Cambodia Economic Update
December 2024

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East Asia & Pacific

FROM RECOVERY TO RESILIENCE: HARNESSING TOURISM AND TRADE AS DRIVERS OF GROWTH

SPECIAL FOCUS

Structural, firm and business barriers to labor productivity

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The CEU, produced biannually, provides up-to-date information on macroeconomic developments in Cambodia. It is distributed and discussed widely, including among Cambodian authorities, development partners, the private sector, think tanks, civil society organizations, and academia.

For information about the World Bank and its activities in Cambodia, please visit our website at www.worldbank.org/cambodia.

To be included in the email distribution list of the CEU and related publications, please contact Sina Oum (soum1@worldbank.org). For questions on the contents of this publication, please contact Saroeun Bou (sbou@worldbank.org).

1 Rebasing GDP involves replacing an old base year with a more recent base year to keep up with the evolution of prices.

ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
B-READY	Business Ready
CEO	Chief executive officer
CEU	Cambodia Economic Update
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CSES	Cambodia Socio-Economic Survey
DTI	Debt-to-income
EAP	East Asia and Pacific region
EMDE	Emerging market and developing economies
EU	European Union
FDI	Foreign direct investment
Fed	U.S. Federal Reserve
GDP	Gross domestic product
GTF	Garment, travel goods, and footwear
MFI	Micro-finance institution
PMI	Purchasing Managers' Index
QIP	Qualified Investment Project
SMEs	Small and medium-sized enterprises
SDR	Special drawing rights
US$	United States dollar
USDA	United States Department of Agriculture
VAT	Value-added tax
y/y	Year-on-year

EXECUTIVE SUMMARY

Recent developments

Economic activity held steady in 2024, but performance remains uneven across sectors. The rebound in external demand and trade drove a revival in goods and services exports. During the first eight months of 2024, goods exports expanded by 13.9 percent year-on-year (y/y), driven largely by garment, travel goods, and footwear (GTF) products. Meanwhile, international tourist arrivals continued to rise, expanding by 22.5 percent y/y to 4.3 million tourists. While tourist spending also improved, as indicated by Angkor temple revenue collection growing by 31.4 percent y/y, it has lagged behind tourist arrivals. Although the average length of stay for tourists increased to 7.6 days in 2023, compared to 6.2 days in 2019, the estimated total tourism receipts declined to US$3.08 billion, down from US$4.9 billion, due to a decrease in the average expenditure per tourist.

In addition, a recovery of private consumption is underpinning improved domestic economic activity. During the first eight months of 2024, imported consumer goods, including diesel, electronic equipment, gasoline, foodstuff, garments, and soft drinks, expanded by 23.6 percent y/y. Indicating improved investor sentiment, the value of approved FDI-financed investments (outside special economic zones) under the Qualified Investment Project (QIP) scheme accelerated, reaching US$1.12 billion—a 24.3 percent y/y increase during the first eight months of 2024. Investments under public-private partnerships in large physical infrastructure projects such as roads and ports have boosted construction services. During the first eight months of 2024, imports of construction equipment and steel grew by 20.1 percent and 59.2 percent, respectively.

In contrast, real estate and property investment remained subdued. The downturn in the property sector continued reflecting overcapacity in the property market and a continued housing market correction. The value of approved private property development permits contracted by 29.1 percent y/y during the first eight months of 2024.

The current account balance is projected to turn negative this year, reflecting the recovery of import demand, which is only partially offset by rising remittances and tourism receipts. This deficit continues to be financed by sustained capital inflows. During the first eight months of 2024, continued strong capital inflows, especially FDI, have helped ease pressures on the exchange rate and boosted gross international reserves, which rose to US$20.7 billion, an 11.3 percent year-on-year increase, covering about seven months of prospective imports.

Inflation remained subdued, owing to the deceleration of food and oil prices. Cambodia's Consumer Price Index (CPI) registered a 0.3 percent year-on-year increase in August 2024, a 15-year low. The easing of food prices, particularly for meat, fish, vegetables, and fruits, subdued inflation, given that the food component (subindex) captures a 43 percent weight in the inflation basket.

Monetary policy remained accommodative, with a recent uptick in money supply. Reflecting rising capital inflows, broad money expanded, growing at 14.3 percent over the 12 months ending in August 2024, up from 11.0 percent during the same period in 2023, owing to improved foreign currency deposits. Given that the economy is highly dollarized, foreign currency deposits contribute the most to broad money growth.

Upward pressures on domestic interest rates are starting to moderate as Cambodia's highly dollarized economy imports U.S. monetary policy, which has begun to ease following the U.S. Federal Reserve (Fed) cutting the Fed funds rate by 50 basis points in September and 25 basis points in November 2024. Despite this, the marked slowdown in domestic credit growth has continued amid weak credit demand related to the downturn in the property sector, with credit sharply decelerating to 3.4 percent year-on-year, a 14-year low in August 2024, down from 7.7 percent during the same period in 2023. Meanwhile, nonperforming loan ratios in Cambodia rose to 6.8 percent for the banking sector and 8.3 percent for the microfinance sector by mid-2024, up from 5.4 percent and 6.7 percent in 2023, respectively.

Amid the downturn in the credit cycle, banking sector balance sheets are weakening. Rising nonperforming loan ratios, which increased to 6.8 percent for the banking sector and 8.3 percent for the microfinance sector by mid-2024 indicate a further deterioration in asset quality amid the ongoing downturn in the property sector. The return on assets of the banking and microfinance sectors declined to 0.6 percent and 1.5 percent, respectively, in 2023, down from 1.9 percent and 2.8 percent in 2019. Similarly, during the same period, the return on equity shrank to 3.4 percent and 5.9 percent, respectively, down from 9.8 percent and 14.8 percent.

While fiscal pressures persisted, domestic revenue showed a marginal improvement. During the first eight months of 2024, central government domestic revenue expanded by 4.5 percent y/y, up from 0.4 percent during the same period in 2023. This improvement was underpinned by the recovery of private consumption, which boosted taxes on goods and services and on international trade. In addition, a revival of tourism activity contributed to an increase in nontax revenues.

To maintain fiscal sustainability, the authorities have begun to contain spending, particularly capital expenditure. During the first eight months of 2024, central government expenditure was contained, growing at a negative rate of 0.3 percent (y/y), down from 15.1 percent during the same period in 2023. Government deposits (fiscal reserves), however, remained relatively healthy at 11.4 percent of gross domestic product (GDP) in August 2024, and public debt remained low at around 27 percent of GDP in 2023.

The export recovery has led to improved labor market conditions. In August 2024, jobs in the formal manufacturing sector, which accounted for 19.4 percent of nonfarm employment, grew by 9.5 percent y/y, supporting household consumption and partly reversing pandemic-related increases in poverty. Figure ES.1 graphically presents Cambodia's recent economic developments.

Outlook

Using the newly rebased national accounts data, this year's economic growth is projected to reach 5.3 percent (table ES.1.), compared to 5.0 percent in 2023, driven mainly by services and goods exports. The surge in manufacturing exports—especially in garment, travel goods, and footwear manufacturing; the revival of the travel and tourism industries; and continued FDI inflows have helped sustain this year's economic recovery.

In the short term, Cambodia's real GDP growth is projected to marginally improve, reaching 5.5 percent in 2025 and 2026. Even though domestic demand is expected to further improve in the next two years, supported by an improved job market and well-anchored inflation expectations, the recovery remains incomplete. This is because a rebound in domestic consumption, which accounts for about two-thirds of GDP, will be dampened by subdued domestic credit growth caused by a prolonged downturn in the construction and real estate sector. In addition, the negative wealth effects of falling house prices and notably high household debt, with debt service payments close to 50% of income, are likely to constrain consumption going forward.

On the production side, the tourism and hospitality industries are likely to improve further, with projected increases in international arrivals. While manufacturing exports—especially in garments, travel goods, and footwear—will remain susceptible to external demand, agricultural production and agroprocessing industries continue to be boosted by bilateral and multilateral free trade agreements. The travel, transport, and logistics industry should benefit from strong private investment in several key infrastructure projects, such as a newly built expressway linking Phnom Penh to Sihanoukville, where a deep-sea port is located; new logistics complex and multimodal port development projects in Kampot and Phnom Penh; and a new expressway project linking Phnom Penh to Bavet, on the Cambodia-Vietnam border, among others.

With subdued private consumption due to the prolonged downturn in the property sector, external imbalances are expected to improve in the short to medium term. While remittances and tourism receipts will continue to boost net income and services, FDI should continue to finance the projected modest current account deficit going forward. In the short to medium term, the authorities' efforts to improve revenue collection, implement fiscal consolidation, and enhance spending efficiency under the Public Financial Management Reform Program should narrow the overall fiscal deficit, which is targeted to be equal to or below 5 percent of GDP.

Table ES1. **Macro outlook**[1/]

(percent of GDP unless otherwise indicated)

	Projections			Change from June 2024		
	2024	2025	2026	2024	2025	2026
Real growth (percent)	5.3	5.5	5.5	-0.5	-0.6	-0.9
CPI (period average, percent)	2.2	2.2	2.2	-0.6	-0.5	-0.8
Current accounts	-1.0	-1.5	-1.8	-3.7	-4.1	-3.4
Overall fiscal deficit	-3.0	-3.3	-3.2	2.5	1.1	1.0
Public debt	26.9	27.4	27.4	-8.6	-8.1	-7.4

Note: 1/ The comparisons indicated in the 'Change from June 2024' column are illustrative only. This is because the data, except for CPI, in the 'Projections' column, which are based on the 2014 base year of the national accounts data, are not directly comparable to the data published in the June 2024 edition, which employed the 2000 base year of the national accounts data.

Challenges and risks

Despite continued improvements, the economy is facing downside risks, including weaker-than-expected global demand amid rising debt and elevated borrowing costs, and a sharper-than-anticipated slowdown in China. Cambodia's small, open economy, with a trade-to-GDP ratio of 112 percent in 2023, faces risks from geo-economic fragmentation and rising protectionism.

Domestically, a faster-than-expected increase in nonperforming loans could affect macro-financial stability as the housing market correction continues. Falling house prices are negatively impacting the health and stability of the banking sector by increasing the risk of loan defaults and reducing the value of the collateral held by banks. However, the housing market correction can also be seen as a natural part of the credit cycle, potentially enabling Cambodian families to enter the housing market at a lower price point.

