deposits as a percentage of the total deposits in the banking system slightly decreased from 92 percent in 2019 to 91.7 percent in 2020, and foreign currency loans decreased from 90 percent to 86.9 percent (Figure 21).

Figure 21. Deposit and Loan Dollarization



Source: National Bank of Cambodia

⁹ Measured by foreign currency deposits to M2 (FCD/M2).

The NBC has been actively promoting riel to increase the monetary policy options. The NBC has put efforts into promoting the use of national currency using various approaches, such as encouraging price tags, credit, and corporate bonds issuance in riel. Furthermore, the NBC has modernized the electronic payment system, which has enabled payments in riel to be more convenient and have lower costs, and cross-border transactions in riel have also been promoted.

The riel against the USD has been stable, hovering at around 4,090 riel per USD, whereas other currencies in the region have fluctuated significantly. In 2020, to stabilize the exchange rate, the NBC intervened in the foreign exchange market by selling USD 80.2 million and KHR 69.5 billion (USD 17 million) to banks and money changers. These interventions have kept the riel stable against the USD (which depreciated by only 0.8 percent compared to 2019), which also contributed to macro-economic stability.

In 2020, the NBC eased the financial conditions to allow banks to provide credit to the economy by lowering reserve requirements. To provide additional liquidity to the banking system, in April 2020, the NBC reduced the reserve requirement rate (RRR) in riel from 8 percent and in foreign currencies from 12.5 percent to 7 percent. With this reduction, banks and financial institutions had additional liquidity of more than USD 1.8 billion, which enabled them to better manage the liquidity risk, provide credit, and offer the possibility of restructured loans for households and firms that were affected by the economic impact of COVID-19.

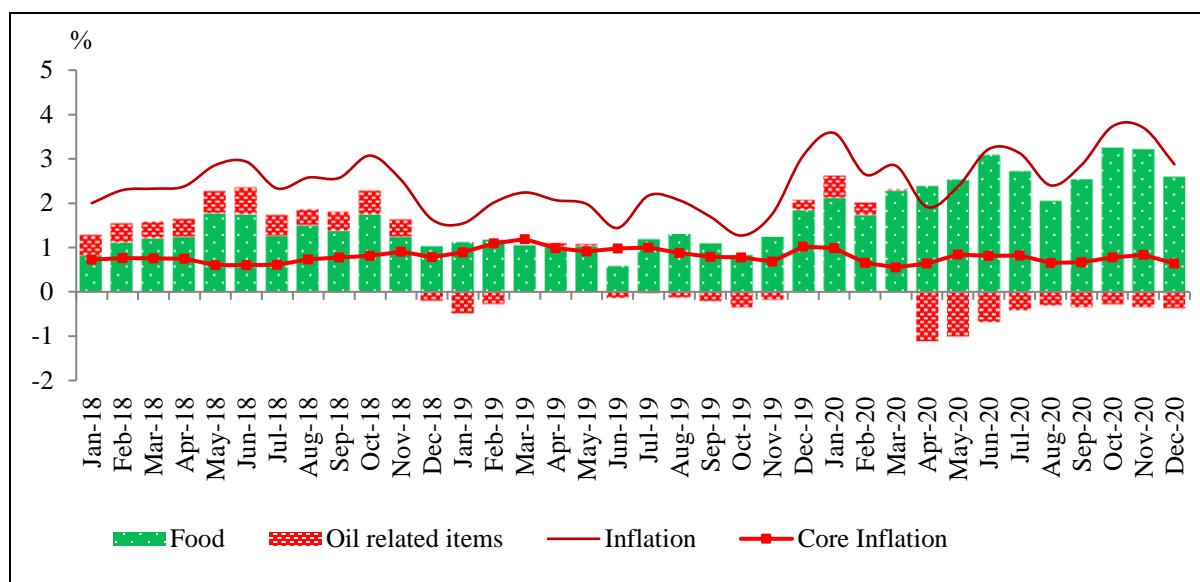
In addition, minimum interest rates on liquidity-providing collateralized operation (LPCO) were reduced. To lower the costs of funding in riel, the NBC has cut interest rates on LPCO by 0.5 percent for all maturities. Meanwhile, to encourage banks and financial institutions to lend more, rather than placing their liquidity in the negotiable certificate of deposits (NCDs) at the NBC, the interest rates on NCDs for both the Khmer riel and USD were also cut.

d) Inflation

Headline inflation remained subdued thanks to a decline in the prices of oil-related items amid higher food prices. In 2020, inflation recorded as low as 2.9 percent on average but higher than last year (1.9 percent), whereas in October and November, inflation increased to 3.7 percent, mainly owing to the higher food prices. It then decreased in December to 2.9 percent because of the slower growth of food prices and core items, while the prices of oil-related items remained stable. It is worth noting that the global oil price was USD 42 per barrel in 2020¹⁰, which was lower than that of last year (USD 64 per barrel).

¹⁰ Short-Term Energy Outlook of the US Energy Information Administration (EIA)

Figure 22. Contribution to Headline Inflation
in percent, Jan 2018–Dec 2020

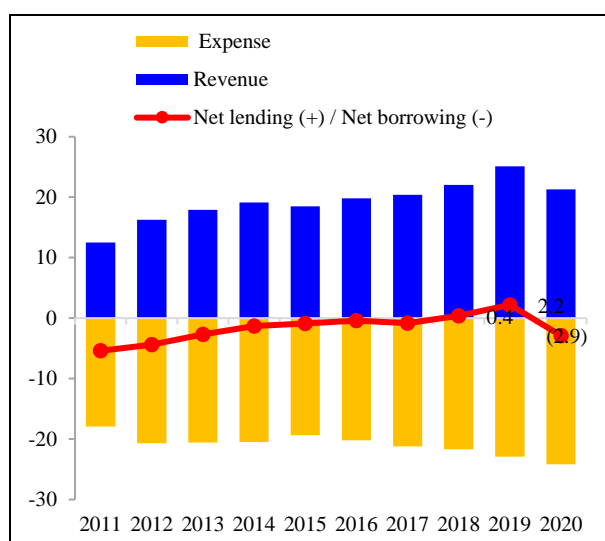


Source: National Bank of Cambodia

e) Fiscal Sector

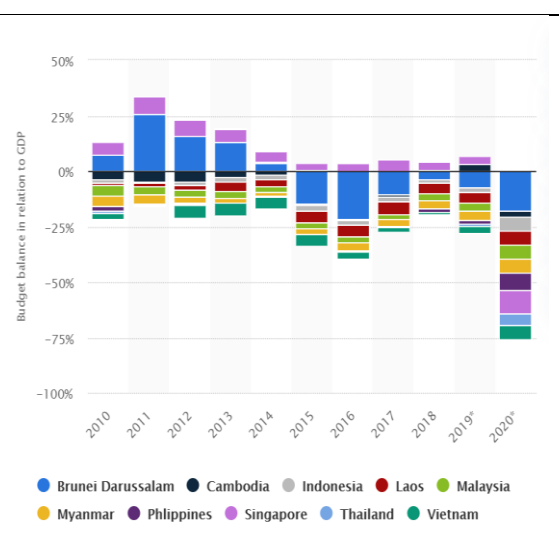
A sharp decline in revenue collection coupled with an increase in government expenditure to support economic activities amid the COVID-19 pandemic widened the fiscal deficits (Figure 23). In 2020, the fiscal position indicated a net borrowing of 2.9 percent of the GDP; however, this is relatively low compared to the deficits of Cambodia's peer countries in ASEAN (Figure 24). Cambodia's fiscal position was able to withstand the economic shock due to the relatively moderate fiscal space, which was reflected in the high government savings.

Figure 23. Fiscal Balance
in percentage of the GDP, 2011–2020



Source: General Department of National Treasury

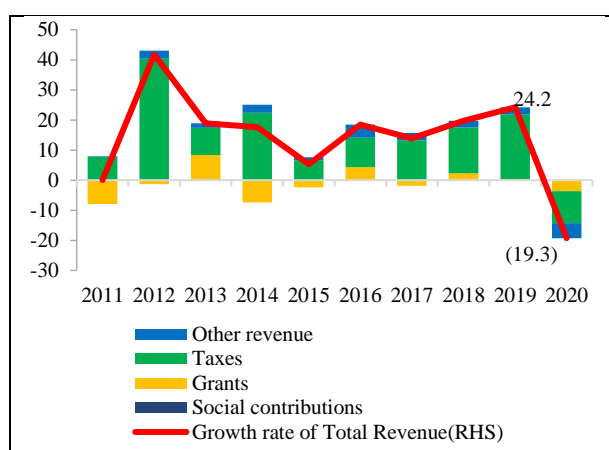
Figure 24. ASEAN countries: Budget Balance
in relation to the GDP, 2010–2020



Source: Statista (<https://www.statista.com/statistics/804386/asean-countries-budget-balance-in-relation-to-gdp/>)

In 2020, government revenue fell significantly for the first time since the last decade, resulted from weak economic activities and tax relief policies during the pandemic. The revenue accounted for KHR 22 trillion (USD 5.4 billion), which was a drop of -19 percent compared to a rise of 23 percent in 2019. This was primarily due to a fall in tax collection (-13 percent), of which taxes on goods and services decreased by -21 percent and taxes on international trade and transactions decreased by -24.1 percent due to the policy measures on tax relief and the reduced economic activities.

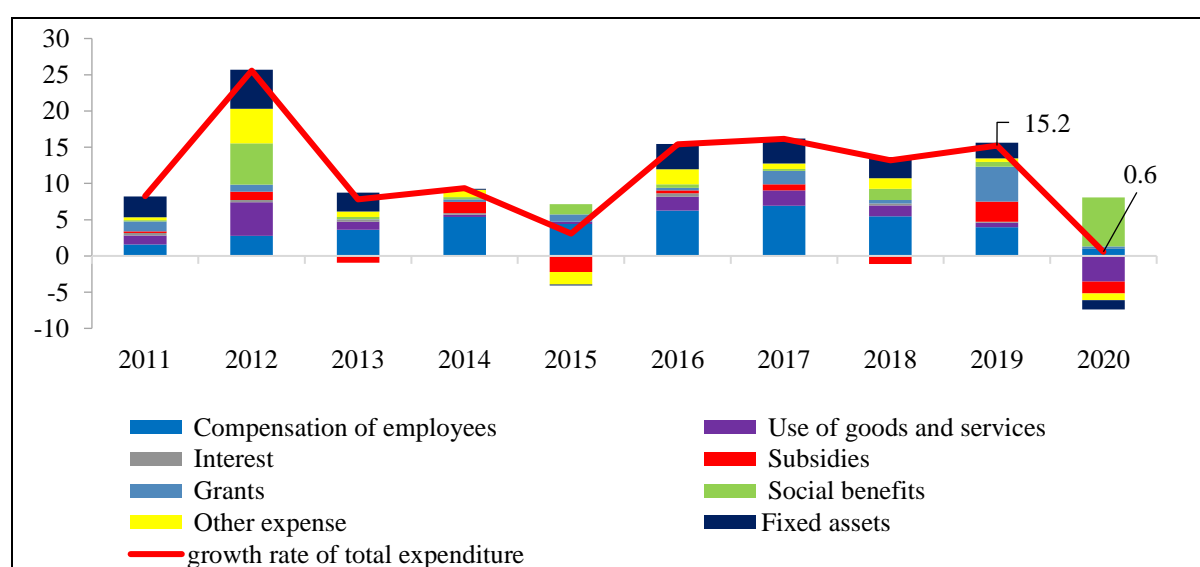
Figure 25. Contribution to Revenue Growth
(2011–2020)



Source: General Department of National Treasury (MEF)

The social protection program, including cash for work and cash transfers, increased the government’s spending and helped protect the vulnerable households. This year, the government spent KHR 25 trillion (USD 6.1 billion), which is an increase of 0.7 percent compared to 15.2 percent in 2019. The marginal increase in government spending was mainly due to the spike of spending on social welfare (double compared last year) and on wages (3.3 percent), which was offset by a fall in the use of good and services (-27.5 percent) and fixed assets (-4.2 percent). Social benefits, including health-related benefits and income assistance, doubled this year in response to the government’s support of the people affected by COVID-19. It is worth noting that the government used to announce the emergency reserve fund of USD 800 million (six-month scenario) and USD 2 billion (one-year scenario) for coping with the health crisis. However, capital spending fell by -4 percent compared to the previous year.

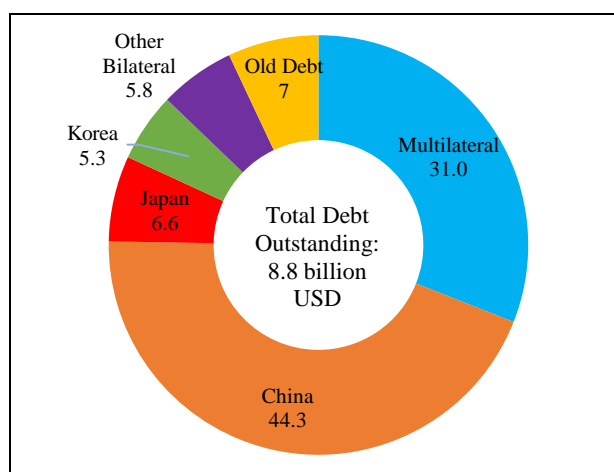
Figure 26. Contribution to Expenditure
2011–2020



Source: General Department of National Treasury, MEF

Even though the government debt remained sustainable, it needed to be closely monitored. By the end of 2020, the government debt, which was registered at USD 8.8 billion (32.8 percent of the GDP), increased by 16 percent (y-o-y). China remains the largest creditor to the government with a share of 45.2 percent of the total public debt, followed by multilateral loans (31.2 percent), Japan (5.7 percent), and Korea (4.9 percent). It should be noted that the share of debt to China has declined from an average of 47 percent over the last five years to 45 percent this year, while the share of multilateral loans has increased from 28 percent to 31 percent this year (Figure 27). According to MEF's debt sustainability analysis, the government debt is expected to rapidly increase to USD 14 billion in 2024, as the government plans to borrow around USD 2 billion annually, which exceeds the government threshold of SDR 1.4 billion (USD 1.9 billion). Despite this rapid expansion, the government debt remains sustainable throughout the projected years, as the threshold continues to record less than 40 percent of the GDP.

Figure 27. Government Debt by Main Creditors
in percent, 2020



Source: General Department of National Treasury, MEF

Box 1: Government policy intervention to help local businesses and social welfare amid the COVID-19 pandemic.