Policy options

Building on the ongoing improvement in post-pandemic fiscal management, fiscal reforms to boost domestic revenue mobilization should be a top priority. Ongoing fiscal consolidation due to slow revenue collection will likely impact social spending and basic education and health services unless fiscal space is restored in the short term. First, pandemic-induced fiscal interventions and tax incentives should be discontinued. Second, introducing stricter governance of tax incentives should minimize the unnecessary revenue losses they may cause. In this regard, developing the capacity to track, manage, and control tax expenditures within medium-term fiscal and budgetary decision-making is particularly important. Third, taxes on goods and services should be strengthened by reviewing the VAT rate, exemptions, and zero rating, while introducing ambitious excise tax increases on alcohol and tobacco, benchmarking against good practices in middle-income countries. Introducing a personal income tax should be a medium-term objective of the next revenue mobilization strategy. Fourth, as the authorities are now embarking on a gradual fiscal consolidation policy, strengthening spending efficiency or value for money is essential.

To safeguard financial stability, the immediate focus should be on intensified bank supervision: stress testing of individual institutions, systematic onsite inspections, further alignment of the regulatory framework with international standards, and thorough assessments of the quality of loan portfolios, among others. There was a rapidly growing number of financial institutions in Cambodia until 2022. A consolidation of the financial sector through mergers and acquisitions should help preserve profit margins by improving their efficiency and increasing market share. To prepare for increasing levels of nonperforming loans, it is crucial to ensure that resolution options are now ready to be deployed as needed, and to strengthen the country's insolvency regime. Efforts to prepare legislation on deposit insurance and bank resolution must continue.

Finally, to avoid a slowdown in economic growth, Cambodia should transition to a more sustainable growth pattern through further structural reforms to boost and diversify exports of goods, especially manufactured products and agroprocessing, as well as services, particularly travel and hospitality. Further efforts are needed to fast-track ease-of-doing-business reforms. As indicated in the 2024 Business-Ready report, the most challenging issue is that Cambodia lacks quality public services to support businesses, especially in areas such as business insolvency, market competition, and business entry. Therefore, strengthening the country's institutions to ensure that regulations are effectively implemented and enforced will help create a predictable and stable business environment, which is essential for promoting trade and investment. That is the focus of this edition's special topic section.

Structural, firm, and business barriers to labor productivity

Cambodia will need to significantly improve its productivity performance in the coming decades to sustain high rates of economic growth and realize its vision of rapidly becoming a high-income country. Productivity growth has not been a major driver of growth historically and Cambodia's levels of labor productivity are very low compared to its peers across all sectors of the economy. The Special Focus section of this report highlights four priority reform areas to support a rapid transition to a more productivity-led growth model in Cambodia.

First, Cambodia needs to accelerate structural transformation toward higher value-added products, value-chains, and activities. There is wide variation in labor productivity among Cambodian firms both within and across sectors, with some sectors and subsectors significantly more productive than others. Improving Cambodia's productivity performance requires reigniting and accelerating the country's structural transformation toward higher value-added activities and firms both within sectors and from lower- to higher-productivity sectors and from rural to urban areas. This is aligned with a broader need to pursue greater economic diversification in Cambodia to reduce the risks associated with the high concentration of products and markets. Specific policy ideas include: making it easier and faster for new firms to open and for underperforming firms to close; and encouraging the development of new industries and the transformation of existing ones into higher value-added segments.

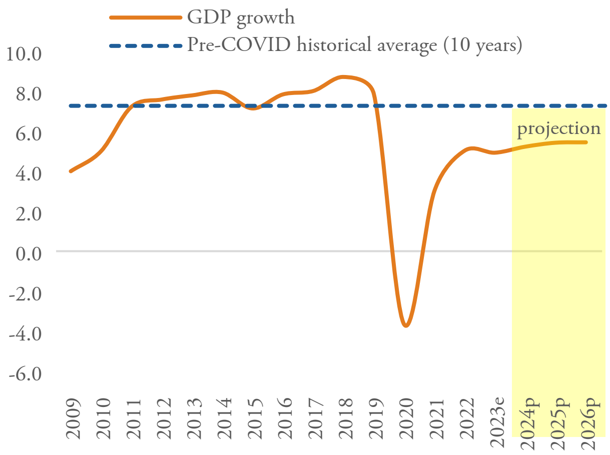
Second, Cambodia needs to address specific structural barriers and/or disincentives faced by its medium-sized, rural, and frontier firms. Cambodia's medium-sized firms and firms located in mountainous regions (and to a lesser extent in Tonle Sap) have lower labor productivity and appear to face a more challenging business environment. Moreover, Cambodia's frontier firms are lagging far behind their regional peers and operating significantly below the regional productivity frontier. Specific policy ideas include: greater government support for medium-sized firms to navigate business obstacles and build their capabilities; targeted infrastructure investment and government service extension programs in rural areas; and reforms that increase competition (especially in services and digital sectors) and incentivize frontier firms to invest in advanced technologies, skills development and global networks.

Third, Cambodia should incentivize greater and faster modernization and digitalization of its firms as well as a greater international orientation. Cambodian firms with more modern personnel practices (for example, a professional CEO, better management, provision of formal employee training programs) and that leverage technology (for example, have a website, use electronic payments) as well as firms that are export-oriented, typically have higher labor productivity. Specific policy ideas include: (i) incentivizing firms to upgrade their organizational, management, and workforce development practices as well as adopt productivity-enhancing technologies; and (ii) addressing infrastructure barriers to trade, reducing customs clearance times, and improving services to help firms access new markets.

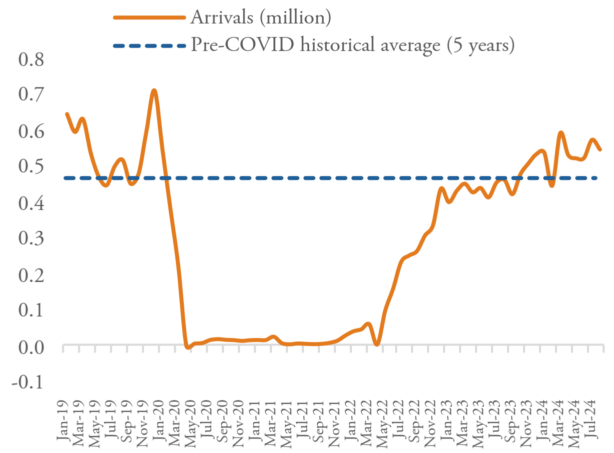
Fourth, Cambodia should prioritize and address the most pressing obstacles to doing business cited by its firms. The most pressing needs include (a) ensuring the benefits of firm registration outweigh the costs, especially for small firms, by reducing registration costs and enhancing the associated benefits; (b) improving transport and logistics infrastructure; (c) improving investment in skills and the uptake of modern financial instruments among more sophisticated firms; (d) streamlining the cumbersome and costly tax administration regime; (e) reducing corruption and informal payments (especially in tax administration) by investing in detection, increasing penalties and digitizing processes; (f) improving the efficiency and impartiality of court arbitration in commercial matters, including by establishing specialized commercial courts and increasing transparency and digitalization; and (g) improving the provision and efficiency of government services related to business authorizations, including by fully digitizing the business registration portal and introducing and implementing risk-based approaches to licensing.

Figure ES.1. **Cambodia's Recent Developments at a Glance**

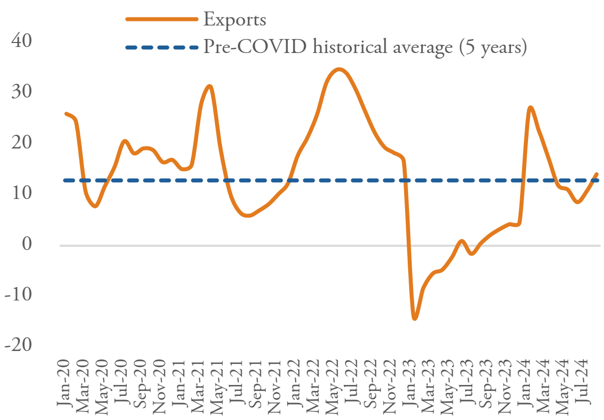
Economic activity continued to improve...
Real growth (percent)



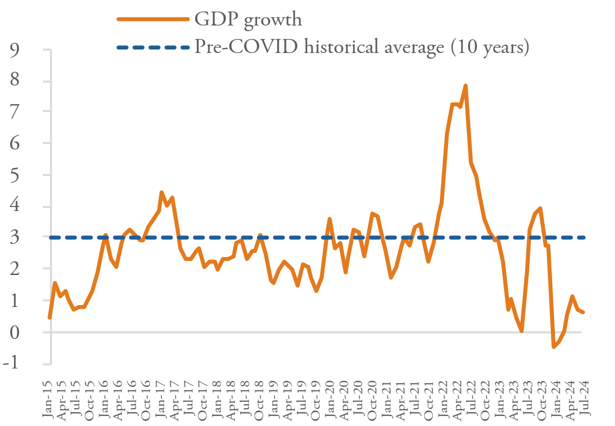
...Supported by rising services exports...
International arrivals (million)



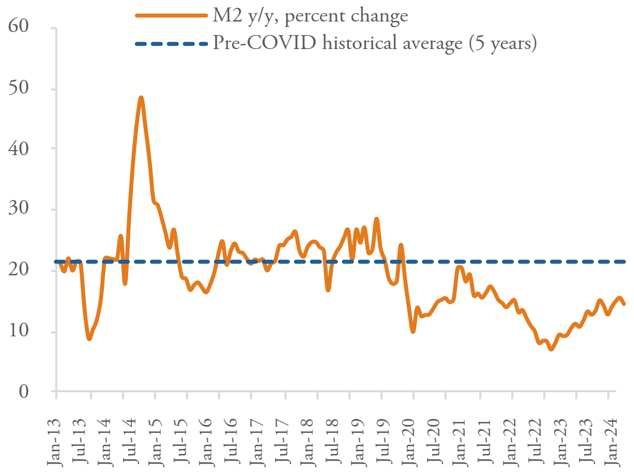
...And a revival of goods exports...
Goods exports (year-to-date, y/y percent change)



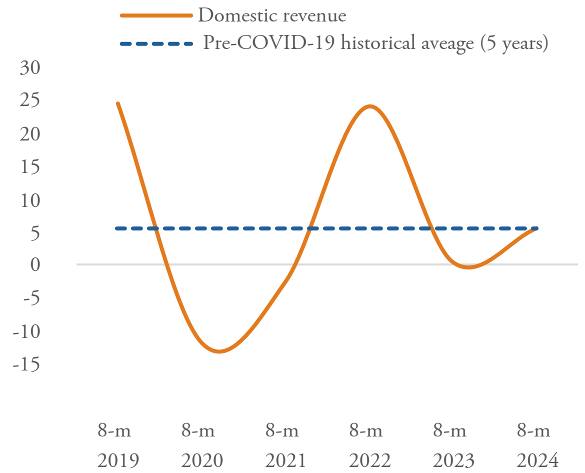
...Inflation declined to 0.8 percent over the 12 months ending September 2024, a 15-year low...
(y/y percent change)



...Broad money (M2) growth picked up...
Broad money liabilities (y/y percent change)



...while improving, domestic revenue remained slow
(y/y percent change)



Sources: Cambodian authorities; World Bank staff projections.
Note: e = estimate; p = projection; y/y = year-on-year.