In early 2020, the government announced an emergency reserve fund of between USD 800 million (six-month scenario) and USD 2 billion (one-year scenario) to mitigate the impact of the COVID-19 pandemic. The fund enables the continuity of businesses and supports the recovery of economic activities. Throughout the year, there were seven rounds of intervention measures, including social and economic warfare. The social protection scheme via cash transfers to the poor and vulnerable has been implemented since June 2020. As of February 2021, the government allocated KHR 922.3 billion (USD 230.5 million) of its funds and has helped more than 2.7 million poor and vulnerable people (688,539 households). Moreover, the following tax exemptions and measures were already in place:

- Include value-added-tax on basic food in the government tax burden for two years (1 Jan 2020–31 Dec 2021).
- Provide tax holidays of six months to one year for factories that were severely impacted by the COVID-19 outbreak and the Everything But Arms (EBA) suspension.
- Exemption from all license fees in the tourism sector for 2021.
- Provide tax exemptions and reduce audits for 2020 for hotels and guesthouses located in Siem Reap province.
- Exemption from the stamp tax on all residential properties valued less than \$70,000.
- Exemption from the minimum monthly tax duties for Cambodia Airlines.
- Delay payment of civil airfare for six months with permission from the airlines to process the debt after this period.
- Exemption from monthly tax for hotels, guesthouses, restaurants, and travel agents
- Provide wage subsidies for garment workers of USD 70 a month (Government: USD 40, Employer: USD 30) without requiring employees to attend training.
- Provide wage subsidies of USD 40 a month to employees in the tourism sector, such as hotels, guesthouses, restaurants, and travel agents.
- Allocate USD 50 million in the form of low-interest loans to help SMEs in the agriculture and production sectors.
- Provide a special financing scheme of USD 50 million for the Rural Development and Agriculture Bank to support agro-processing firms.
- Establish a credit guarantee scheme to ease working capital pressure.
- Expand the scope and size of the budget for the cash for work program to sustain the livelihood of workers who lost their jobs at factories and enterprises and returned from abroad.
- Reduce withholding tax on loans provided by local and foreign lenders.
- Provide retraining and upskilling programs for laid-off workers in tourism and garments sectors.
- Reduce import taxes rate on antiseptic alcohol and the related products, and raw materials of food and beverage production

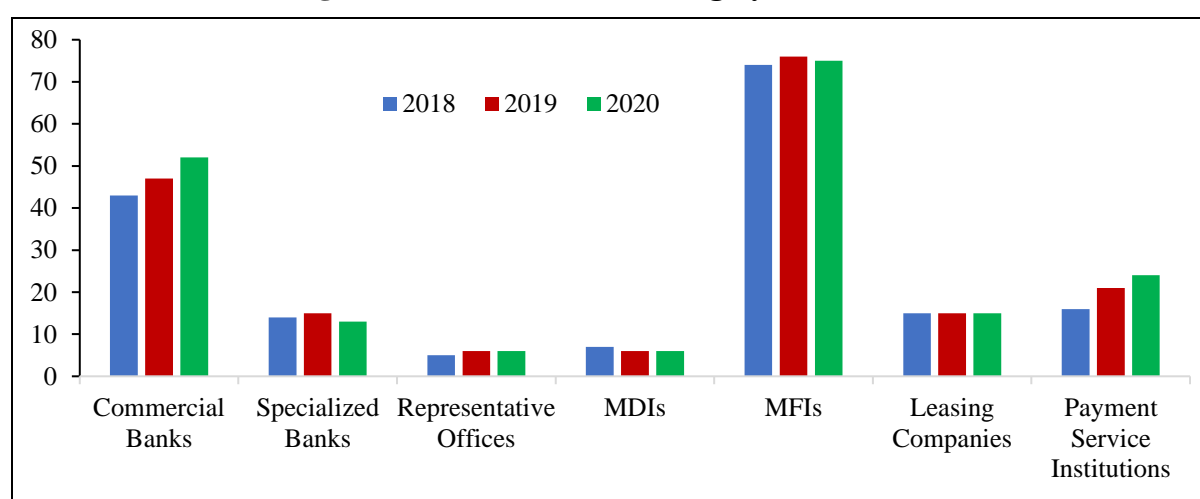
II. FINANCIAL SYSTEM CONDITIONS AND ASSESSMENTS

2.1 Overview of the Banking System's Landscape, Condition and Assessment

a) Banking System's Landscape

Cambodia's banking system¹¹ maintained its resilience despite the impact of the COVID-19 pandemic. The astonishing banking development over the past decades coupled with the implementation and compliance of prudent regulations has enabled the NBC to set out pre-emptive measures to relax its regulations, provide liquidity assistance, and allow banks and microfinance institutions to conduct loan restructuring amid the pandemic. Furthermore, with the remarkable efforts of the government in containing the virus outbreak, as well as the stimulus and relief policies, the banking system has maintained the trust and confidence of the public and investors.

Figure 28. Cambodia's Banking System in 2020



Source: National Bank of Cambodia

Assets in the banking system further grew by 13.9 percent, with banks covering most of the shares. At the end of 2020, the banks' total assets reached KHR 204.2 trillion (USD 50.5 billion), which was an increase of 17.6 percent compared to the previous year, KHR 175 trillion (USD 43 billion). The addition of a few institutions upgrading to banks has led to an expansion of the proportion of banks' assets and credits in the system from 83 percent and 77.7 percent to 85.6 percent and 82 percent, respectively. In contrast, MDIs' assets declined by -2.3 percent to KHR 30.1 trillion (USD 7.4 billion), and MFIs' assets declined by -12.9 percent to KHR 4.2 trillion (USD 1 billion). These declines are the result of the moves, in which one MDI merged with a commercial bank, another MDI became a commercial bank, one MFI transformed into a commercial bank, and another MFI became an MDI. Although the number of MFIs is significantly higher than banks, the sizes and operations have remained small (Figures 29 and 30).

¹¹ As of December 2020, there were 52 commercial banks, 13 specialized banks, 6 representative offices, 81 MFIs (6 deposit-taking and 75 non-deposit-taking), 24 payment service institutions, 15 leasing companies, and 245 rural credit institutions.

Figure 29. Share of Assets

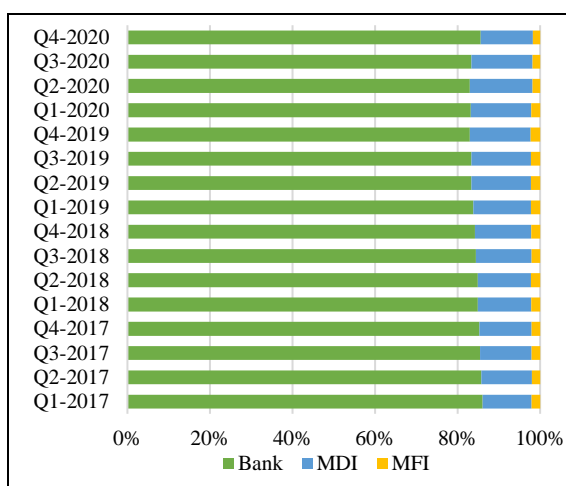
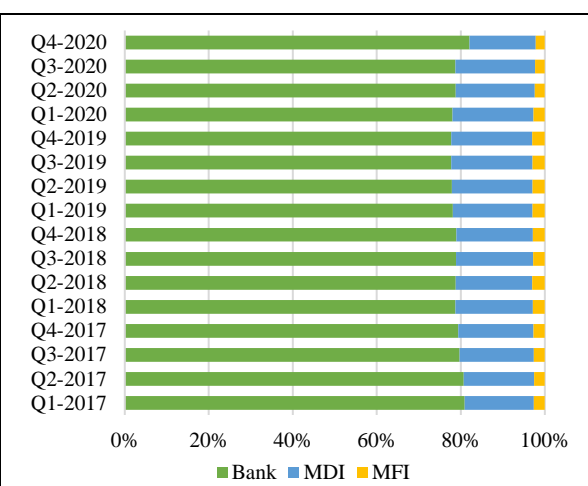


Figure 30. Share of Credits



Source: National Bank of Cambodia

b) Sectoral Credit Analysis

Credits in the banking sector have been mostly allocated to key economic sectors, such as construction, real estate activities, mortgages, and trades, while microfinance's credits focused mainly on households, followed by trade and agriculture. Banks' credits to retail and wholesale trades had the largest share of 26.2 percent of the total loans (of which 16.1 percent was to retail trade). Credits to construction and real estate activities continued to grow to 10.2 percent and 8.7 percent, respectively. Mortgage shares grew by almost 2 percent compared to last year at 13.7 percent, which was mainly due to the move of an MDI to a commercial bank. On the other hand, the share of credits to manufacturing and hotel and restaurant sectors narrowed from 4.6 percent for both to 4.2 percent and 4.1 percent, respectively. In the microfinance sector, household credit accounted for 31.6 percent of the total loans, which was the largest proportion, followed by trade at 21 percent, agriculture at 19.3 percent, and services at 15.7 percent. Microfinance continued to play an active role in supporting agricultural activities and SMEs (Figures 31 and 32).

Figure 31. Share of the Banking Sector's Credits by the Economic Sector

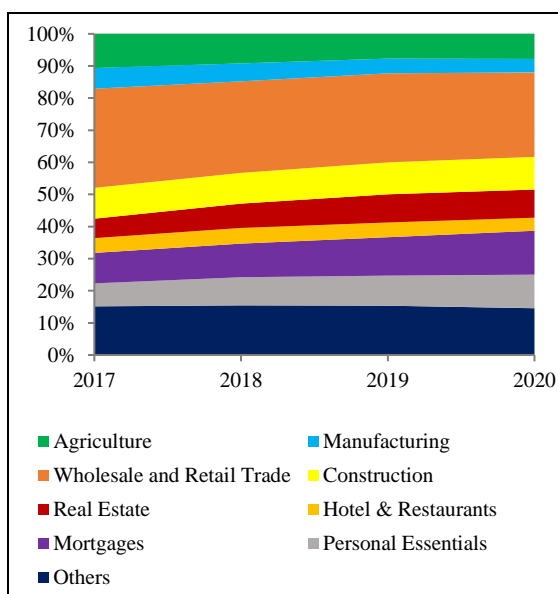
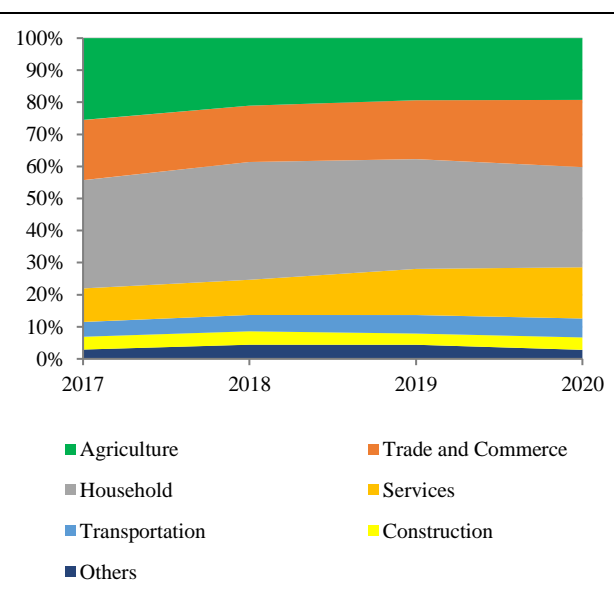


Figure 32. Share of the Microfinance Sector's Credits by the Economic Sector

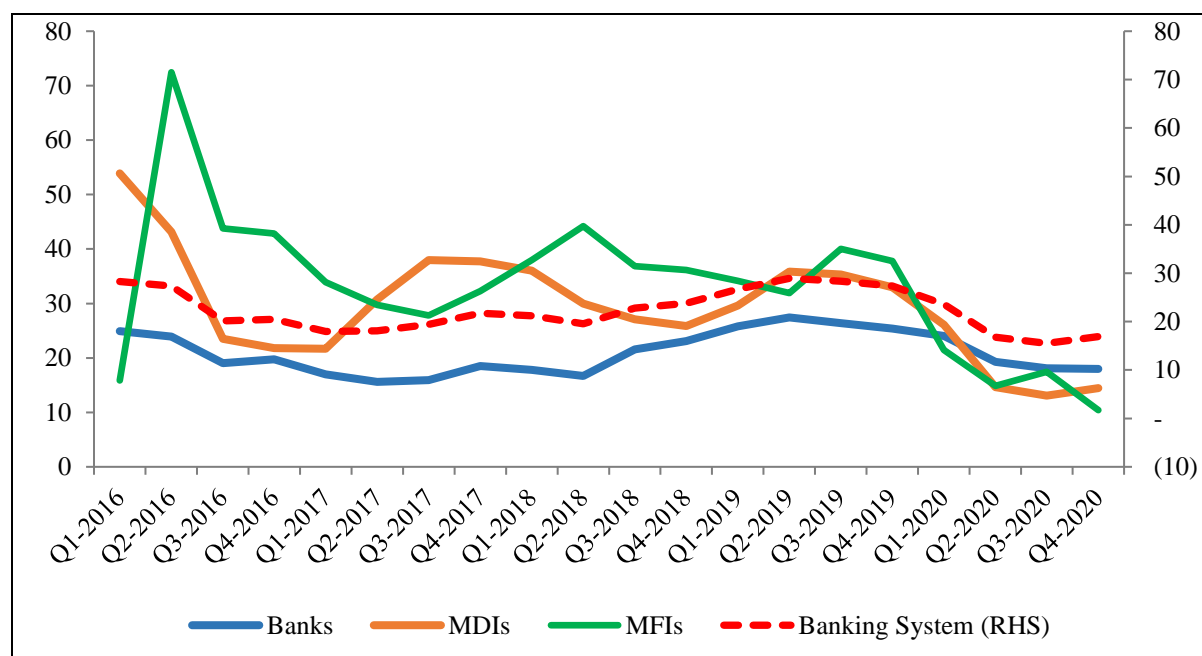


Source: National Bank of Cambodia

To support economic activities, financial conditions have been accommodative.

By the end of 2020, the credit growth in the banking system was recorded at 16.9 percent, which was lower than 27.3 percent in 2019. Even though the pace of credit growth has been slowing, credit in the banking system improved in the second half of 2020, as the widespread of COVID-19 has been contained and firms' demands for working capital increased. Credit growth in banks remained moderate, while credit growth in MDIs and MFIs decelerated.