PART 1.
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

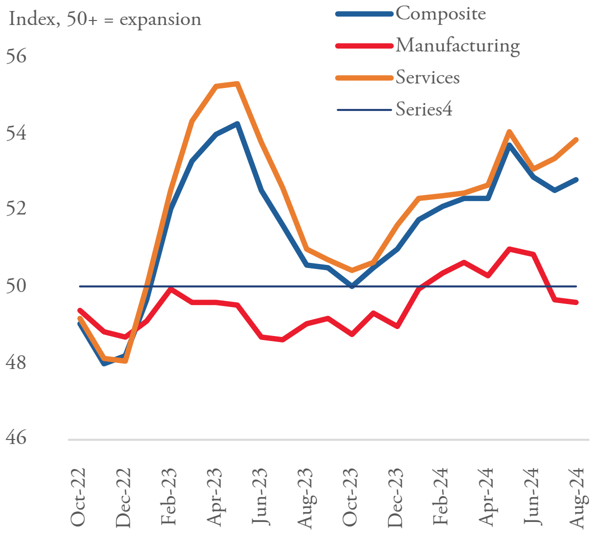
RECENT DEVELOPMENTS GLOBAL ECONOMIC ACTIVITY HAS PICKED UP

Global growth is holding steady after having slowed for three consecutive years. Inflation has been cut to a three-year low, and financial conditions have brightened. The world economy, in short, appears to be in a final approach toward a "soft landing."[2]

Global economic activity continues to stabilize following several years of overlapping shocks. In the first half of 2024, global growth was stable, at around 3 percent annualized, and leading indicators of activity point to further steady growth ahead. In September, the global composite Purchasing Managers' Index (PMI) remained in expansionary territory, at 52, albeit with continued divergence between services and manufacturing (figure 1). Although the services PMI remained buoyant, the manufacturing PMI was in contractionary territory for the third consecutive month. While generally picking up this year, global trade growth also remains uneven (figure 2). Emerging market and developing economy (EMDE) goods trade has been buoyant in recent months but, in contrast, except for the United States, trade has been anemic in advanced economies, in part reflecting weak activity in the euro area.

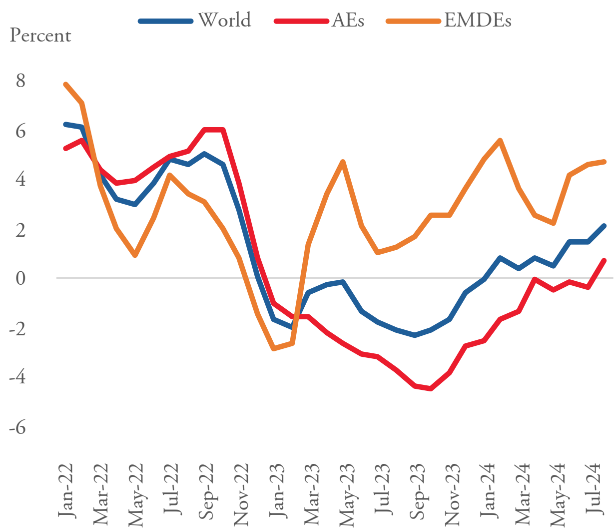
Yet, more than four years after the upheavals of the COVID-19 pandemic and subsequent global shocks, it's clear the world—and developing economies, in particular—has yet to rediscover a reliable path to prosperity. Trade policy uncertainty has reached this century's highest level, if years involving major elections are considered. From 2013 through 2023, investment growth in developing economies more than halved, on average, from the pace of the 2000s. Global growth is stabilizing at a rate insufficient for progress on key development goals—2.7 percent a year on average through 2026—well below the 3.1 percent average in the decade before COVID-19. Against this backdrop, nearly half of developing economies will see their per capita income gap relative to advanced economies widen over the first half of the 2020s—the highest share since the 1990s.

Figure 1. **Global headline PMIs**



Sources: Haver; World Bank.
Note: Shows global composite, manufacturing and services PMIs. Readings above the line indicate expansion, and readings below show contraction.

Figure 2. **Global goods trade**



Source: CPB Netherland Bureau of Economic Policy Analysis.
Note: Figure shows y/y percent change in goods trade volumes. Trade in goods is measured as the average of export and import volumes. Last observation is August 2024.

2 World Bank 2024a.

Looking ahead, global growth is expected to remain tepid, at 2.7 percent in 2025 and 2026. This pace is similar to 2024 but almost half a percentage point below the pre-pandemic average, reflecting a variety of anticipated headwinds. These include the lagged effects of monetary tightening, resumed fiscal consolidation, and moderate consumption growth in the context of receding savings buffers. Globally, investment growth is also expected to remain subdued, constrained by elevated real interest rates and policy uncertainty amid heightened geopolitical tensions. Trade growth is expected to firm to 3.4 percent in 2025, in tandem with a pickup in growth in the euro area and many EMDEs, and to remain steady in 2026. Assuming no escalation of existing conflicts, commodity prices are expected to moderate, mainly reflecting improving supply conditions, but remain well above pre-pandemic levels.[3]

The economies of developing East Asia and Pacific (EAP), however, continue to outperform economies in the rest of the world. Regional growth is projected to be 4.8 percent in 2024, compared to an average growth of 3.3 percent in other EMDEs and 1.5 percent in advanced economies.[4] In EAP countries, private consumption and services exports helped sustain growth, but private investment and goods exports remained weak.

EAP growth is anticipated to slow to 4.4 percent in 2025. That is mostly because growth in China, the region's largest economy, is projected to decline from 4.8 percent this year to 4.3 percent in 2025. China's growth in 2024 was supported by the bounce back of services consumption and exports in the early part of the year. But growth is expected to slow in 2025 in the face of persistent property market weakness, low consumer and investor confidence, and the challenges of aging and global tensions. Recently signaled fiscal support may lift short-term growth, but longer-term growth will depend on deeper structural reforms. The rest of the EAP region is forecast to grow at 4.7 percent in 2024 and 4.9 percent in 2025. Growth in 2024 benefitted from increasing domestic consumption, recovering goods exports, and a tourism rebound. Growth in 2025 is expected to be sustained by continued export recovery and more benign financial conditions.

For over three decades, China has led growth in the region, but in 2025, the rest of the region is likely to grow faster. New empirical analysis reveals that, in the past, growth in other EAP economies benefitted more on average from China's increasing demand for imports than it was hurt by China's increasing competition in export markets. Despite China's slower growth, developing countries still received a positive boost, estimated to be between 0.5 and 1 percentage points, because of the increased similarity of their exports to China's import demand patterns.

Risks to the global outlook remain tilted to the downside amid heightened uncertainty. Worsening conflict, notably in the Middle East, or escalating geopolitical tensions, could have adverse impacts on global growth through commodity markets, trade, and financial linkages. Against the backdrop of increasing trade protectionist measures and inward-looking industrial policies, further trade fragmentation carries the risk of additional disruptions to trade networks, supply chains, and economic activity. Stubbornly elevated core inflation could forestall anticipated monetary easing, tightening financial conditions, including in EMDEs, and dampen global growth. Weaker-than-expected growth in China could have negative global spillovers through commodity markets and trade channels, while more frequent climate-change-related natural disasters pose risks to both near- and long-term growth. On the upside, U.S. growth could be stronger than expected, in part on account of continued strong labor supply dynamics, underpinned by rising labor force participation and absorption of working-age migrants.

In contrast, slower growth in China could have a negative impact on Cambodia's economy. China is one of Cambodia's major trading partners, especially for imports of intermediate goods used in the production of garments, travel goods, and footwear products for export. Furthermore, China is a key source of FDI and tourism revenue for Cambodia. Chinese FDI continues to account for about half of FDI inflows, and before the pandemic, Chinese tourists comprised a third of total international tourist arrivals to Cambodia.

3 World Bank 2024c.

4 World Bank 2024b.

AMID EXTERNAL TAILWINDS, CAMBODIA'S ECONOMY IMPROVED MARGINALLY

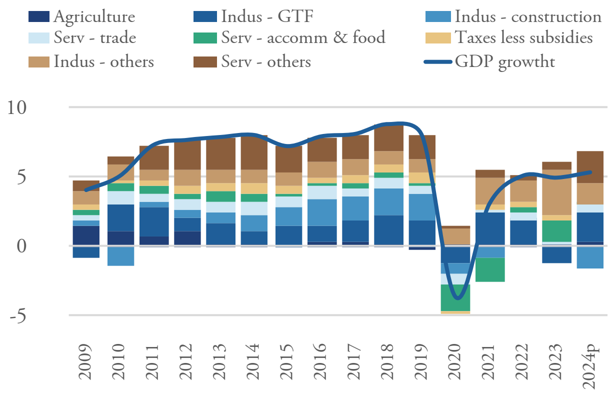
Economic activity in Cambodia has shown marginal improvements. The improvements are largely driven by a revival in services and goods exports. As depicted in figure 3, overall improvements in the services sector, especially the tourism sector, along with the expansion of the garment, travel goods, and footwear manufacturing sector, continued to drive this year's economic improvements. International tourist arrivals continued to rise, expanding by 23.4 percent y/y, and reached 4.3 million tourists during the first eight months of 2024. The arrival number has already reached pre-COVID-19 levels (figure 4).

Due to a change in the composition of arrivals, tourist spending has lagged despite a quick recovery in the number of arrivals. In 2023, Cambodia's tourism receipts were estimated by the Cambodian authorities to have reached only 62.9 percent of the amount collected in 2019. While the average length of stay for tourists increased to 7.6 days in 2023, compared to 6.2 days in 2019, the estimated total tourism receipts declined to US$3.08 billion, down from US$4.9 billion, due to a decrease in the average expenditure per tourist. During the pre-pandemic period, air arrivals, which tend to be associated with relatively higher tourist expenditure, accounted for two-thirds of total arrivals, while land arrivals accounted for one-third. The opposite was true in the post-COVID-19 period. During the first eight months of 2024, international arrivals by land accounted for 2.8 million, while air arrivals accounted for the remaining 1.5 million. Using revenue collection from Angkor temple entrance fees as a proxy for tourist spending also indicates a slow recovery of tourism receipts. During the first eight months of 2024, revenue collection from Angkor temple entrance fees stood at only 43.6 percent of the 2019 level, although it grew by 31.4 percent year-on-year, reaching US$30.3 million during this period.[5]

In addition, the share of Chinese tourists, who were the largest group of visitors during the pre-pandemic period, amounting to almost 40 percent of total arrivals, has decreased to 12.0 percent, now ranking third after Thai and Vietnamese visitors. Thai tourists now comprise 30.7 percent of total arrivals, up from 5.6 percent in 2019, while Vietnamese tourists account for 20.2 percent, up from 10.0 percent in 2019.

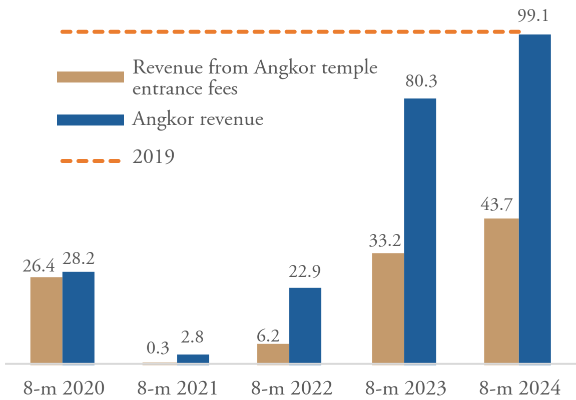
The recovery of international tourist arrivals in Cambodia is broadly comparable to that of its neighboring countries. During the first eight months of 2024, arrivals to Cambodia, Vietnam, and Thailand grew y/y by 25.6 percent, 26.2 percent, and 31.9 percent, respectively. However, Cambodia has been less successful in attracting Chinese tourists. As

Figure 3. Economic activity marginally improved
Contribution to real GDP growth (percent)



Sources: Cambodian authorities and World Bank staff projections.
Note: GTF: garment, travel goods and footwear; p = projections.

Figure 4. Eight-month arrival and tourism receipts
(percent, 2019 = 100)



Source: Cambodian authorities.
Note: m = month.

5 Angkor Enterprise 2024.

a share of the total arrivals during the same period in 2019, arrivals from China to Cambodia, Vietnam, and Thailand accounted for 31.6 percent, 72.5 percent, and 67.8 percent, respectively.

FOREIGN TOURISTS VISITING SIEM REAP REMAINED WELL BELOW 2019 LEVELS

The change in tourist composition has significantly affected arrivals to Siem Reap, the largest tourist attraction site in Cambodia. During the first eight months of 2024, total international tourist arrivals to Siem Reap were significantly lower than in 2019, reaching only 23.2 percent of the 2019 level. International arrivals to Siem Reap reached 0.4 million, accounting for 9.0 percent of the total during the first eight months of 2024, compared to 1.67 million or 38.5 percent of the total during the same period in 2019.

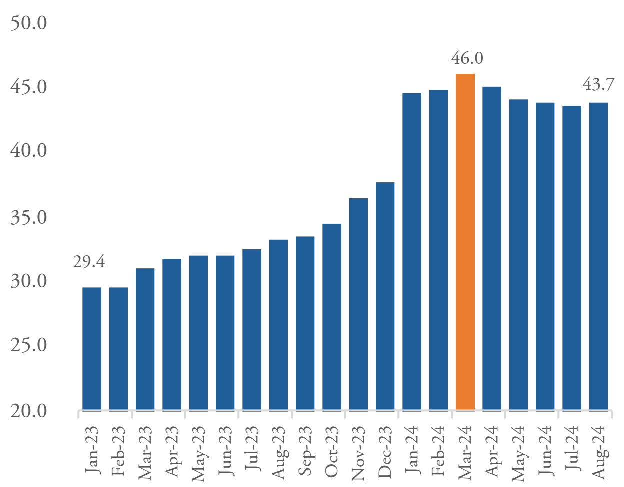
As a share of the 2019 level, monthly revenue from Angkor temple entrance fees rose from 29.4 percent in January 2023, peaked at 46.0 percent in March 2023, and then declined to 43.7 percent in August 2024 (figure 5). The deceleration in tourism receipts reflects a structural issue—a shift in the composition of tourists—rather than a cyclical one, necessitating reforms in the tourism sector to further boost revenue.

GOODS EXPORTS ACCELERATED

Driven by stronger external demand, Cambodia's merchandise exports expanded significantly. During the first eight months of 2024, goods exports (including gold) rose by 13.9 percent y/y, reaching US$17.8 billion. This year's acceleration in goods exports has been largely boosted by a revival in the exports of garment, travel goods, and footwear products (figure 6). Among non-GTF products, agricultural commodities and wood production exports continued to be resilient. However, exports of electronics and electrical parts, bicycles, and solar panels eased. The revival of garment product exports has also been reflected in the recovery of main intermediate goods imports, used for manufacturing GTF products, especially fabric. Fabric imports grew by 24.9 percent y/y during the first eight months of 2024, up from a negative 16.9 percent during the same period in 2023.

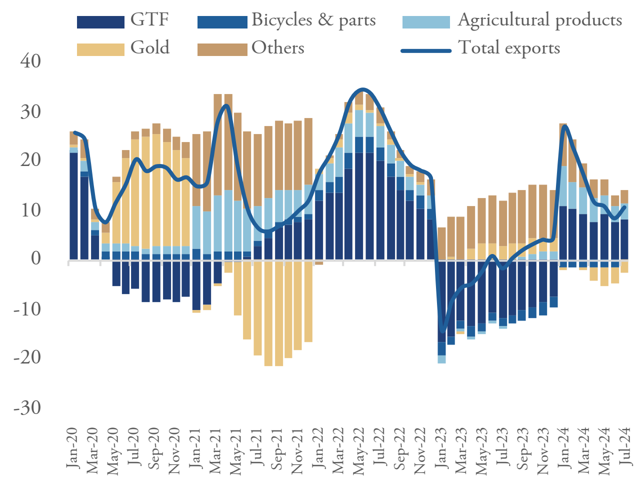
Cambodia has experienced improvements in goods exports to all major markets. Of the 13.9 percent goods exports increase, the U.S. and EU, which are the largest and third-largest markets and primarily import finished GTF products, contributed 4.1 percentage points and 2.7 percentage points, respectively. The ASEAN market, which is the second-largest market and mainly imports agricultural commodities, electrical components, and electronic parts, contributed 2.0 percentage points

Figure 5. **Revenue from Angkor temple**
(% share of 2019 collection, YTD)



Source: Cambodian authorities.
Note: YTD = year-to-date.

Figure 6. **Contribution to export growth by product**
(YTD, percentage point)



Source: Cambodian authorities.
Note: GTF=garment, travel goods and footwear; YTD = year-to-date.ư

of the increase. The Chinese market, which is the fourth-largest and mostly imports dressed furskins, GTF products, agricultural products, and electrical and vehicle parts, contributed 1.3 percentage points of the increase. The Japanese market, which is the fifth largest, contributed 1.0 percentage point.

During the first eight months of 2024, goods exports to the U.S., ASEAN, the EU, China, and Japan reached US$6.7 billion (37.8 percent of total goods exports), US$3.4 billion (19.2 percent), US$2.9 billion (16.3 percent), US$1.1 billion (6.4 percent), and US$0.9 billion (5.2 percent), respectively.

MANUFACTURING JOBS INCREASED, THANKS TO THE EXPANSION OF GTF EXPORTS

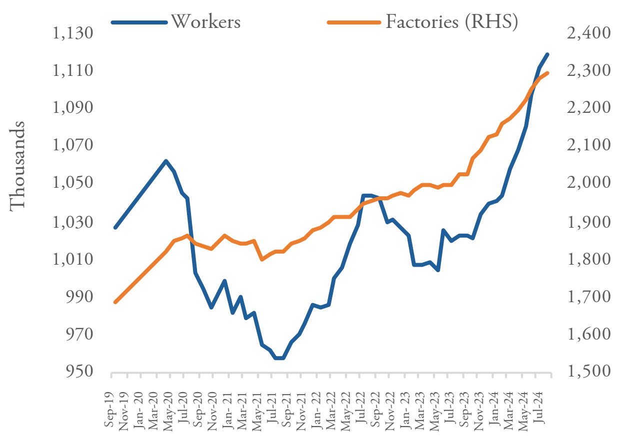
The expansion of goods exports has led to rising employment in the manufacturing sector. After some easing in labor market conditions during the first half of 2023, manufacturing jobs began to recover. The manufacturing sector added 97,229 new jobs, reaching 1.12 million (19.4 percent of nonfarm employment or 12.5 percent of total employment)[6] in August 2024, marking a 9.5 percent year-over-year increase as goods exports accelerated (figure 7). During the first eight months of 2024, employment gains were recorded in most manufacturing industries where workers receive the minimum wage. The minimum wage continues to gradually increase, rising to US$204 per month in 2024, up from US$182 per month in 2019. This increase should support private consumption.

In addition, there have been some gains in labor productivity of Cambodia's garment manufacturing industry before and after the pandemic. While jobs in the industry declined by 28.9 percent, decreasing to 0.64 million in August 2024, down from 0.90 million during the same period in 2019, the value of garment exports rose by 14.8 percent, increasing to US$6.4 billion, up from US$5.6 billion during the same period.

INVESTOR APPETITE STRENGTHENED

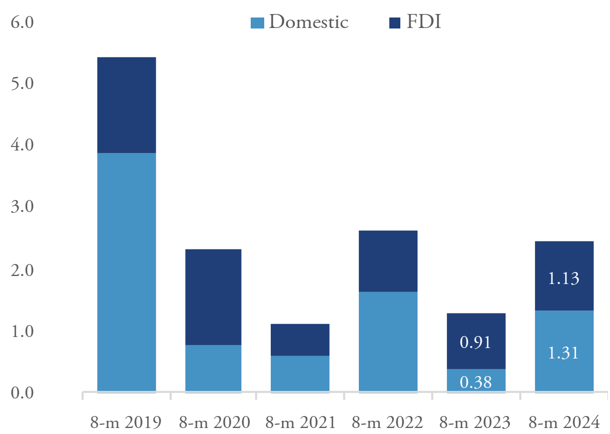
As economic activity improved, the appetite for investment in the real sector increased, indicating heightened investor confidence in the economy. The approved project value classified under the Qualified Investment Project (QIP) scheme rose to US$2.44 billion, an 89.4 percent increase during the first eight months of 2024, up from US$1.28 billion during the same period in 2023. Of this, the approved FDI projects reached US$1.13 billion, a 24.3 percent year-over-year increase, while the approved domestic investment value reached US$1.31 billion (figure 8), a 244.4 percent increase.

Figure 7. **Manufacturing sector jobs and factories**



Source: Cambodian authorities.
Note: RHS = right-hand scale.