Figure 33. Banking System Credit Growth
in percent, y-o-y, Q1 2016–Q4 2020

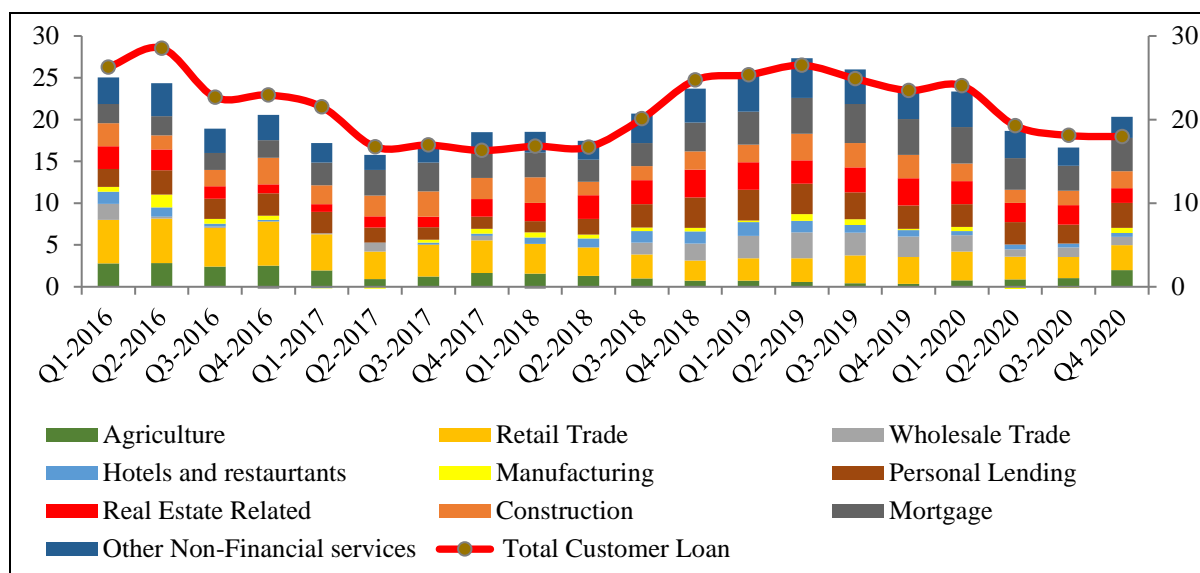


Source: National Bank of Cambodia

c) Bank's Sectoral Credit Growth

Outstanding loans in banks have grown moderately, accelerating to an annual rate of around 18 percent at the end of 2020, compared to 23.5 percent in 2019. The credit growth contribution was dominated by credit to trade (retail and wholesale: 4 percent), mortgage (4 percent), personal lending (3 percent), agriculture (2 percent), construction (2 percent), and real estate activities (1.8 percent). The contribution of the manufacturing and hotel and restaurant sectors to credit growth remained low (0.6 percent and 0.5 percent, respectively). Loans to non-financial sectors expanded moderately at 19.7 percent at the end of 2020, compared to 19.4 percent in 2019. Moreover, personal essential loans continued to grow at 38.4 percent at the end of 2020, compared to 37.3 percent in 2019.

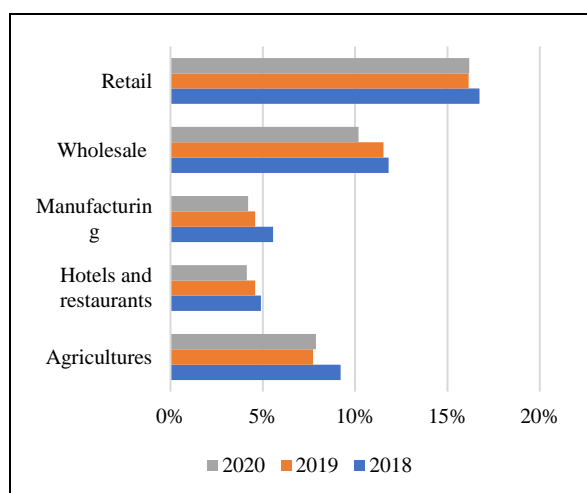
Figure 34. Contribution of the Sectoral Credit to the Total Bank Credit Growth
in percent, y-o-y, Q1 2016–Q4 2020



Source: National Bank of Cambodia

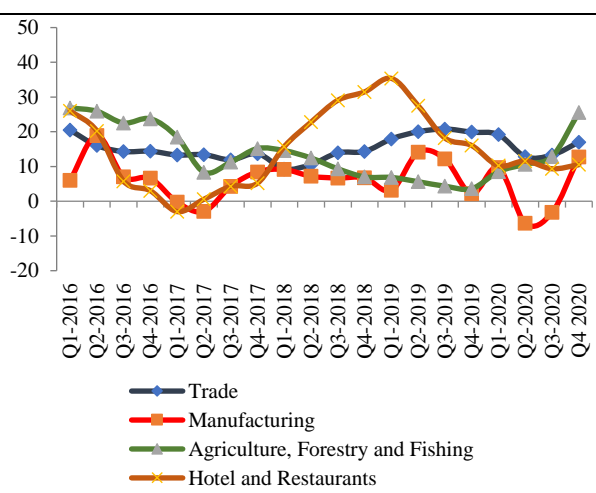
Amid business disruptions and weak demands across most sectors, financing to the wholesale and retail trades accounted for about 26.3 percent of banks' customer loans, as businesses started to gradually recover in the second half of 2020. However, the recovery has been uneven. Credit growth in wholesale trade exhibited a deceleration of 8.5 percent at the end of 2020 compared to 20.7 percent in 2019 while the loan-to-retail trade remained robust with a growth rate of 23.2 percent, which was higher than 19.3 percent in 2019. This strong growth in the retail trade was largely contributed to the increase in financing for small and medium enterprises (SMEs) and online sales.

Figure 35. Share of Sectoral Credit to Total Credit
in percent, 2018, 2019, and 2020



Source: National Bank of Cambodia

Figure 36. Major Sectoral Credit Growth
in percent, Q1 2016–Q4 2020



The credit growth for hotels and restaurants remained low in 2020 (10.5 percent), compared to 19.3 percent in 2019, as revenues fell sharply following lower inbound passenger loads and reduced spending on non-essential services. The tourism and service industries were among the sectors that were the most impacted by the pandemic. Even though domestic tourism bounces back, this may not be enough to absorb the loss of international tourists.

Credit growth to the manufacturing sector recorded a positive growth at the end of 2020. Improvements were also observed in the sector, notably within the electrical and medical products areas, which have benefitted from a backlog of orders due to the pandemic. After experiencing a negative growth during the second and third quarters, credit growth to the manufacturing sector registered at 12.7 percent by the end of the year. This may reflect the increased demand for non-travelling goods in manufacturing.

Meanwhile, credits to the agriculture sector experienced a strong growth due to the increased labor availability that was laid off by the services and industry sectors. The proportion of loans to agriculture remained at 8 percent of the total loans. Credits to the agricultural sector picked up significantly at 25.6 percent compared to 3.6 percent in 2019. This strong growth was boosted by the rising demand for agricultural products during the pandemic.

Amid the pandemic, loans to mortgages continued to grow. Despite slower growth, loans to mortgages grew at around 40 percent (41.3 percent in 2019), reflecting a strong demand of local residents in the property market (Borey). Loans to mortgage remain hidden as more real estate developers offer installments for home buyers that are not subject to supervisory regulations under the NBC. Additionally, the pandemic may constrain the ability of households to repay the loan during the pandemic due to income loss and may pose a risk of over-indebtedness of vulnerable households.

Domestic loans to construction and real estate activities decelerated as the construction boom stalled. Although construction activity has been weak since the first half of 2020, credit growth in construction remained strong with an annual growth rate of 26.3 percent in 2020, which was a slight decline from 29.1 percent in 2019. The growth of the outstanding loans for the real estate activities has recently decelerated to an annual growth rate of around 20.1 percent, compared to 40.3 percent in 2019 due to the sluggish development in real estate projects and sale operations.

Figure 37. Share of Sectoral Credit to the Total Credit
in percent, 2018, 2019 and 2020

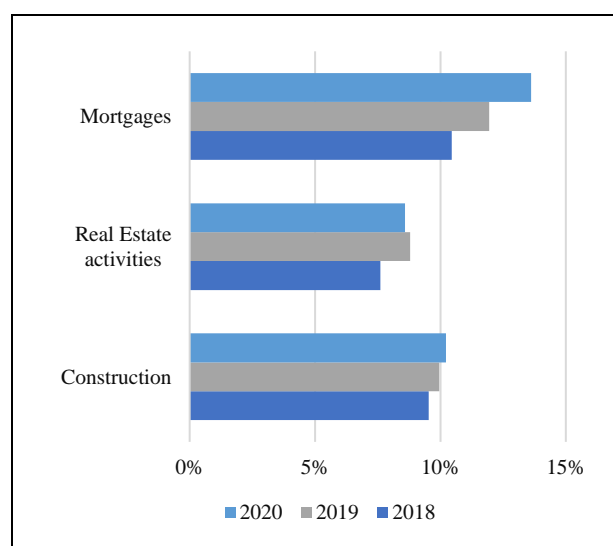
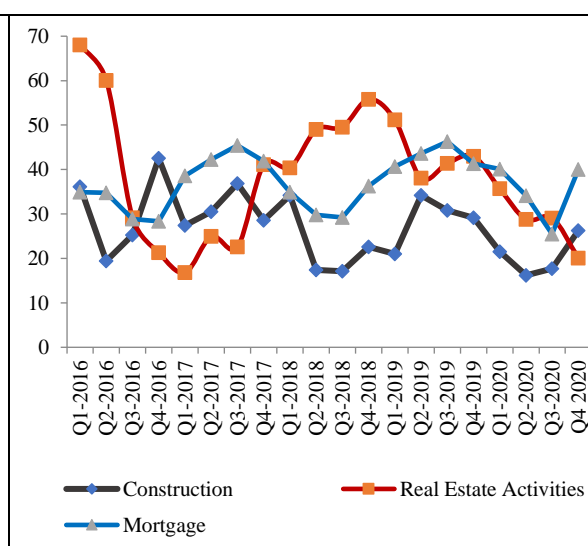


Figure 38. Major Sectoral Credit Growth
in percent, Q1 2016–Q4 2020



Source: National Bank of Cambodia

Meanwhile, aggregate personal essential loans continued to have a strong growth rate at 38.4 percent in 2020, which was slightly higher than the rate in 2019 (37.3 percent) amid movement restrictions in the first half of the year and lower discretionary purchases as households turned more cautious. Mortgage loans dominated personal loans (22.4 percent), while personal finance contributed 16 percent and credit card loans remained marginal. Loans for personal finance accelerated further from 33 percent in 2019 to 37 percent at the end of 2020.

Corporate loans accounted for 76 percent of total private sector loans and have played an important role in supporting domestic economic activities. Corporate loans recorded a stronger growth of 19.7 percent at the end of 2020 (2019: 19.4 percent), contributed mainly by financing to the retail trade (4.79 percent), agriculture (2.53 percent), real estate activities (2.47 percent), construction sector (3.4 percent), and wholesale trade (1.6 percent). The contribution from loans to hotels and restaurants (0.62 percent) weakened compared to 2019, while the contribution from loans to agriculture and manufacturing remains low.

Figure 39. Household's Credit Growth Contribution
in percent, Q1 2016–Q4 2020

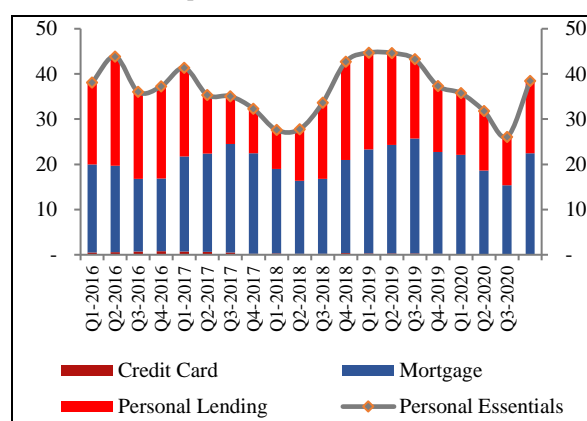
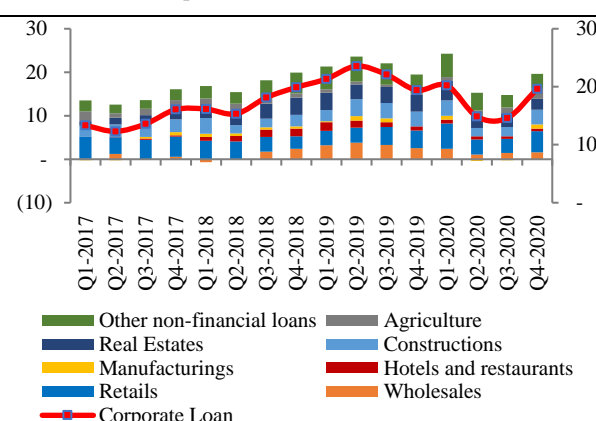


Figure 40. Corporate's Credit Growth Contribution
in percent, Q1 2017–Q4 2020



Source: National Bank of Cambodia

d) Microfinance Sector

The Cambodian microfinance sector made remarkable progress in the socio-economic development and played a significant role in providing a significant number of financially excluded people with access to financial services. Delivering microfinance products and services takes various forms, including group lending, individual, and corporate especially SMEs. As of 2020, the sector has provided various types of financial services to 2 million individuals and SMEs through 6 MDIs and 75 MFIs and has created jobs for about 30 thousand employees.

Credit provided by MDIs experienced a slower growth in 2020. MDIs' credit grew by 14.4 percent compared to 33 percent in 2019. Credit in MDIs was primarily contributed by loans to households (5.3 percent), followed by financing to trade (3.8 percent), service (2.3 percent), transportation (0.85 percent), agriculture (0.05 percent), and others.

MFIs' credit growth showed a similar trend, slowing down from 32.5 percent in 2019 to 1.72 percent in 2020. Credit in MFIs was contributed by loans to construction (3.8 percent), followed by financing to trade (3.3 percent), service (1.35 percent), agriculture (1 percent), and others. Borrowers in the microfinance sector are mainly from the tourism, hotel and guesthouse, construction, and logistics sectors, as they bore the brunt of the downturn of the economy, and the flash flood heaped further pressure on them.

Wage and job losses among migrants have had an adverse impact on remittance flows, which are an important source of income for rural households.¹² Most migrants have lost their jobs or wages because of the COVID-19 pandemic. Migrant households reported that the income of their migrant members had declined by -47 percent since the COVID-19 outbreak. Therefore, households may face difficulties in repaying their current loans and requesting new loans. In 2020, the contribution of credit to households declined sharply regarding the total MDIs' and MFIs' credit growths from 8 percent in 2019 to 5 percent in 2020 for MDIs, and from 12.6 percent in 2019 to a negative contribution in 2020 for MFIs.