Figure 8. **Approved QIP project value**
(US$ billion, fixed asset)



Source: Cambodian authorities.
Note: QIP = Qualified Investment Project.

6 Ministry of Planning 2021.

However, the approved investment project value remained well below the peak of US$5.4 billion recorded during the same period in 2019, when the approved domestic and FDI-financed project values accounted for US$3.8 billion and US$1.5 billion, respectively. While improving, domestic investor appetite to invest in the real sector remained relatively weak in 2024. The domestic investment project value accounted for 53.8 percent of the total approved project value in 2024, down from 71.5 percent in 2019.

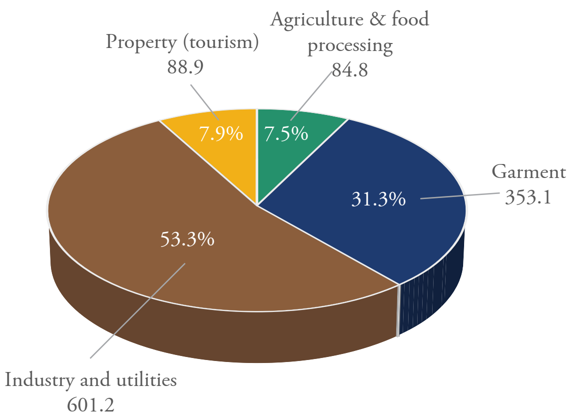
Of the total US$2.44 billion, the garment industry received US$360 million, accounting for 14.7 percent of the total, partly reflecting the relocation of supply chains from Bangladesh. The agricultural and agro-processing sector received US$121 million, or 5.0 percent of the total, as export demand for processed agricultural products increases. The non-garment manufacturing sector accounted for US$1.37 billion, or 56.2 percent of the total, consisting of several large investment projects, which include two energy projects—a hydropower plant valued at US$441.5 million, and a solar energy project valued at US$65.5 million, reflecting continued demand for investing in the energy sector, as electricity costs in the country remain relatively high. In addition, there are steel processing and steel pipe manufacturing projects totaling US$42.0 million. The property sector received the remaining US$0.57 billion, or 24.1 percent of the total.

DOWNBEAT DOMESTIC INVESTOR APPETITE TO INVEST IN THE TRADABLE SECTOR

FDI-financed components accounted for 98.1 percent and 70.1 percent of the investment in the garment and the agricultural and agro-processing sectors, respectively. This indicates that, similar to the period before the pandemic, there is little interest from Cambodian domestic investors in investing in the main export sector and the key primary agriculture sector. This lack of interest is likely due to the challenges in the ease of doing business (see also the monetary section, below).

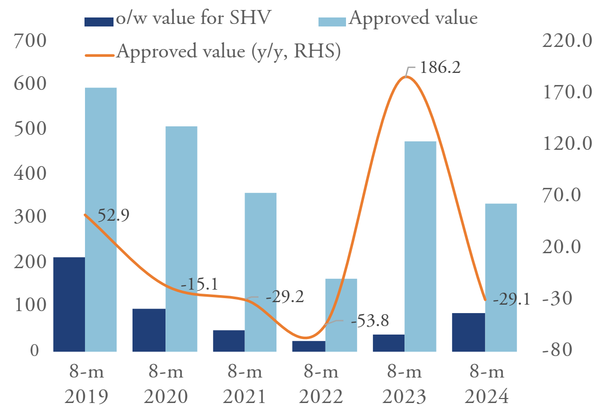
Of the US$1.5 billion approved FDI-financed project value recorded during the first eight months of 2024, the non-garment industries and utilities received US$601.2 million (53.3 percent of the total) (figure 9). The garment manufacturing industry received US$353.1 million (31.3 percent), the tourism industry received US$88.9 million (7.9 percent), and agriculture and food processing received US$84.8 million (7.5 percent). Chinese-financed projects continued to account for the majority of the total approved FDI-financed project value. During the first eight months of 2024, the value of Chinese-financed projects as a share of the total approved FDI project value remained as high as 86.3 percent,

Figure 9. **Approved FDI-financed project by sector**
(US$ million, 8 months of 2024)



Source: Cambodian authorities.

Figure 10. **Approved property project permits**
(US$ million)



Source: Cambodian authorities.
Note: RHS = right-hand scale; SHV = Sihanoukville province.

amounting to US$974 million. This is a substantial increase over the average of 40.0 percent during the five years preceding the pandemic, indicating increased dependency on Chinese FDI. Some studies have pointed out that Chinese investors tend to be generally less risk-averse,[7] which may be one of the reasons for Cambodia to continue attracting Chinese FDI. In addition, understanding Chinese FDI requires analyzing China's strategic priorities. Improved corruption control in the destination country boosts investment flows more from cleaner countries than from more corrupt ones.[8]

THE DOWNTURN IN THE PROPERTY SECTOR CONTINUED

Overinvestment in the property sector has led to ongoing corrections in the housing market. This has resulted in a downward trend in the approved permit value for real estate development projects. During the first eight months of 2024, the approved property development project value reached US$3.3 billion, marking a 29.1 percent y/y decline (figure 10), driven by a decline in investment in residential property. The number of approved square meters of property development permits has decreased significantly, reaching 8.0 million square meters, which is a 30.1 percent y/y decline. Regardless of the overall decline in property development permits, the approved industrial building area is trending upward and now accounts for the largest share. Specifically, the approved industrial building area rose to 3.0 million square meters, or a 7.1 percent y/y increase during the first eight months of 2024, representing 37.5 percent of the total approved area.

Despite the overall downbeat investment, there has been a notable interest in investing in Sihanoukville, a seaside town that experienced a rapid construction boom during the pre-pandemic period. Of the total approved permit value, approved property development permits for projects in Sihanoukville accounted for US$875.5 million, marking a 132.4 percent y/y increase. In January 2024, the Cambodian authorities introduced a "Special Program to Promote Investment in Preah Sihanouk Province 2024." The program applies to (i) project-related buildings that are stalled; (ii) new projects; and (iii) expansion of existing investment projects, responding to the Royal Government's strategies and policies, in particular, the implementation of the masterplan to transform Preah Sihanouk Province into a multipurpose model special economic zone. The program provides exemption from income taxes, the VAT, withholding taxes, and property taxes, among others.[9] Owing to the program, there has been a significant renewed interest in the area. See further discussion on the property sector in box 1.

STEEL IMPORTS ROSE RAPIDLY, BOOSTED BY INVESTMENT IN PHYSICAL INFRASTRUCTURE

Although privately financed real estate and property construction activities remain subdued, investments under public-private partnerships in large physical infrastructure projects such as roads, bridges, and ports, including a US$1.7 billion canal, have boosted construction services. This shift toward infrastructure projects indicates a strategic focus on enhancing connectivity and supporting economic activities through improved infrastructure. As a result, the performance of basic construction material imports improved after experiencing a steep decline during the past few years since the pandemic hit.

During the first eight months of 2024, imports of steel used for all types of construction industries surged, growing by 31.9 percent y/y in value terms and 58.6 percent y/y in volume terms. Imports of construction equipment also saw a rapid increase, growing by 20.1 percent y/y in value terms. Meanwhile, imports of cement contracted by 15.4 percent in value terms and 14.5 percent in volume terms, likely due to rising domestic production. Investments under public-private partnerships and private investments in commercial property and physical infrastructure, such as factories, offices, roads, bridges, logistics, and port infrastructure,

7 "What determines Chinese outward FDI?"; https://www.sciencedirect.com/science/article/pii/S109095161000074X.

8 "Does corruption matter for sources of foreign direct investment?," European Bank for Reconstruction and Development; https://www.ebrd.com/documents/oce/does-corruption-matter-for-sources-of-foreign-direct-investment.pdf.

9 Special Investment Promotion Program in Sihanouk Province; 2024https://pressocm.gov.kh/en/archives/90596.

continue. This is indicated by an increase in industrial building permits and approved FDI-financed non-garment QIP projects.

AGRICULTURAL EXPORTS SLOWED

Cambodia has shown significant growth in its agricultural commodity exports, particularly in cassava, cashew nuts, rubber, and rice. During the first eight months of 2024, cassava exports grew by 14.1 percent to US$557.0 million. Cashew nut exports increased by 32.6 percent to US$491.6 million. Rubber exports expanded by 50.0 percent to US$348.9 million. Rice exports rose by 9 percent to US$303.8 million. Combined, these four main commodities accounted for US$1.9 billion in exports, reflecting a growth rate of 21.2 percent. Cashew nut exports have particularly surged, growing at an average annual rate of 40.9 percent over the last three years, making it the second-largest agricultural export after cassava.

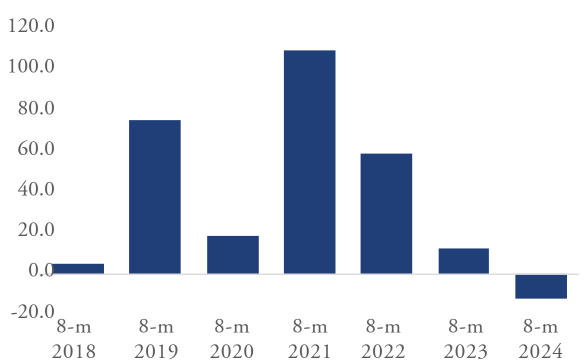
Initially, Cambodia's agricultural exports were predominantly rice and rubber. However, over the past decade, the country has diversified its agricultural exports to include cassava and, more recently, cashew nuts. This diversification and growth in agricultural exports are supported by various factors, including stable prices for paddy and other crops and improved trade relations. In addition, the Cambodia-China Free Trade Agreement (CCFTA) has facilitated greater access to the Chinese market, further boosting agricultural exports. However, the country's exports of wood products, furniture, and other agricultural products eased, declining by 56.7 percent. Consequently, total exports of agricultural commodities, wood products, furniture, and other agricultural exports declined by 11.9 percent y/y during the first eight months of 2024 (figure 11).

According to the Ministry of Agriculture, Forestry and Fisheries' monthly report, the wet season rice planting area reached 2.89 million hectares, representing a 4.7 percent y/y increase during the first nine months of 2024. However, the harvesting of the short-duration wet season rice crop amounted to only 2.3 million metric tons, marking a 5.7 percent y/y decline.

PRIVATE CONSUMPTION HAS IMPROVED

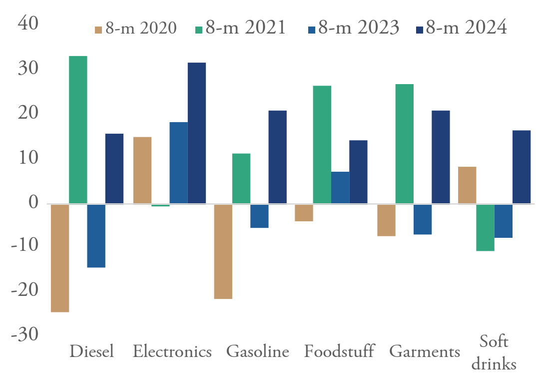
Private consumption, which significantly eased in 2023 when one-off, pent-up domestic demand ran out of steam, partly recovered in 2024, driven by several factors. Manufacturing exports started to recover in the fourth quarter of 2023, adding jobs and earnings. The manufacturing sector, which contributes 19.4 percent of nonfarm employment, created a net of 97,229 new jobs, or a 9.5 percent y/y increase during the first eight months of 2024. This has supported consumer spending. Thanks to the central bank's monetary policy accommodation, market liquidity improved despite elevated interest rates (see discussion under the monetary section, below). Services exports, especially tourism receipts, expanded as international arrivals picked up. Workers' remittances also rose.

Figure 11. Agricultural commodity exports
(y/y percent change)



Source: Cambodian authorities.
Note: m = month.

Figure 12. Imports of consumer goods improved
(y/y percent change)



Source: Cambodian authorities.
Note: y/y = year-on-year.

Box 1. Navigating the risks of the downturn in the property market

During 2011–19, Cambodia experienced robust GDP growth, averaging approximately 8.0 percent per year. Alongside the garment, agriculture, and tourism sectors, the construction and real estate sectors emerged as significant contributors to economic expansion. The contribution of the construction and real estate sectors to GDP growth increased from 0.5 percentage points in 2011 to 2.5 percentage points, accounting for 30 percent of real growth during 2016–19. This reflects Cambodia's urbanization process and broader structural transformation. This has created a heavy dependency on—almost an addiction to—the property sector for economic growth.

However, the growth momentum in construction and real estate was severely disrupted by the onset of the COVID-19 pandemic. In 2020, these sectors registered a negative contribution to real growth of 1.2 percentage points for the first time since 2010. This decline was triggered by a global economic downturn, which exacerbated the lingering effects of the pandemic to this day.

In 2023, the appetite to invest in the construction and real estate sectors showed some signs of recovery, with a rise in the value of approved construction permits. However, this recovery was short-lived. By the first half of 2024, investment appetite faltered, and the value of approved construction permits decreased by 20 percent. This decrease was most evident in the housing sector, with the commercial sector following suit. The condo market in Phnom Penh saw an addition of 2,400 units, with projections of 14,000 new units by year's end. Meanwhile, the landed property market shifted its focus to extensions rather than new launches due to more cautious demand.

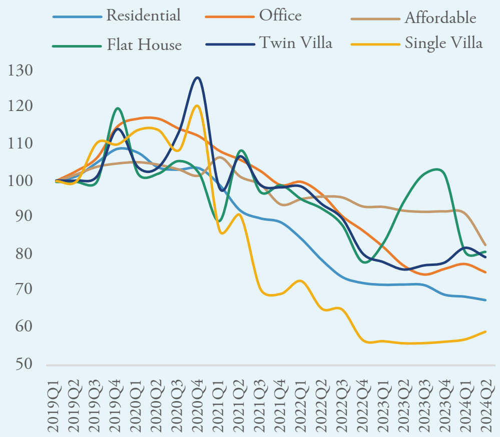
In parallel, demand indicators, especially in housing, signaled contraction. Mortgage lending slowed in the first half of 2024, indicating a reduced willingness to invest amid a restrained economic climate. Price trends further illustrate the softer demand. Global real estate consultancy Knight Frank reported significant land price declines, with average prices for prime residential and office sites down 34.5 percent and 35.7 percent, respectively, from Q2 2020 levels (figure B.1.1). Other critical segments of the property sector, such as condominium, office, and retail rentals, saw continued price declines, according to CBRE, a global leader in commercial real estate services and investments.

There appears to be a strong correlation between the value of fixed-asset investment in the property sector in China and Chinese FDI inflows into Cambodia during 2013–20 (figure B.1.2). This indicates that Chinese investors' strong investment appetite at home contributed to rising Chinese FDI inflows to Cambodia, financing mainly the construction and real estate sectors. During this period, Chinese investments notably transformed Cambodia's construction, accommodation, and real estate markets, particularly in Sihanoukville and Phnom Penh. While this influx spurred a construction boom, it has also raised concerns about overdependence on foreign capital and socioeconomic imbalances.

During 2021–23, however, the correlation weakened. While the value of fixed-asset investment in the property sector in China plummeted, Chinese FDI inflows into Cambodia accelerated. This indicates that Chinese FDI inflows into Cambodia have been diversified, shifting away from the construction and real estate sectors to the garment and non-garment sectors, as indicated in the approved FDI-financed investment projects under the QIP scheme.

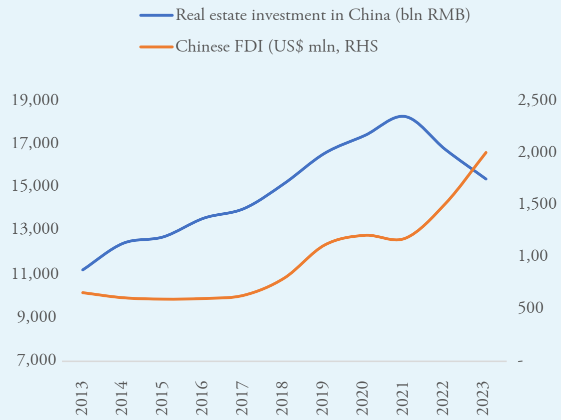
Cambodia is at risk of a property bubble. The decline in real estate prices, along with the slowdown in lending to the property sector and the value of approved construction permits, signals potential instability in the housing market. To navigate this crisis, stricter lending regulations are needed to curb excessive borrowing and promote sustainable development practices that align supply with genuine demand. Enhancing transparency in property transactions will build investor confidence and ensure informed decision-making, ultimately fostering a more resilient real estate market.

Figure B.1.1. Real estate price indexes
(Base = 2019 Q1)



Source: CBRE.

Figure B.1.2. Property investment in China and Chinese FDI inflows into Cambodia



Sources: Cambodian authorities; China's National Bureau of Statistics.

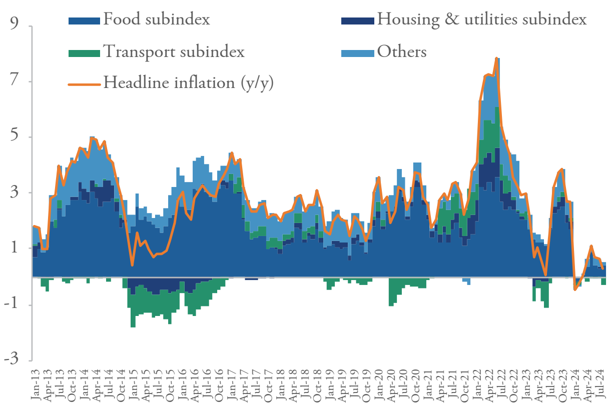
Domestic consumption accounts for about two-thirds of GDP. Its partial recovery has started to support retail and wholesale activities, as reflected in improved consumer goods imports. During the first eight months of 2024, top ticket items of imported nondurable consumer goods expanded significantly. Imports of diesel, electronics, gasoline, foodstuff, garments, and soft drinks rose by 16.1 percent, 31.9 percent, 21.1 percent, 14.4 percent, 21.2 percent, and 16.6 percent, respectively (figure 12). Similarly, during the first eight months of 2024, imports of durable consumer goods, which include motorcycles, passenger cars, trucks, buses, tractors, and other vehicles, increased by 18.0 percent y/y. Improvements in private consumption have already led to an increase in taxes on goods and services and taxes on international trade (see the discussion on revenue collection in the fiscal sector, below).

However, challenges in sustaining domestic demand remain. The initial revival of domestic demand helped boost goods imports but is not likely to be sustained due to the marked slowdown of domestic credit growth. Boosting household income and wage growth faces challenges. Despite a decent expansion of manufacturing jobs, households still face slow wage growth, with only a 2 percent increase in the minimum wage of the manufacturing export sector. Slack growth in the labor market, caused largely by stalled construction activity, continues to be a concern. An in-depth analysis cannot be conducted due to the nonavailability of actual data on personal consumption expenditure on durable and nondurable goods and services, especially retail sales data, to gauge consumer demand for finished goods.

INFLATION REMAINED SUBDUED

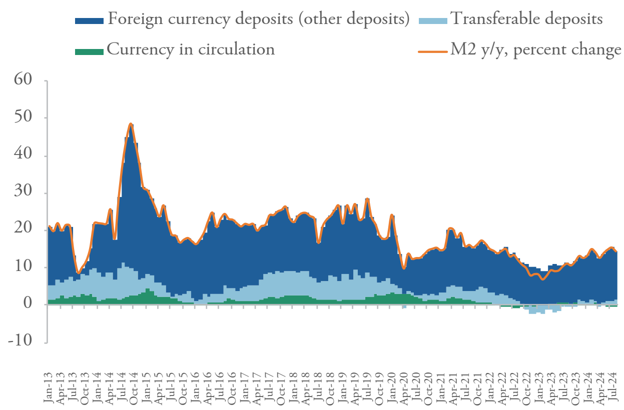
Despite some improvements in domestic demand, Cambodia's Consumer Price Index (CPI) remained subdued, declining to 0.3 percent y/y in August 2024, down from 3.2 percent during the same period in 2023 (figure 13). Inflation has started to decline after peaking at 7.8 percent in June 2022, a 13-year high, triggered largely by global food and oil price shocks. Despite elevated rice prices, average prices of meat and fish declined, and average prices of fruits and vegetables decelerated, leading to a deceleration of the food component (subindex). This helped subdue Cambodia's inflation, given that the food subindex captures a 43 percent weight in the inflation basket. In addition, prices of petroleum products and housing and utilities have also started to edge down. Domestic prices were in line with global prices. Global energy prices contracted by 3.2 percent in August, with crude oil leading the decrease (-6.2 percent), according to the World Bank's Pink Sheet.[10] Non-energy prices eased by 1.9 percent. Agricultural prices declined by 1.4 percent in August. Food prices fell by 2.3 percent, driven by oils and meals (-5.1 percent).

Figure 13. **Inflation dipped Contribution to 12-month inflation**
(percentage points)



Source: Cambodian authorities.

Figure 14. **Broad money growth recovered Contribution to broad money growth**
(percentage points)



Source: Cambodian authorities.