Figure 41. MDIs' Sectoral Credit Growth Contribution
in percent, Q1 2016–Q4 2020

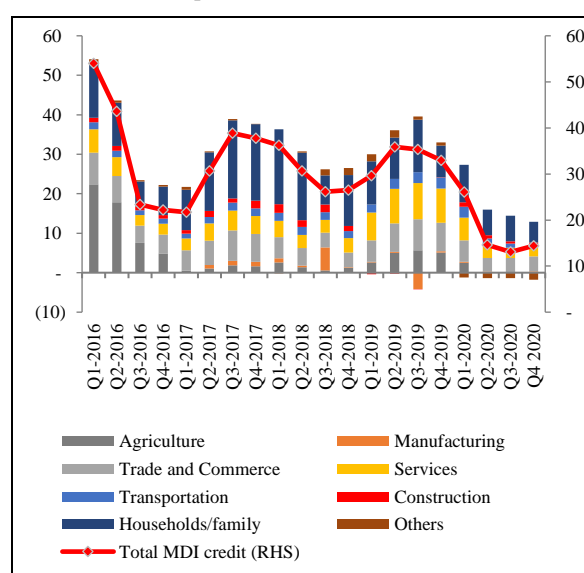
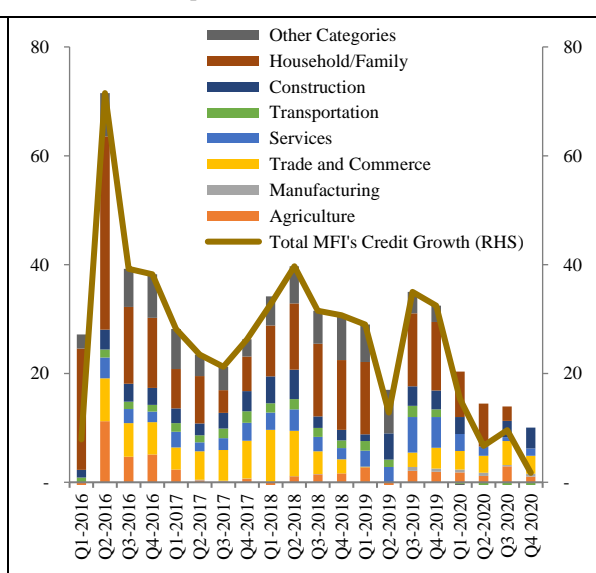


Figure 42. MFIs' Sectoral Credit Growth Contribution
in percent, Q1 2016–Q4 2020

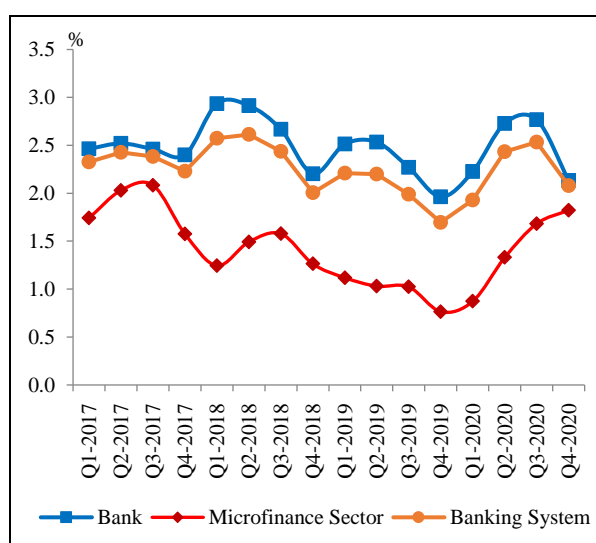


Source: National Bank of Cambodia

e) Credit Quality

The banking system's credit quality remained healthy amid the pandemic, which was reflected by the low NPL ratios on average and supported by the prompt measures that were taken by the NBC. The NPL ratio for the whole banking system was 2.1 percent, which was a moderate increase from 2019 (1.7 percent). The NPL ratios for the banking and microfinance sectors increased over the course of 2020 from 2 percent and 0.8 percent in 2019 to 2.1 percent and 1.8 percent, respectively. The low NPL ratios can be attributed to loan restructuring, which allows banks and financial institutions to maintain the same credit classifications once the loans are restructured (Figure 43).

Figure 43. Non-Performing Loan



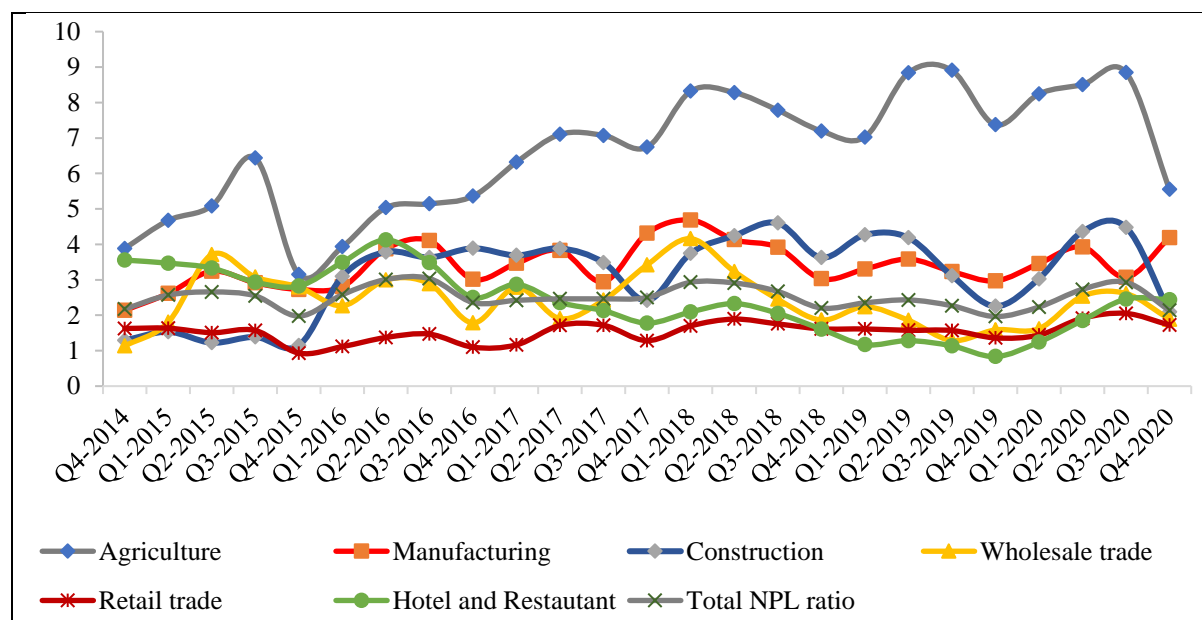
Source: National Bank of Cambodia

¹² Cambodia Economic Update November 2020, *World Bank*

f) Quality of Credit by the Economic Sector

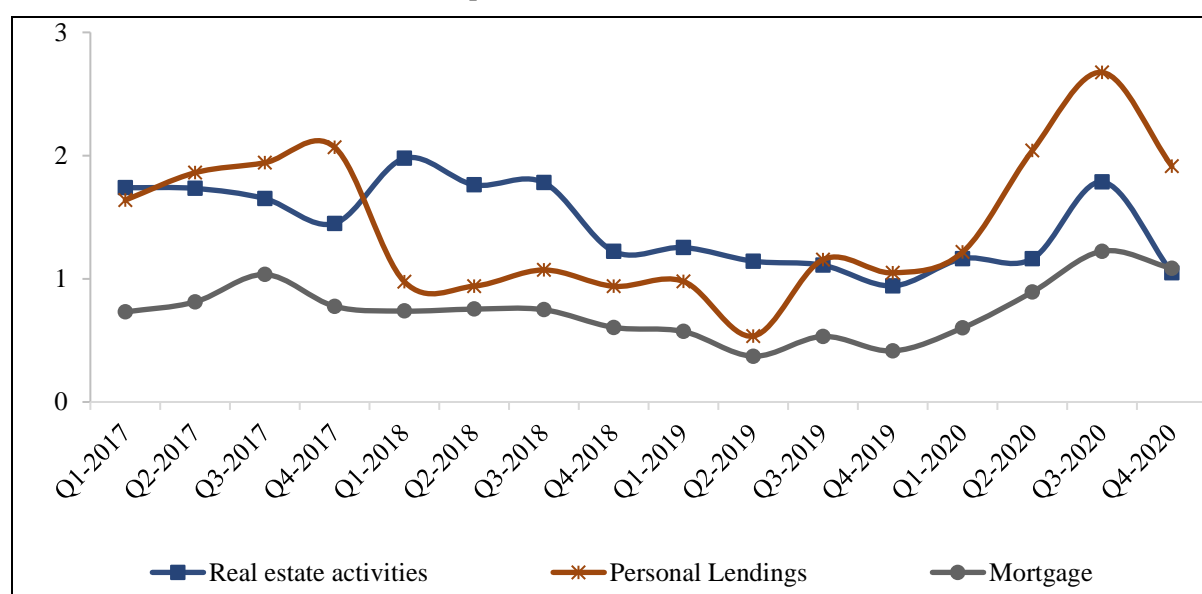
The NPL ratios for agriculture registered at 5.6 percent in 2020 compared to 7.4 percent in 2019, while the NPL ratio for the manufacturing sector remained high at 4.2 percent. The NPL ratio for the construction sector exhibited a rate of 2.1 percent, and it was 2.4 percent in hotel and restaurant sector. Despite a higher credit growth in the real estate and mortgage sectors, the NPL ratios of real estate activities and mortgages were as low as 1 percent and 1.1 percent compared to 0.9 percent and 0.4 percent in 2019, respectively. Other sectors' NPL ratios, such as retail and wholesale trades, remained below 2 percent.

Figure 44. Banks' NPL Ratios on Loans to Major Business Sectors
in percent, Q4 2014–Q4 2020



Source: National Bank of Cambodia

Figure 45. Banks' NPL ratios in Real Estate and Personal Essential Loans
in percent, Q1 2017–Q4 2020



Source: National Bank of Cambodia

Box 2: Loan Restructuring for Pandemic-Affected Borrowers

Although restructured loans declined toward the end of the year, uncertainty remained due to the prolonged pandemic. The NBC issued a circular on Loan Restructuring during the COVID-19 Outbreak on March 27, 2020 to allow banks and financial institutions to conduct loan restructuring for the clients who faced revenue shortfalls, with priority given to the four main sectors of garments, transportation and logistics, tourism, and construction. With this new circular, the amount of restructured loans increased in April and May. However, the momentum soon subsided, with restructured loans having slowed down since June 2020 and decreased since the third quarter. At the end of the year, the restructured loans amounted to USD 4 billion, which is equivalent to 10.7 percent of the total loans and comprised USD 2.9 billion for banks, USD 813.9 million for MDIs, and USD 275.7 million for non-deposit-taking MFIs. Among the total restructured loans, there was a total of 242,841 accounts, which comprised 43,710 accounts for banks, 151,316 accounts for MDIs, and 47,815 accounts for non-deposit-taking MFIs (Figures 46 and 47).

Figure 46. Number of Restructured Loan Accounts

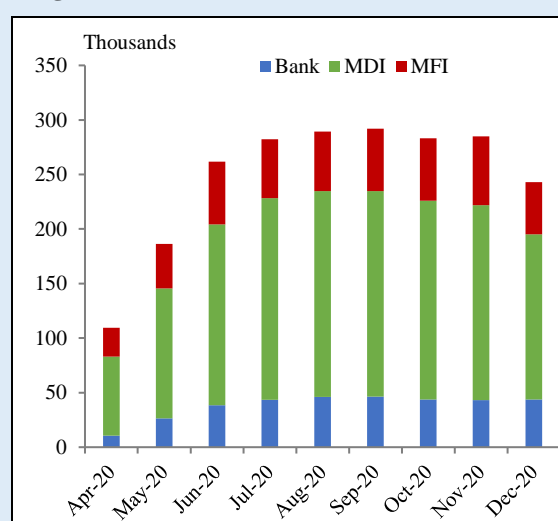
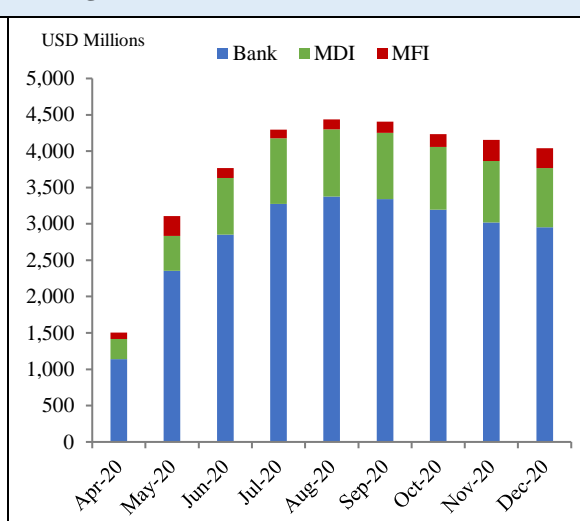


Figure 47. Amount of Restructured Loans



Source: National Bank of Cambodia

Restructured loans have helped many affected borrowers during the COVID-19 pandemic. Among the four prioritized sectors, borrowers from the garment sector have restructured loans the most with 58,199 accounts, followed by tourism (24,685 accounts), construction (20,609 accounts) and transportation and logistics (13,731 accounts). Banks have restructured 7,690 accounts for construction, 4,232 accounts for tourism, 2,997 accounts for transportation and logistics, and 2,380 accounts for garments. MDIs have restructured 38,520 accounts for garments, 14,343 accounts for tourism, 10,531 accounts for construction, and 6,506 accounts for transportation and logistics. MFIs have restructured 17,299 accounts for garments, 6,110 accounts for tourism, 4,228 accounts for transportation and logistics, and 2,388 accounts for construction.

Figure 48. Banking System's Restructured Loan Accounts by the Prioritized Economic Sector

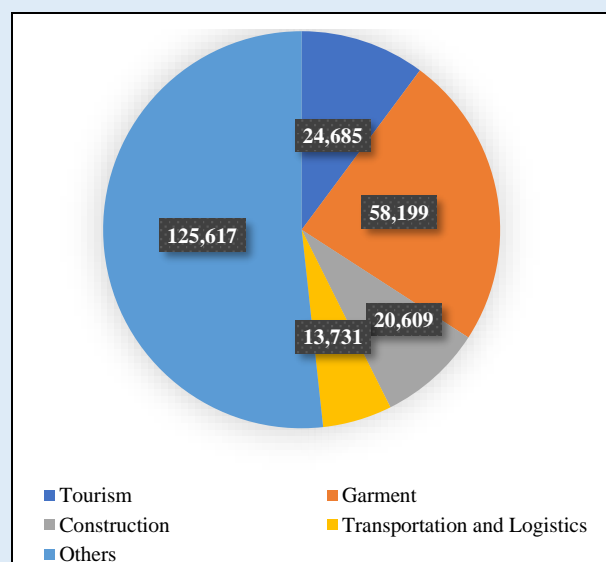


Figure 49. Bank's Restructured Loan Accounts by the Prioritized Economic Sector

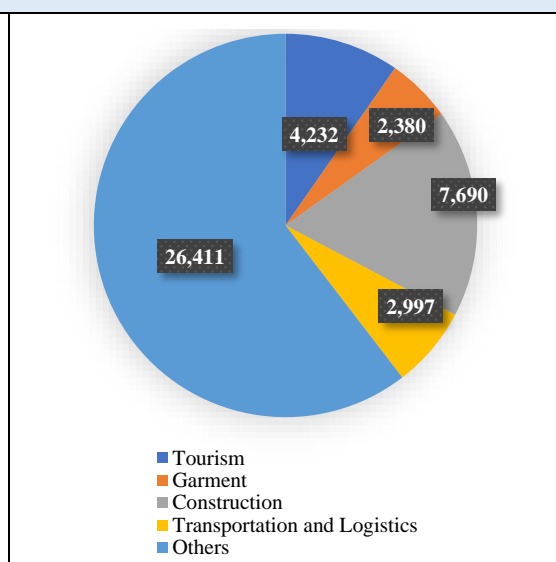


Figure 50. MDI's Restructured Loan Accounts by the Prioritized Economic Sector

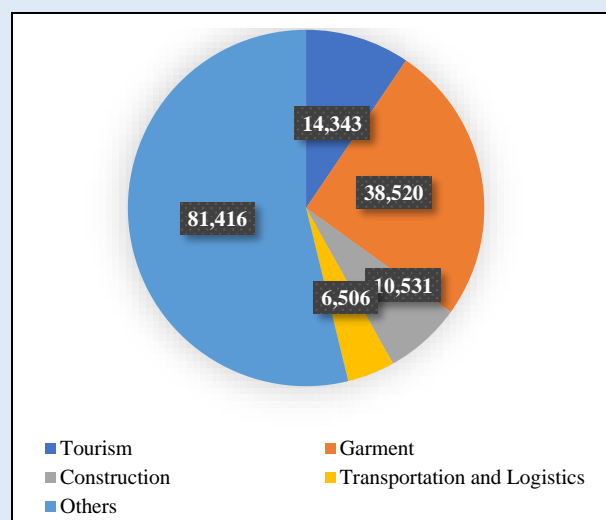
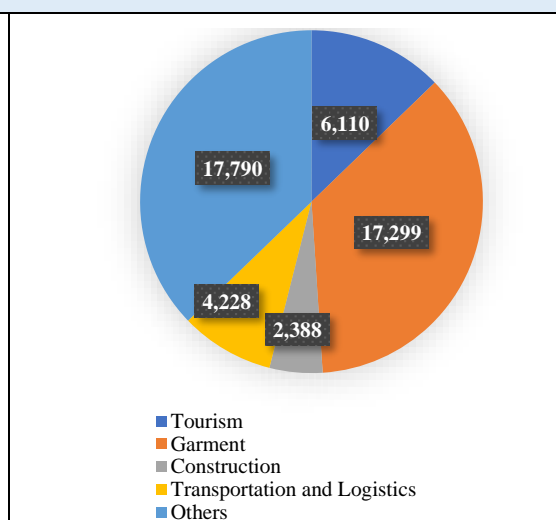


Figure 51. MFI's Restructured Loan Accounts by the Prioritized Economic Sector

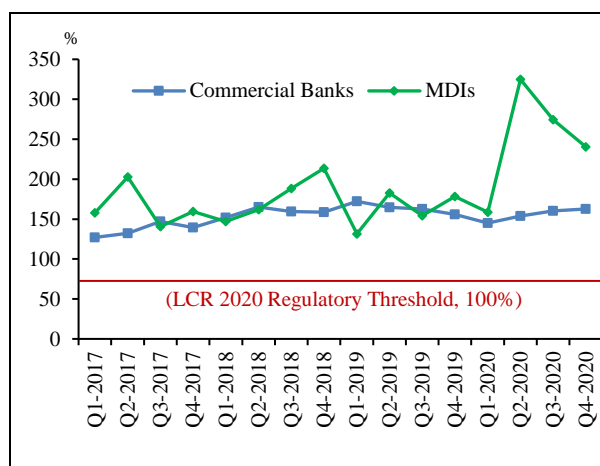


Source: National Bank of Cambodia

g) Liquidity Position and Funding

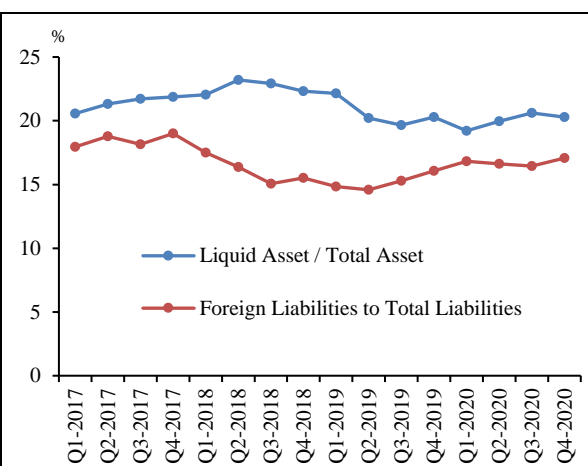
Commercial Banks and MDIs maintained higher liquidity coverage ratios (LCR) than the regulatory benchmark (100 percent). On average, the LCR of commercial banks was 162.5 percent, which was an increase from 2019 (155.8 percent). Meanwhile, MDIs' LCR increased significantly from 178.1 percent to 240.4 percent. The rise in the LCR could be attributed to the liquidity-providing measures that were implemented by the NBC, prudent lending by banks and financial institutions, and an increase in deposits and savings (11.8 percent¹³) amid the outbreak. Liquid assets were kept at around 20 percent of the total assets over the years, while foreign liabilities climbed slightly from 16.1 percent to 17.1 percent of the total liabilities (Figures 52 and 53).

Figure 52. Liquidity Coverage Ratios



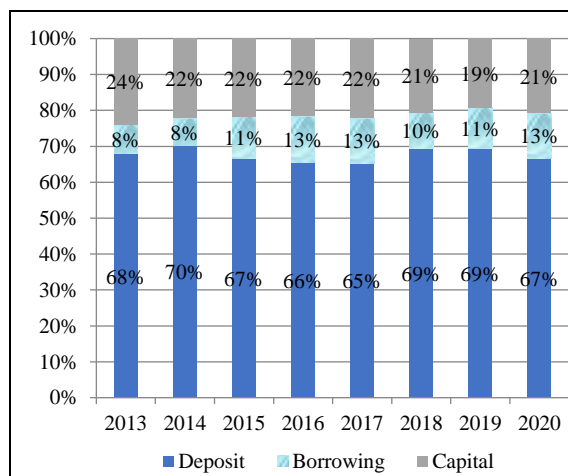
Source: National Bank of Cambodia

Figure 53. Liquidity Condition



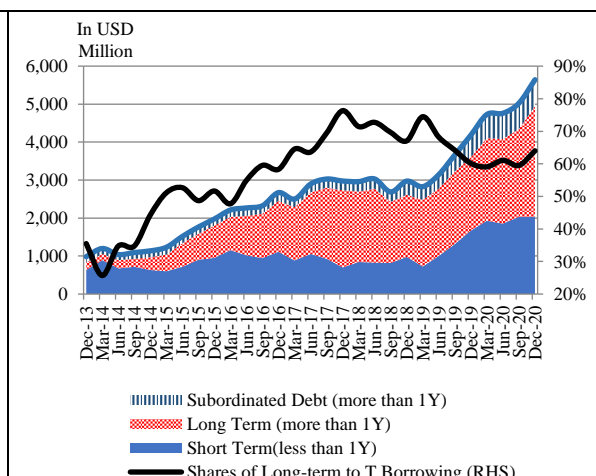
Deposits remained the dominant source of fund for banks. As of 2020, the share of banks' deposits decreased slightly to 67 percent (from 69 percent in 2019), while the share of capital went up to 21 percent (from 19 percent). Banks' borrowing funds constituted around 13 percent of the total funding, of which around 64 percent was long-term, which was a higher proportion than in 2019 (60.1 percent) (Figures 54 and 55).

Figure 54. Banks' Funding Sources



Source: National Bank of Cambodia

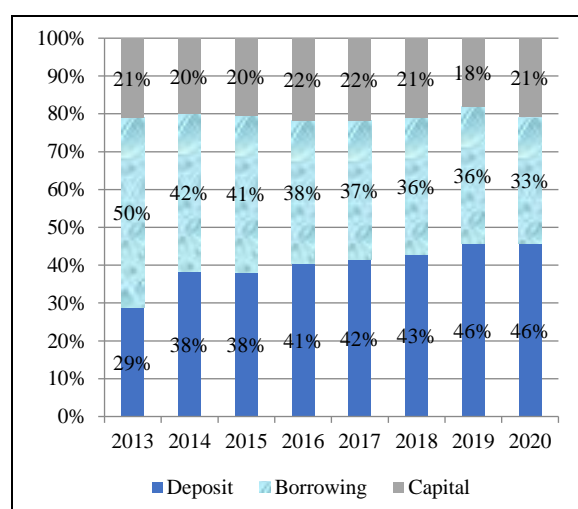
Figure 55. Banks' Borrowing Funds



¹³ Y-o-y growth adjusted for Hattha Bank.

The microfinance sector relied more on borrowing compared to banks, and most of the borrowings were long-term. Regarding the microfinance sector, borrowings and capital were the main sources of funding with a combined share of 54 percent, of which 33 percent was borrowings. Deposits played a key role in supporting MDIs, as they accounted for around 46 percent of the total funding. Although the microfinance sector mostly borrowed long-term (81.7 percent of total borrowings), its share decreased compared to the previous year (85.1 percent). As of 2020, the total funds in the microfinance sector stood at KHR 11.6 trillion (USD 2.9 billion), which is a 7.7 percent decrease compared to 2019, which was KHR 12.6 trillion (USD 3.1 billion). Local funds declined by -23 percent to KHR 3.3 trillion (USD 812.3 million) and contributed 28.3 percent to the total funds. Meanwhile, fund flow from Europe¹⁴ declined by -33.3 percent to KHR 2.8 trillion (USD 684.4 million) and contributed 23.8 percent to the total funds.

Figure 56. Microfinance Funding Structure



Source: National Bank of Cambodia

Figure 57. Microfinance Borrowing Funds

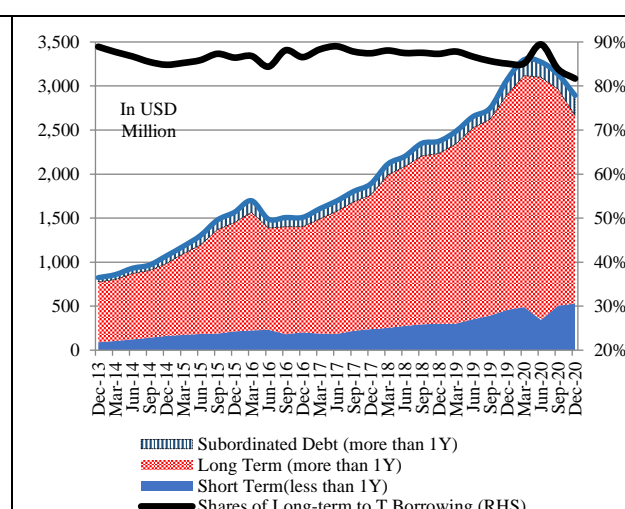
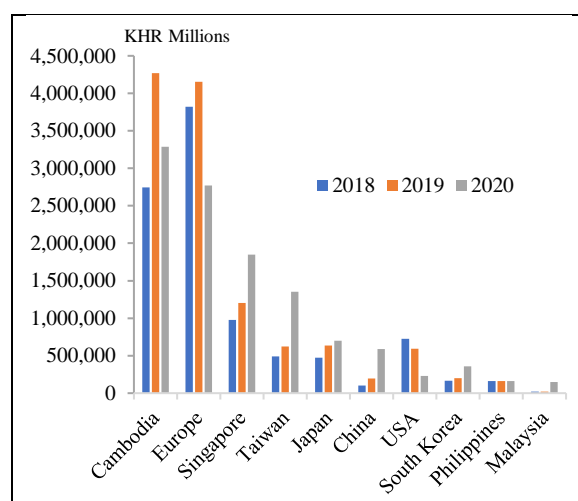
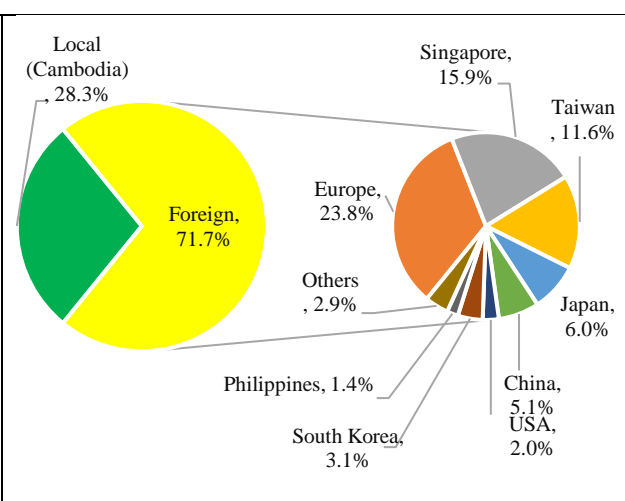


Figure 58. Top 10 Countries as MFIs' Sources of Funds



Source: National Bank of Cambodia

Figure 59. Source of Fund Proportions



¹⁴ Among the European sources, funds from Luxembourg had the largest share, which accounted for 53 percent of the total European funding sources and amounted to KHR 1.5 trillion (USD 362.8 million). Among these, eight out of 81 MFIs are highly exposed to European funding sources.