10 The World Bank's Pink Sheet provides commodity price data.

AMID A RECOVERY OF IMPORT GROWTH, A CURRENT ACCOUNT DEFICIT REEMERGED

During the first eight months of 2024, continued strong capital inflows, especially FDI, have helped ease pressures on the exchange rate and boosted gross international reserves, which rose to US$20.7 billion, an 11.3 percent y/y increase, covering about seven months of prospective imports.

Despite the continuation of strong remittances, which amounted to 6.0 percent of GDP, second only to the Philippines (9.0 percent of GDP) in ASEAN and the partial recovery of tourism receipts, the current account balance is projected to show a small deficit of approximately 1.0 percent of GDP in 2024, in contrast to a surplus of 1.3 percent in 2023. This deficit continues to be financed by sustained capital inflows (see more discussion on concessional financing and debt disbursement in the fiscal section, below).

THE RIEL MARGINALLY APPRECIATED AGAINST THE DOLLAR

Improvements in the current account balance contributed to easing pressures on the riel. As a result, the riel-U.S. dollar exchange rate appreciated in August 2024, reaching 4,091 riel per U.S. dollar, up from 4,140 riel per U.S. dollar during the same period in 2023.

The riel, however, has started to depreciate against the baht and the yuan, reaching 119 riel per baht and 571 riel per yuan in August 2024, down from 118 riel per baht and 570 riel per yuan during the same period in 2023. Conversely, the riel appreciated against the dong, reaching 0.163 riel per dong, up from 0.172 riel per dong during the same period. The central bank, the National Bank of Cambodia, targets the riel exchange rate at 4,000 riel per U.S. dollar. The exchange rate policy is an essential element of the central bank's monetary policy, with the objective of achieving price stability. Given that the economy is highly dollarized, targeting exchange rate stability helps maintain the purchasing power of those who earn income in riel.

MONEY SUPPLY CONTINUED TO INCREASE

Indicating a further improvement in capital inflows, the expansion of broad money continued. Broad money grew at 14.3 percent over the 12 months ending in August 2024, up from 11.0 percent during the same period in 2023, owing to improved foreign currency deposits (figure 14).

Given that the economy is highly dollarized, foreign currency deposits contribute the most to broad money growth. Of the 14.3 percent broad money growth, the contributions of foreign currency deposits (and other deposits) accounted for 13.0 percentage points, transferrable deposits for 1.5 percentage points, and currency in circulation for negative 0.2 percentage points in August 2024. This is up from 10.8 percentage points, negative 0.5 percentage points, and 0.8 percentage points, respectively, during the same period in 2023.

Although Cambodia's highly dollarized economy limits the ability of the country's central bank to influence the money aggregate, the decrease in the reserve requirement ratio—one of the few monetary policy instruments available to influence the money supply—introduced late last year, may partially support market liquidity.[11]

DOMESTIC INTEREST RATES EASED

Domestic U.S. dollar-denominated deposit rates started to decline in January 2024. As the demand for domestic credit eased amid the downturn in the property sector, domestic U.S. dollar-denominated deposit rates declined to 5.15 percent per year in August 2024, down from 5.71 percent during the same period in 2023 (figure 15). However, upward pressure on U.S. dollar-denominated loan interest rates remained. The U.S. dollar-denominated loan interest rate in Cambodia rose to 10.82 percent per year, up from 9.88 percent during the same period.

11 National Bank of Cambodia 2023.

Cambodia effectively "imports" U.S. monetary policy due to its highly dollarized economy. Rising funding costs have squeezed the profit margins for banks and microfinance institutions in Cambodia. The returns on assets for the banking and microfinance institution (MFI) sectors halved to 0.7 percent and 1.5 percent in 2023, respectively, down from 1.4 percent and 3.0 percent in 2022. Similarly, the returns on equity for the banking and MFI sectors declined to 3.8 percent and 6.0 percent in 2023, respectively, down from 7.0 percent and 13.6 percent in 2022. By mid-2024, nonperforming loan ratios in Cambodia rose to 6.8 percent for the banking sector and 8.3 percent for the microfinance sector, up from 5.4 percent and 6.7 percent in 2023, respectively.

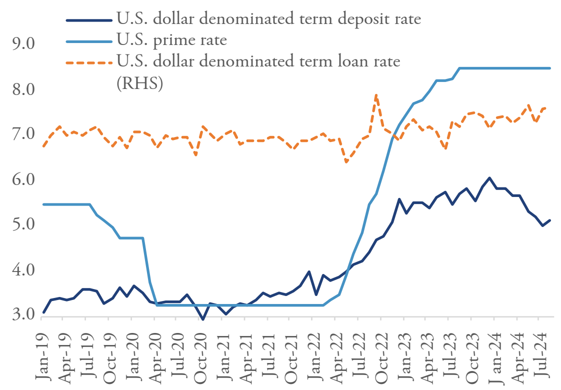
Upward pressures on domestic interest rates are starting to moderate as Cambodia's highly dollarized economy imports U.S. monetary policy, which has started to ease after the U.S. Federal Reserve (Fed) cut the Fed funds rate by 50 basis points and 25 basis points in September and November 2024, respectively.[12] The negative impact on economic activity caused by the monetary policy tightening cycle should start to ease.

CREDIT SHARPLY DECELERATED AS HOUSING DEVELOPMENT ACTIVITY STALLED

Domestic credit growth has experienced a significant slowdown since mid-2023, following an extended period of rapid expansion. While the tightening of credit conditions due to rising global interest rates may also play a role, weaker credit demand likely accounts for the bulk of the slowdown. First, the demand for domestic credit by the real estate and construction sector plummeted. Second, elevated interest rates and low consumer confidence may have contributed to the weak credit demand from households and firms (box 2). As a result, credit sharply decelerated to 3.4 percent y/y, a 14-year low in August 2024, down from 7.7 percent during the same period in 2023 (figure 16). The slowdown in credit growth led to a decline in the credit-to-GDP ratio, which shrank to 126.7 percent in August 2024, down from 133.3 percent during the same period in 2023.

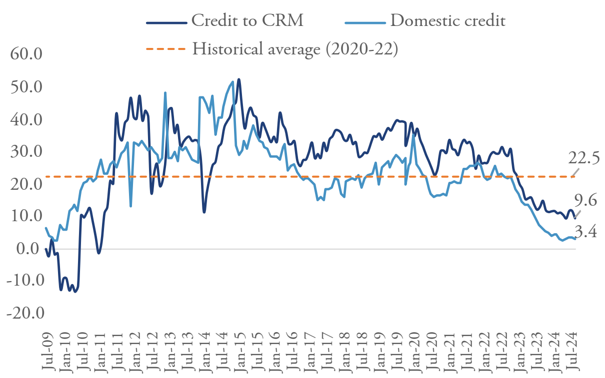
Private sector deposit growth accelerated to 15.8 percent year-on-year in August 2024, up from 11.1 percent during the same period in 2023, despite a decline in the U.S. dollar-denominated deposit interest rate to 5.15 percent per year in August 2024, down from 5.71 percent per year in August 2023. As discussed in the investment section, domestic investor appetite for investing in tradable sectors such as export, agriculture, and agroprocessing remains muted, reflecting ongoing challenges in the ease of doing business. As indicated in the 2024 Business-Ready report (see box 3), the most challenging issue is that Cambodia lacks quality public services to support businesses, especially in

Figure 15. **Interest rates remained elevated**
Domestic interest rates
(percent per year)



Sources: Cambodian authorities and U.S. Federal Reserve.
Note: RHS = right-hand scale.

Figure 16. **Domestic credit growth plummeted**
Credit growth
(y/y percent change)



Sources: Cambodian authorities.
Note: CRM = construction, real estate, and mortgage.

12 Federal Reserve issues FOMC statement, November 7, 2024; https://www.federalreserve.gov/newsevents/pressreleases/monetary20241107a.htm.

Box 2. Rising household debt

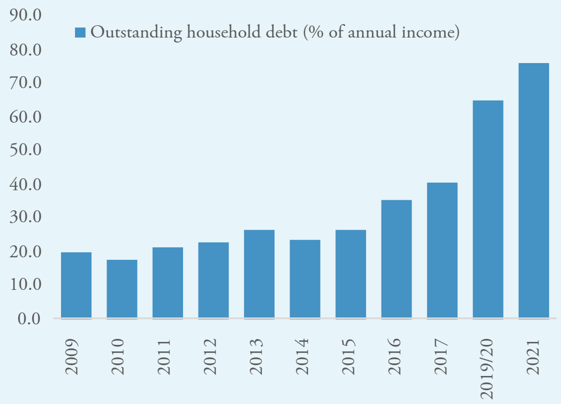
During 2009–21, Cambodia experienced rapid domestic credit growth, averaging 27.2 percent annually, which significantly fueled economic activity. However, since mid-2023, there has been a sharp slowdown in domestic credit growth, dropping to 3.8 percent by mid-2024. Despite this slowdown, the private credit-to-GDP ratio remains elevated at 126.8 percent. Approximately one-third of this credit is directed toward real estate, construction, and personal mortgages. The concentrated exposure to the real estate sector, which has been in a downturn since the pandemic, poses rising risks to financial stability. The nonperforming loan ratios rose to 6.8 percent for the banking sector and 8.3 percent for the microfinance sector by mid-2024, along with declining financial sector profitability.

On the flip side, household debt in Cambodia has been on the rise, as indicated by the Cambodia Socio-Economic Surveys (CSES). Average outstanding household debt per household grew rapidly, increasing at an annual rate of 23.2 percent to reach riel 21.3 million in 2021, up from riel 1.7 million in 2009, owing to improved access to finance and declining interest rates on loans. In 2009, the primary sources of loans were informal lenders such as relatives, friends, money lenders, and traders, with an average interest rate of 34.8 percent per year. By 2021, these sources were largely replaced by the formal financial sector, including banks and microfinance institutions, which offered an average interest rate of 18.0 percent per year. While household income also grew, it did so at a slower rate than household debt. The average household income increased at an annual rate of 10.0 percent, reaching 27.9 million riel in 2021, up from 8.8 million riel in 2009. Consequently, the outstanding debt-to-income ratio rose significantly to 76.4 percent, up from 19.7 percent in 2009 (figure B2.1).

In addition, there has been a significant shift in the use of household loans from productive to nonproductive purposes. Specifically, the CSES found that the share of loans used for productive activities, such as agricultural and nonagricultural activities, declined to 30 percent in 2021, down from a peak of 42.6 percent in 2012. Conversely, the share of loans used for household consumption purposes, including home purchases and improvements, consumer durables, household consumption needs, and healthcare, increased significantly. The increased borrowing for consumption rather than investment in productive activities could lead to higher levels of indebtedness without corresponding increases in income, thereby exacerbating financial vulnerabilities among indebted households.