Box 3: Responses to the Measures during COVID-19

The National Bank of Cambodia has implemented the following numerous measures to cushion any adverse impacts on the banking system:

i/-Maintain the implementation of Prakas on the capital conservative buffer (CCB) at 1.25 percent from March 17, 2020.

ii/-Reduce the minimum interest rate on LPCO by 0.50 percent for all maturities from March 17, 2020.

iii/-Reduce the interest rate on NCD for both KHR and USD at an appropriate level.

iv/-Reduce the RRR from 8 percent in KHR and 12.5 percent in foreign currency to 7 percent for all currencies for a six-month period from April 2020 onward.

v/-Issue guidelines to financial institutions regarding loan restructuring for borrowers experiencing financial difficulties (but still performing) in priority sectors and others on March 27, 2020.

vi/-Recognize the quarterly audited net profit to include in the net worth calculation from April 13, 2020.

vii/-Restrict dividend payment to shareholders for audited profit in 2020.

h) Profitability

The banking system showed a sustainable profitability, despite being lower than that of the previous year, due to higher provisioning and a slower credit growth. The Return on asset (ROA) and return on equity (ROE) for banks declined gradually from 1.9 percent and 9.8 percent in 2019 to 1.7 percent and 8.7 percent in 2020, respectively, while the efficiency ratio, which is defined as the operating expenses divided by the operating incomes, rose slightly from 44.6 percent to 45.9 percent. The provision expenses for banks increased by 79 percent compared to 2019. Although MDIs generated sustained profits as reflected in the stable ROA at 2.9 percent, their ROE decreased from 17.7 percent to 14.8 percent, which was mainly due to an increase in capital. An efficiency gain could be seen, as the ratio fell from 55.8 percent to 51 percent. Regarding MFIs, the ROA and ROE decreased from 2.2 percent and 6.3 percent to 1.9 percent and 4.5 percent, respectively. As the operations of MFIs remained traditional, they are less efficient, as the ratio rose to 70.4 percent.

With the pandemic still ongoing, the NBC issued an announcement that advised banks and financial institutions not to distribute their profits as dividends for the year 2020, and instead, retain the profits for the next period, as a measure to maintain the profitability and safeguard against future unforeseen events (Figures 60, 61, and 62).

Figure 60. Banking system's Return on Assets

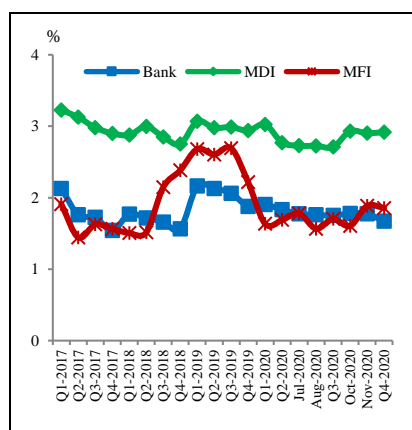


Figure 61. Banking system's Return on Equity

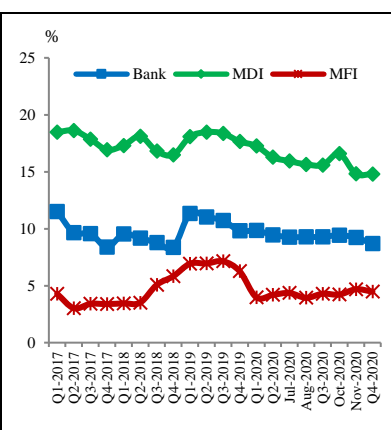
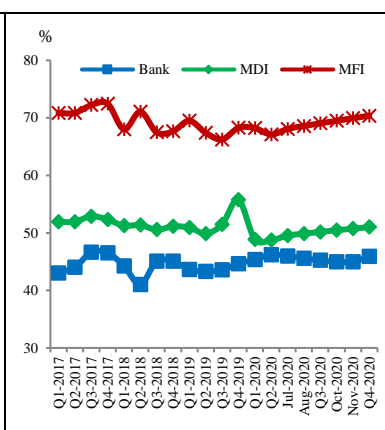


Figure 62. Efficiency Ratio



Source: National Bank of Cambodia

MDIs expanded their gains on non-interest items with more operational efficiency, whereas MFIs' shares of interest income increased with larger provisions. The steady decline in the efficiency ratio for MDIs occurred due to decreasing operating expenses over the years. Income from financing activities remained large at around 91.9 percent of the total income, which was down from 98.4 percent last year. Meanwhile, MFIs continued to have a higher efficiency ratio, which was reflected by large proportion of operating expenses. This could be due to different business models and their reliance on borrowings and capital as funding sources rather than deposits. Shares of interest incomes increased from 79.8 percent of the total income to 83.9 percent, while the net provision almost doubled from 8 percent to 15.4 percent (Figures 63 and 64).

Figure 63. MDIs' Profit Structure

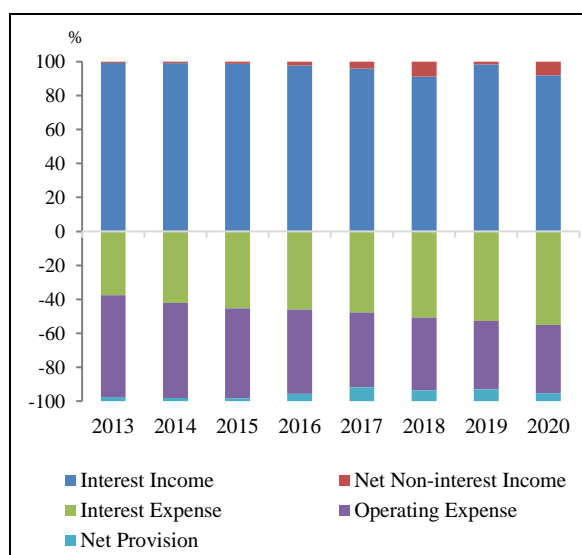
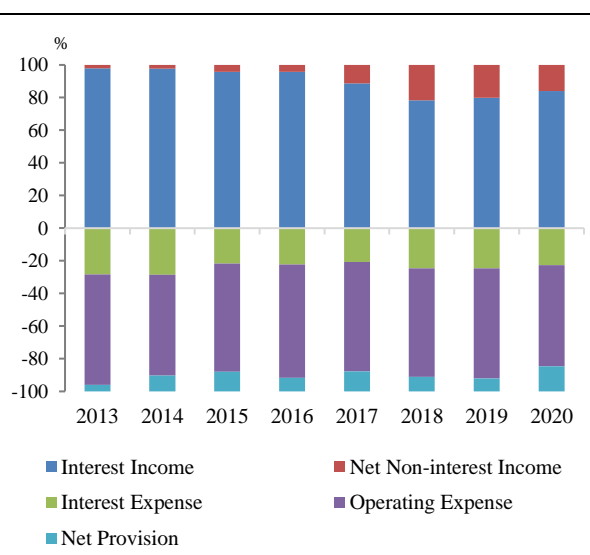


Figure 64. MFIs' Profit Structure

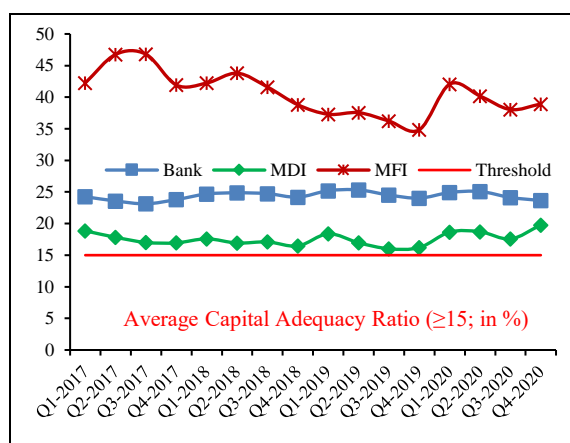


Source: National Bank of Cambodia

i) Capital Position

The banking system continued to be resilient in terms of capital adequacy. Banks have maintained a high and stable capital adequacy ratio (CAR) at 23.7 percent, which is slightly less than that of 2019 (24 percent). Meanwhile, MDIs and MFIs significantly improved their capital positions from 16.2 percent and 34.9 percent to 19.8 percent and 38.9 percent, respectively, as additional buffers for losses resulting from uncertainties during the pandemic. The strong CARs could be attributed to the decreased risk-weighted assets of -4.8 percent and -13.4 percent for MDIs and MFIs, respectively.

Figure 65. Capital Adequacy Ratio



Source: National Bank of Cambodia

Nevertheless, a cross-sectional comparison of CARs among the three types of financial institutions (banks, MDIs, and MFIs) is not advisable due to the differences in regulations as well as their business models. Additionally, the capital conservation buffer (CCB) remained at 1.25 percent (50 percent of the full CCB), which is part of the NBC's efforts to mitigate the impacts of COVID-19 (Figure 65).

2.2 Development in Securities and Insurance Sectors

a) Equity Market

In the first half of 2020, Cambodia's stock market was hit hard by the pandemic due to the lower performance of the listed institutions and companies; however, it picked up and started to stabilize when ACLEDA Bank joined the market. At the end of 2020, the CSX index was 648, which was a reduction of -14.9 percent from 761.7 last year. This drop resulted from the decreases in share prices of Sihanoukville Autonomous Port and Phnom Penh Special Economic Zone Plc., which had yearly returns of -26.8 percent and -54.3 percent, respectively. However, the market capitalization increased sharply by 250.3 percent (y-o-y) from KHR 2.8 trillion to KHR 9.8 trillion with the addition of ACLEDA Bank Plc. and PESTECH (CAMBODIA) Plc., which joined the equity market in May and August 2020, respectively. Together, they contributed to more than 75 percent of the total market capitalization (Figures 66 and 67).

Cambodia's equity market has become less active, which is shown by the significant decrease in the number of daily trades. The CSX reported that the average daily trading volume decreased by -27.7 percent, whereas the average trading value decreased by -24.6 percent from KHR 628.2 million to KHR 473.9 million (Figure 68).

Figure 66. Cambodia Securities Exchange Index

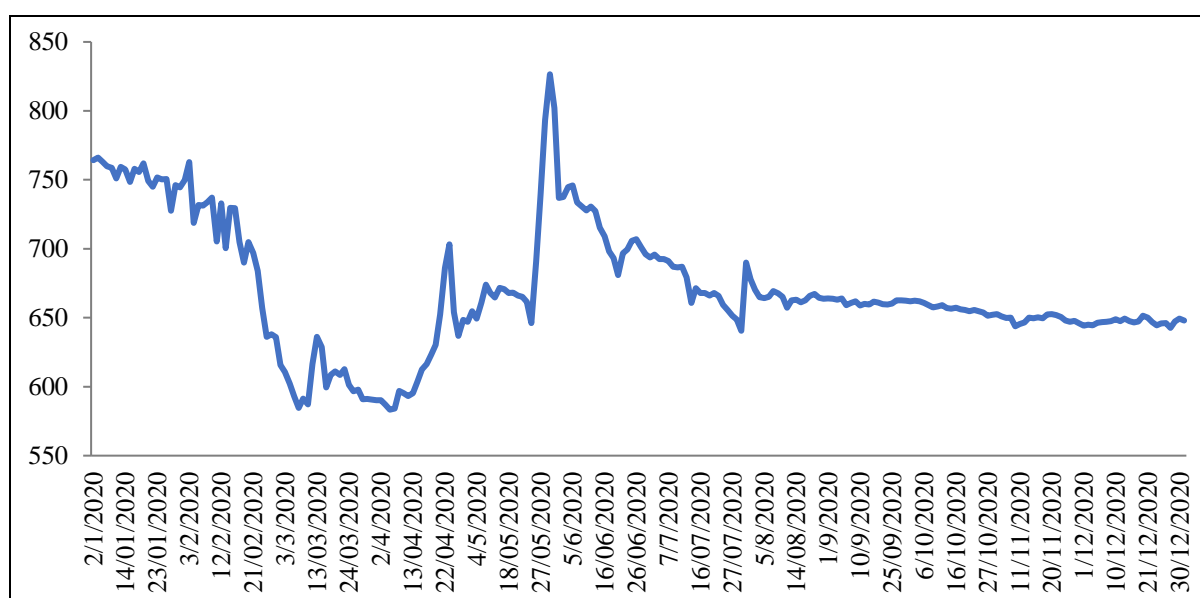


Figure 67. Market Capitalization

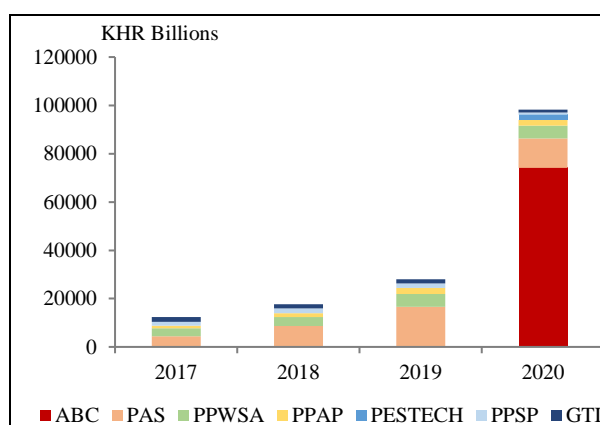
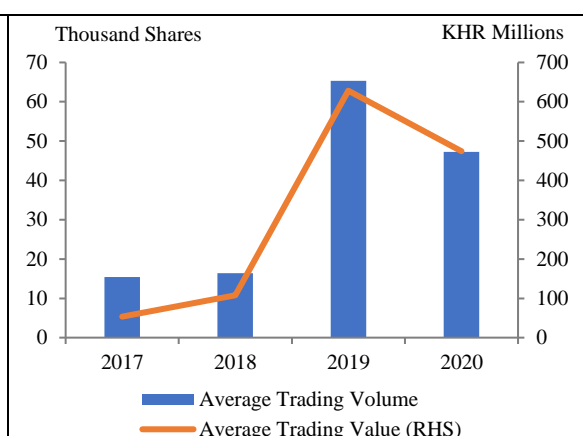


Figure 68. Average Trading Volume and Value



Source: Cambodia Securities Exchange

b) Bond Market

The bond market continued to develop by attracting more corporate bond issuers, which helped promote the local currency. Phnom Penh Commercial Bank issued 800,000 corporate bonds in the local currency from two separate listings in 2020, of which 400,000 bonds were listed on April 21, 2020, and another 400,000 bonds were listed on October 9, 2020, which were worth a total of KHR 80 billion. They provided investors with a 6.5 percent coupon to be paid semi-annually. Furthermore, RMA (Cambodia) Plc. was listed on April 30, 2020 and issued 800,000 corporate bonds in the local currency, which were worth KHR 80 billion. They provided investors with a 5.5 percent coupon to be paid annually. Finally, Prasac Microfinance Institution Plc. was listed on May 5, 2020 and issued 1,272,000 corporate bonds in the local currency, which were worth KHR 127.2 billion. They provided investors with a 7.5 percent coupon to be paid semi-annually. By the end of 2020, there were three commercial banks, two microfinance institutions, and one import–export company listed in the bond market. Despite an increase in the number of issuers, the bond market remained less active in trading, with many investors preferring to hold their bonds until maturity.

Table 1. Bond Issuance in 2020

Issuer	PHNOM PENH COMMERCIAL BANK	RMA (CAMBODIA) PLC.	PRASAC MICROFINANCE INSTITUTION PLC.	PHNOM PENH COMMERCIAL BANK
Issuing Date	April 10, 2020	April 09, 2020	April 23, 2020	September 22, 2020
First Trading Date	April 21, 2020	April 30, 2020	May 05, 2020	October 09, 2020
Bond Type	FX-Indexed Bond	Plain Coupon Bond	Plain Coupon Bond	FX-indexed Bond
Value of bonds issued	KHR 40 billion (USD 10 million)	KHR 80 billion (USD 20 million)	KHR 127.2 billion (USD 31.8 million)	KHR 40 billion (USD 10 million)
Currency	KHR	KHR	KHR	KHR
Maturity Date	3 years	5 years	3 years	3 years
Coupon Rate	6.50%	5.50%	7.50%	6.50%
Number of Bonds Issued	400,000	800,000	1,272,000	400,000
Nominal Amount	KHR 100,000 per unit	KHR 100,000 per unit	KHR 100,000 per unit	KHR 100,000 per unit
Underwriter	Yuanta Securities (Cambodia)	SBI Royal Securities	SBI Royal Securities	Yuanta Securities (Cambodia)

Source: Cambodia Securities Exchange

c) Insurance Sector

The insurance sector continued to grow, as reflected by the increases in the total gross premium of general and life insurances. In 2020, the total gross premium¹⁵ increased by 7.8 percent to USD 264.9 million. The sales of general insurance grew by 10.5 percent, which was mainly driven by property (6.4 percent of total growth), medical (2.2 percent), and miscellaneous (1.9 percent) insurances. Among these categories, the property and medical insurances had the largest shares of 35.4 percent and 18.4 percent of the general insurance premium, respectively. Moreover, the life insurance premium increased by 5.8 percent due to strong sales of endowment policy (2.6 percent of total growth), which was the biggest share among the other life insurance policies at 84.3 percent of the life insurance premium (Figure 69, 71, and 72).

¹⁵ General insurance and life insurance

Gross claims that were paid for general and life insurances experienced a sluggish growth amid the pandemic. General insurers paid out around USD 29.2 million in claims in 2020, which was an increase of 0.2 percent compared to last year (USD 29.1 million) and a deceleration from 47.1 percent growth. However, the claim ratio decreased to 25.6 percent in 2020 (from 28.3 percent in 2019), which was mainly due to the faster growth of the general insurance premium. Moreover, life insurance claims increased by 43.4 percent to USD 6.9 million (claim ratio of 4.6 percent) from USD 4.8 million in 2019 (claim ratio of 3.4 percent), which was a sharp slowdown from the 108.4 percent growth (Figure 70).

Figure 69. Gross Premium

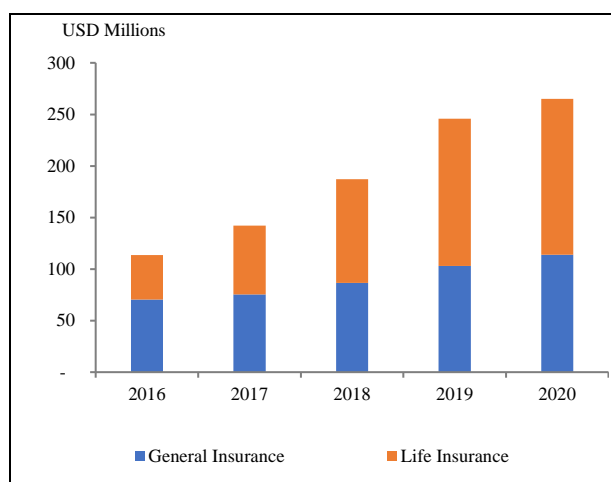


Figure 70. Gross Claim Paid

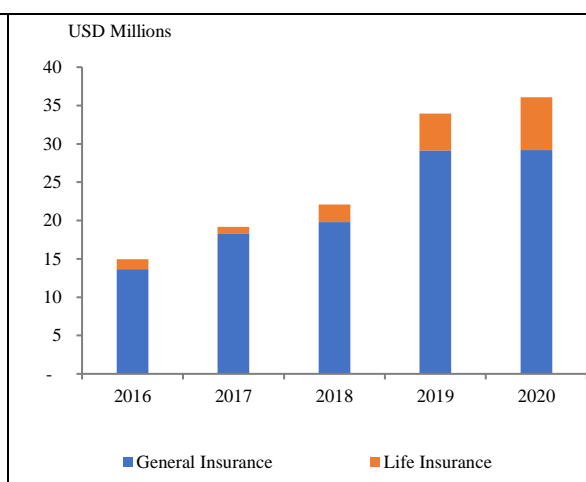


Figure 71. Share of General Insurance Premium

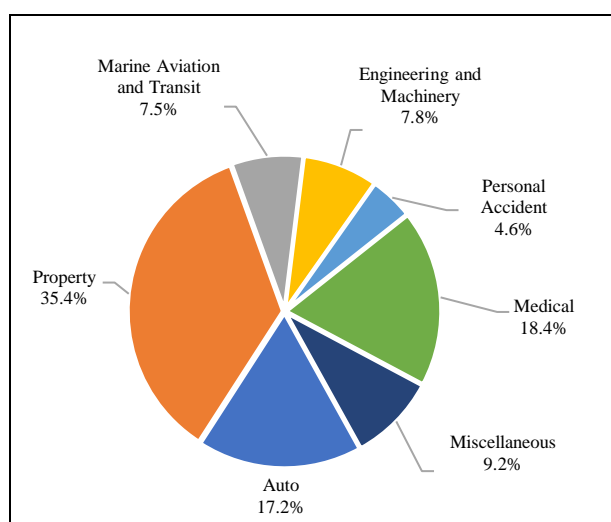
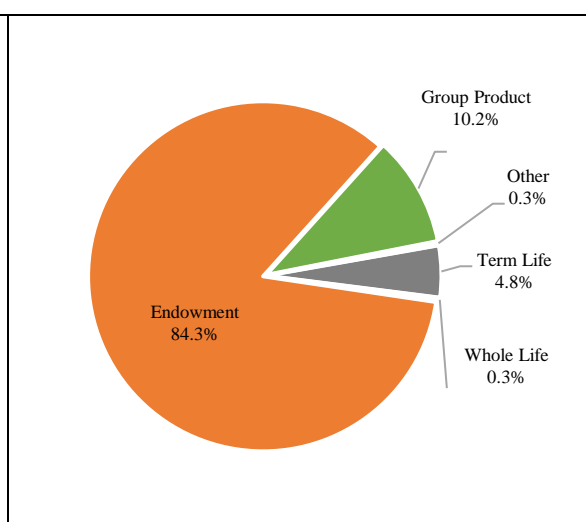


Figure 72. Share of Life Insurance Premium



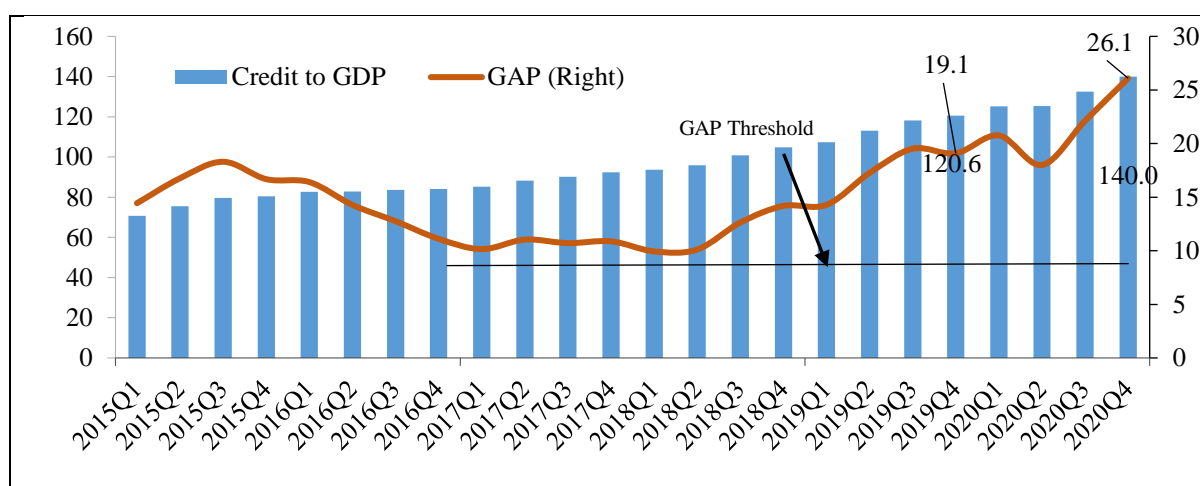
Source: Insurance Association of Cambodia

III. MACRO-FINANCIAL LINKAGES

3.1 Credit-to-GDP Gap

The economy's overall credit-to-GDP ratio has increased, despite the moderation in domestic credit growth. The credit-to-GDP ratio rose from 120.6 percent at the end of 2019 to 140 percent at the end of 2020. The increase largely reflects the decline in the GDP due to the sharp economic downturn, rather than a significant increase in credit levels. This has led to an increase in the credit-to-GDP gap to 26.1 percent in 2020 from 19.1 percent in 2019. It is necessary to closely monitor how the spread of COVID-19 and the current level of lending might end up causing excessive credit relative to the real economy, if the disease has a deeper and longer impact that leads to a substantial decline in the growth rate of the economy. However, given that Cambodia is a fast-growing country, and the financial market is still at an early stage of development, the country mainly relies on the banking sector to finance its economic activities, which leads to a high credit level.

Figure 73. Credit-to-GDP Gap
in percent, Q1 2015–Q4 2020

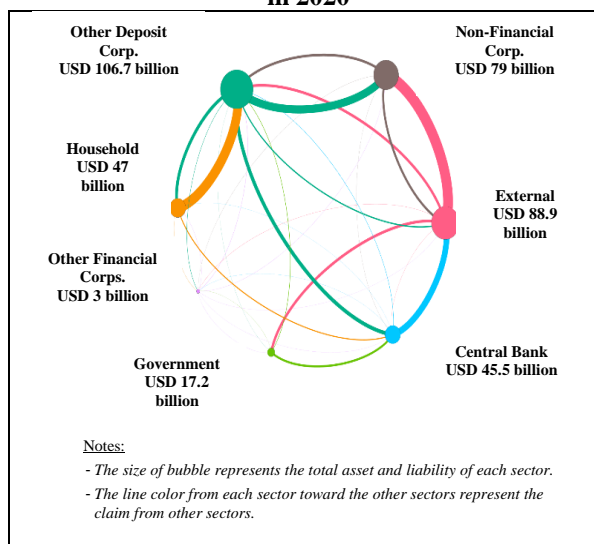


Note: Total credit=Banks+MFIs. The gap is computed using a one-sided HP filter with a lambda of 400,000.
Source: NBC staff calculation

3.2 Balance Sheet Analysis

As of end-2020, the results from the balance sheet analysis (BSA)¹⁶ indicated that other deposit corporations (ODCs), non-financial corporations (NFCs), and external sectors were the main sectors in Cambodia's economy with a strong financial interconnectedness. The net position of ODCs remained strong, even though it declined. The ODCs showed a net creditor of USD 1.6 billion, which declined by -18.9 percent (y-o-y) from USD 2 billion. This was mainly due to the higher growth in liability than that of the claim. In terms of liability, ODCs received an inflow of funds from the rest of the sectors that amounted to USD 52.5 billion, which was an increase of 17.2 percent (y-o-y) due to the increased inflow of funds from households

Figure 74. Total Financial Position of All Sectors in 2020

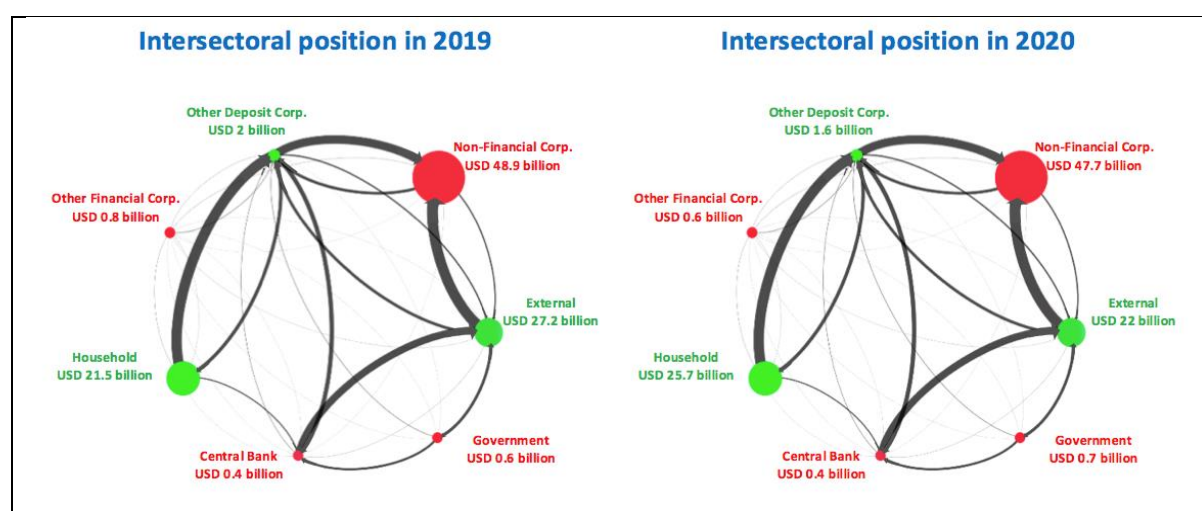


(20.6 percent), external sectors (13.5 percent), and NFCs (7.2 percent), whereas claims on the rest of the sectors reached USD 54.2 billion, which is an increase of 15.6 percent from USD 46.9 billion. This was mainly due to an increase in loan provisions to NFCs (18.6 percent) and households (18.5 percent).

The interconnectedness of NFCs to all sectors indicated that external sectors and ODCs were the major sources of funds to NFCs. NFCs indicated a net debtor of USD 47.7 billion, which was a -2.5 percent reduction due to the drop of inflow of funds from external sectors. This year, the NFCs received USD 63.4 billion from the rest of the sectors, which was an increase of 1.4 percent (y-o-y) due to the increased inflow of funds from ODCs (18.6 percent). However, the inflow from the external sector declined by -7.5 percent. On the other hand, regarding claims from the rest of the sectors, NFCs recorded USD 15.7 billion, which was an increase of 16.3 percent. It should be noted that 99 percent of this sector's outflow of funds were to ODCs and external sectors, which accounted for USD 8 billion and USD 7.7 billion, respectively.

The external sectors indicated a net claim on Cambodia of USD 22 billion, which was a decrease of -19.1 percent. This was mainly due to the spillover effect from the COVID-19 pandemic. By the end of 2020, the inflow of funds from external sectors to the rest of the sectors accounted for USD 55.4 billion, which was a decrease of -1 percent, whereas the outflows amounted to USD 33.4 billion, which was an increase of 16.2 percent. NFCs were the main recipients of funds from this sector, as they accounted for 67 percent of the total outflows from the external sectors, while the inflow from NFCs to the external sectors was 23 percent of the total inflows. Regarding the interconnectedness of the government and external sectors, there was no government's claim on this sector, while the government had a liability of USD 8.8 billion to external sectors, mostly comprised of grants and concessional loans.

Figure 75. Intersectoral Position



Note:

- Sectors in **red** are net debtors, while the **green** ones are net creditors
 - The size of the bubble represents the relative size of the net position
- The arrows toward the other sectors reflect the claim from those sectors

IV. OUTLOOK AND RISKS

With the COVID-19 situation and prolonged international trade tension, Cambodia's growth outlook remains uncertain. As a small country that relies on external sectors, Cambodia's economic growth in 2021 would depend on the recovery of the rest of the world, the evolution of the COVID-19 situation and international trade tensions, especially between the U.S. and China, which are Cambodia's main trade partners. However, this tension may encourage international firms to diversify their production across countries, and the ASEAN region, including Cambodia, could be a potential place for those diverted investments.

Although domestic economic activities are also at risk due to successive community outbreaks of COVID-19, the rollout of vaccinations would help alleviate the situation. After the events on November 3 and 28, 2020, the country has suffered from the impact of another community outbreak on February 20, 2021. Therefore, COVID-19, especially with new variants of the virus, remains a big threat to the social and economic activities in Cambodia. To mitigate the impacts of COVID-19 on businesses and workers in Cambodia, the RGC has introduced eight rounds of fiscal measures, including tax exemptions, cash transfers, wage subsidies, SME Co-Financing Scheme (SCFS), Credit Guarantee Scheme (CGS), etc. Hence, the protracted COVID-19 could put pressure on the government's budget at a later date. Moreover, given that a significant increase in private debt has been observed in recent years, as illustrated by the credit-to-GDP ratio, the prolonged COVID-19 situation may cause several households and firms to fall into an over-indebted situation and may increase NPL ratios and loan restructurings. Nonetheless, the country's recent access to COVID-19 vaccines would help alleviate these risks.

Cambodia's growth in 2021 was projected to equal 4 percent¹⁶, and this was backed by the expected improvement of external conditions and export diversification. The country's top export destinations, such as the US, EU, and Japan, are anticipated to gradually recover as a consequence of the rollout of vaccination programs and additional policy supports in those countries. As a result, Cambodian exports of garments and footwear, which dropped significantly in 2020, are expected to recover in 2021. In addition, Cambodia has recently received the granted quota-free access to the UK, which will offset the partial withdrawal of the Everything But Arms (EBA) scheme by the EU¹⁷. Exports of electrical parts, bicycles, and other non-garment exports are expected to keep their growth momentum.

The effort of economic diversification could also be illustrated by the increase in FDI to non-garment industries, which is expected to slowly expand. Sectors, such as travel goods, energy, electrical parts, vehicle spare parts, among others, have recently emerged as newly attractive industries for foreign investors. With appropriate support, these industries could boost the diversification in the manufacturing sector in the medium term. The RGC has taken advantage of technological advancement by digitalizing several public services, including those related to trade, investment, and business registration, while FinTech, especially the payment system, has grown remarkably. This progress would lead to cost reductions and productivity enhancement with improved innovation, which are the key factors to attract more FDI.

¹⁶ This projection did not take into account the ongoing impacts of the February 20 community outbreak of COVID-19.

¹⁷ The UK represented around 20 percent of Cambodia's total exports to the EU.

Before the community outbreak of COVID-19 in February 2021, the construction and real estate sectors were expected to gradually recover alongside the FDI. However, this expectation is now conditional on the successful containment of the outbreak and how economic activities will bounce back in the second half of 2021. China, which is the leading source of FDI inflows to the construction and real estate sectors in Cambodia, as well as the only country in the G20 that recorded a positive growth in 2020, was projected to strongly grow by more than 8 percent in 2021. With the improved global and regional economic outlooks, the market confidence in 2021 would be restored, and FDI inflows to these sectors would progressively revive, although not to the same extent as 2019. However, the February 20 community outbreak of COVID-19 could negatively affect this expectation. Meanwhile, given that the banking sector is exposed to real estate and construction activities, the NBC will continue to closely monitor the evolution of these sectors and implications.

Amid the impacts of COVID-19, agriculture is expected to grow more than it did in 2020 due to the rising demand from global recovery and the RGC's support policies. In 2020, the production and exports of rice were not affected by the impact of COVID-19, as the demand kept increasing. Hence, With the expected favorable weather condition and global recovery, the rice production and exports are expected to continue to grow in 2021 at a better pace. Meanwhile, with increased support from development partners and the RGC's support policies to strengthen the development of agriculture, an increase in domestic and foreign investments in the processing of agricultural products has already been noticeable. As a result, productions of other crops, livestock, and fisheries were projected to continue to grow in 2021. Nevertheless, climate change is still a major threat to the development of agriculture, as illustrated by the drought and flash flood that affected many provinces in Cambodia last year.

The tourism sector would take a longer time to recover than other sectors, and a roadmap to restore this sector has been developed and implemented. The tourism and hospitality sector will take a longer time to recover due to the strong reliance of this sector on international tourists, who may still hesitate to travel due to a fear of COVID-19, mobility restrictions, and reduced revenues and savings. In response to this challenge, the 2021–2025 roadmap to restore tourism during and after the COVID-19 pandemic has been prepared and developed by the RGC. The implementation of this roadmap, combined with the ongoing infrastructure development in major provinces, including Siem Reap and Sihanoukville, would help get travel and tourist activities back on track in the medium term.

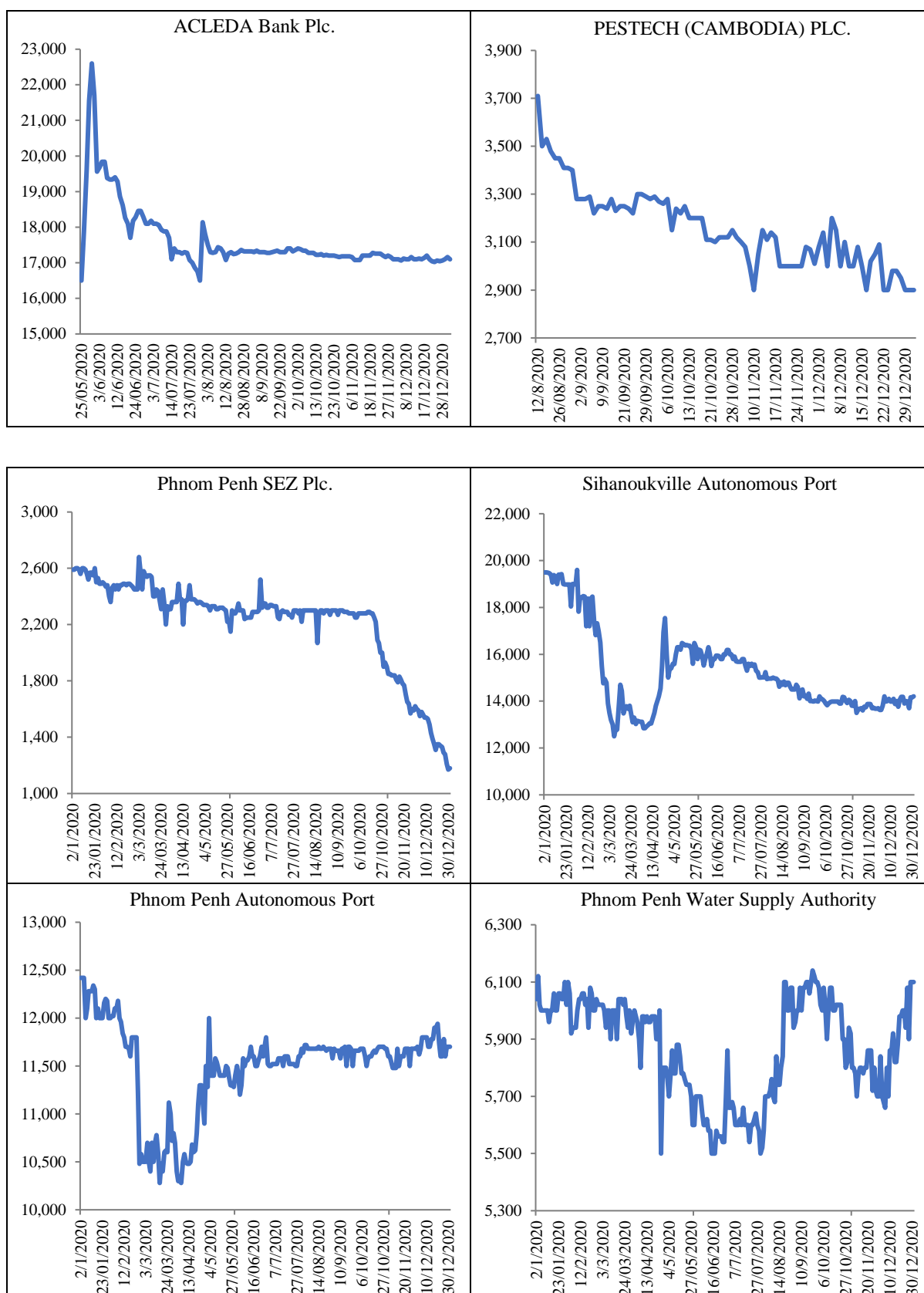
To support trade and investment, Cambodia has expanded several areas of cooperation, such as FTA and RCEP. The recent signing of the Cambodia–China Free Trade Agreement (CCFTA) and the Regional Comprehensive Economic Partnership (RCEP) would further promote regional investment and trade that should also benefit Cambodia, especially in the medium and long term, when the country could exploit this opportunity to modernize and further diversify its economic structure to other pillars.

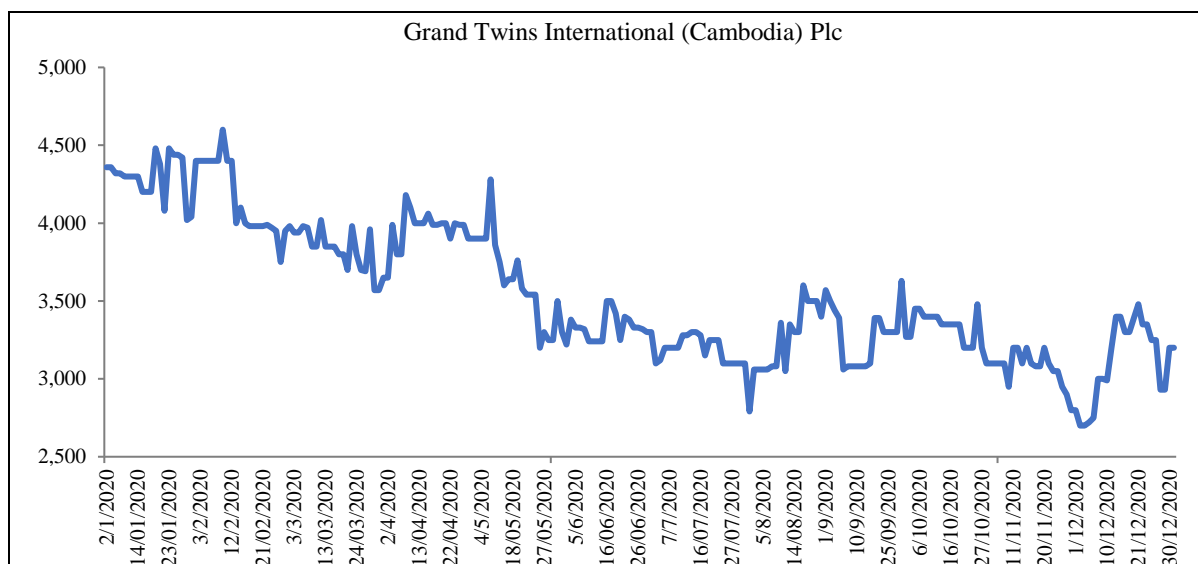
The financial and banking sector will continue to play a crucial role in supporting economic recovery; therefore, safeguarding the financial sector's health and resilience would be among the top priorities for the NBC. The resilience of the banking system has played a key role in supporting economic activities, including sustained credit growth and loan restructuring, which somewhat weathered the pressures caused by the global pandemic on Cambodian economy and society. The NBC will keep being proactive in safeguarding financial stability by closely supervising the banking system, promoting public awareness on financial matters, and enhancing customer protection and the quality of the credit information system. The NBC stands ready to introduce additional supporting measures, which are based on circumstances and in line with the economic recovery plan of the RGC.

As FinTech is a new source of growth and support for the digital economy, the payment system would be developed in accordance with innovative technologies to promote financial inclusion and facilitate trade operations and investments. Digital payments and transfers are considered the foundations of a digital economy and are key factors to bring people living in remote areas and migrant workers with low incomes into the formal financial sector, where they can have convenient, affordable, and safe access to financial services. Amid the COVID-19 pandemic, the RGC has delivered cash to workers and employees in the most affected sectors and poor households using mobile money agents. The use of digital transfers has allowed the RGC to provide a timely social assistance that has helped mitigate the impact of COVID-19. In this digital era, as the pandemic has pushed individual and firm behaviors toward digitalization, the NBC will continue to underpin the digital infrastructure development in the banking sector, which would contribute to promoting trade and investments.

APPENDIX

CSX Listed Companies' Performances





Listed Company	Price/Share 2019	Price/Share 2020	Growth
Sihanoukville Autonomous Port	18,980	14,200	-25.2%
Phnom Penh Water Supply Authority	6,000	6,100	1.7%
Phnom Penh Autonomous Port	12,500	11,700	-6.4%
Phnom Penh SEZ Plc.	2,580	1,180	-54.3%
Grand Twins International (Cambodia) Plc.	4,400	3,200	-27.3%
Listed Company	First Trading Price	Price/Share 2020	Growth
ACLEDA Bank Plc.	16,500	17,100	3.6%
PESTECH (CAMBODIA) PLC.	3,710	2,900	-21.8%