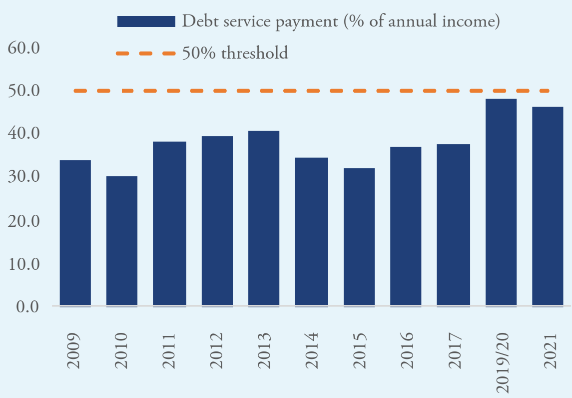
Despite the average loan maturity rising to 27 months in 2021, up from 8.7 months in 2009, debt service payments rapidly increased, growing at a rate of 13.0 percent per year. As a result, the debt service-to-income (DTI) ratio peaked at 48.4 percent in 2019/20, before marginally declining to 46.5 percent in 2021 (figure B2.2). The peak of 48.4 percent DTI is close to the 50 percent threshold,[a] which indicates that borrowers struggle to regularly meet all debt obligations as they may not have much money left to save, spend, or handle unforeseen expenses. In August 2024, the central bank introduced regulatory forbearance measures that allow for loan restructuring, similar to those implemented as part of the pandemic response. This initiative aims to provide relief to borrowers and maintain financial stability by allowing more flexible loan terms during the challenging time.

Figure B2.1. **Average outstanding household debt**
(% of income)



Source: Cambodia Socio-Economic Surveys.

Figure B2.2. **Debt service payment**
(% of income)



Source: Cambodia Socio-Economic Surveys.

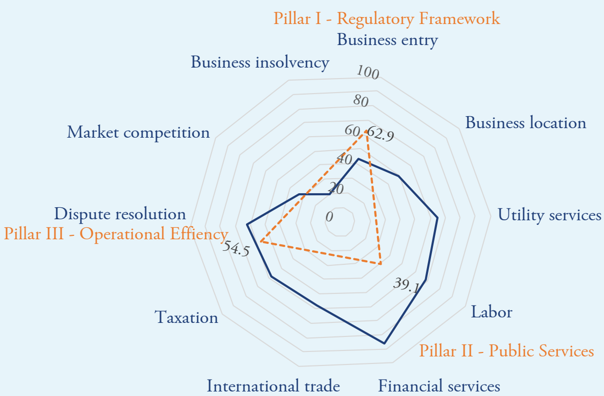
a. "What is a Good Debt-to-Income Ratio?"; https://www.wellsfargo.com/goals-credit/smarter-credit/credit-101/debt-to-income-ratio/understanding-dti/.

Box 3. 2024 Business-Ready report*

Despite efforts to improve the business environment, the 2023 Enterprise Survey and, more recently, the World Bank October 2024 Business Ready (B-READY) report, revealed significant challenges, with most scores falling into the fourth or bottom quintiles, as illustrated in figure B.3.1.

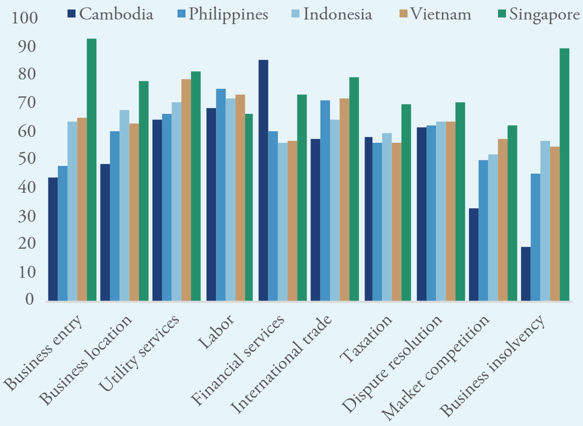
In terms of topic scoring, Cambodia scored 19.63 in Business Insolvency, placing it in the bottom quintile. For Market Competition, the score was 33.1, which falls into the fourth quintile. Business Entry scored 43.8, also in the fourth quintile, while Business Location scored 49.0, again in the fourth quintile. The only exception was Financial Services, where Cambodia scored 86.0, placing it in the top quintile. When compared to the other ASEAN members included in the report (Cambodia, the Philippines, Indonesia, Vietnam, and Singapore), Cambodia's performance was below its peers on most topics, except for financial services, as shown in figure B.3.2.

Figure B.3.1. Cambodia's performance, by topic and pillar
(percent)



Source: World Bank 2024d.

Figure B.3.2. Regional comparison
(percent)



Source: World Bank 2024d.

areas such as business insolvency, market competition, and business entry. Consequently, the private sector (households and firms) still finds the lower deposit interest rate attractive. Despite monetary policy easing and rising foreign currency deposits, sluggish credit growth persisted due to ongoing challenges in the ease of doing business.

Rising private sector deposits boosted the ratio of deposits to nominal GDP to 104.5 percent in August 2024, up from 97.2 percent during the same period in 2023. The slowdown in credit growth and the increase in deposit growth helped reduce the loan-to-deposit ratio to 120.6 percent in August 2024, down from 135.0 percent during the same period in 2023

DOMESTIC REVENUE COLLECTION REMAINED SLUGGISH

Recent data on Cambodia's revenue collection during the first eight months of 2024 indicate a marginal increase in central government domestic revenue collection, growing at 4.2 percent y/y, up from 0.4 percent during the same period in 2023 (figure 17). This improvement is consistent with the initial recovery of private consumption, as Cambodia's tax system heavily relies on consumption taxes (taxes on goods and services or indirect revenues). During the first eight months of 2024, consistent with the recovery of private consumption, taxes on goods and services grew by 3.7 percent y/y. With an expansion of goods imports, taxes on international trade grew by 6.4 percent.

Nontax (and other) revenue surged, growing at 43.7 percent y/y, owing to improved travel and tourism activity.

During the first eight months of 2024, direct revenue, however, shrank by 6.4 percent, owing to the decline in corporate income tax collection. Direct revenue, which includes profit and income taxes, remains relatively low, accounting for about one-third of total tax revenue. This is increasingly constrained by the country's generous tax incentives, and the absence of a personal income tax further limits direct revenue growth.

BUDGET CONSOLIDATION EFFORTS BEGAN TO CONTAIN EXPENDITURE

Budget consolidation efforts contained government outlays, led by lower spending on investment and the wage bill. During the first eight months of 2024, central government budgetary expenditure was contained, shrinking by 0.3 percent y/y, down from 12.7 percent in 2023 (figure 18). This was driven by a marked decline in capital expenditure, which contracted by 30.0 percent y/y. Spending on wages and compensation also contracted by 10.7 percent, likely caused by a delay in the recruitment of new civil servants. In contrast, expenditure on goods and services grew by 39.7 percent y/y due to rising social benefits and transfers to subnational administration.

THE OVERALL FISCAL DEFICIT NARROWED

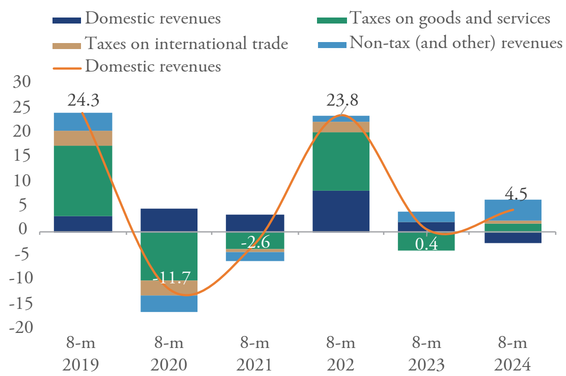
The budget consolidation efforts have effectively reduced the overall fiscal deficit. The gap between total revenue (including grants) and expenditure under Cambodia's central government operations narrowed to a deficit of 1.0 percent of GDP during the first eight months of 2024, down from a deficit of 1.6 percent of GDP during the same period in 2023.

Owing to the authorities' budget consolidation efforts, the projected decline in general government expenditure more than offsets the easing of general government revenue (including grants). This results in a reduction in the overall fiscal deficit, demonstrating the effectiveness of the fiscal policies in place to manage and reduce the deficit. The overall fiscal deficit of Cambodia's general government operations is projected to narrow to 3.0 percent of GDP in 2024, down from an estimated 5.1 percent of GDP in 2023 (figure 19). Revenue (including grants) is expected to marginally ease to 15.4 percent of GDP in 2024, down from 15.9 percent of GDP in 2023. Meanwhile, government outlays are projected to decline to 18.4 percent of GDP, down from 21.0 percent of GDP.

External funds have remained crucial in financing the fiscal deficit. To finance the projected overall fiscal deficit of 3.0 percent of GDP, external financing, including project and budget support, is expected to cover half of the total (figure 20). The

Figure 17. Domestic revenue collection improved

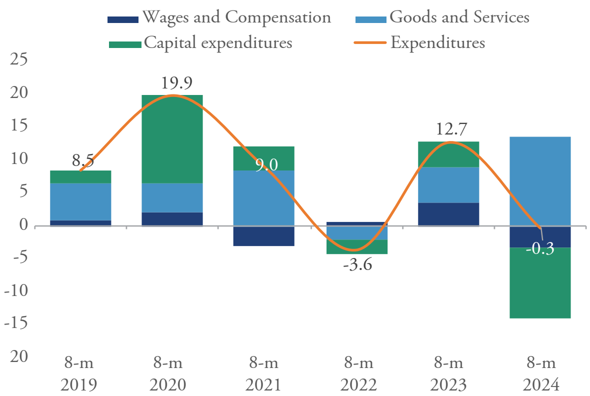
Central government domestic revenue (y/y percent change)



Source: Cambodian authorities.
Note: m = month.

Figure 18. Expenditure was contained

Central government expenditure (y/y percent change)



Source: Cambodian authorities.
Note: m = month.

remaining half is expected to be financed by drawing down government deposits (fiscal reserves), which stood at 11.6 percent of GDP (21.9 trillion riel) by July 2024, down from 12.6 percent of GDP during the same period in 2023.

PUBLIC DEBT STOCK REACHED 24.4 PERCENT OF GDP

As of mid-2024, Cambodia's public debt-to-GDP ratio reached 24.4 percent, amounting to US$11.27 billion in outstanding debt. Of this total, 99.0 percent, or US$11.16 billion, is public external debt, while the remaining 1.0 percent, or US$113 million, is public domestic debt. The distribution of public external debt shows that 63.0 percent is owed to bilateral creditors and 37.0 percent to multilateral creditors. During the first half of 2024, the amount of loans signed between Cambodia and its official creditors reached only SDR 237.55 million (US$313.7 million), compared to the annual ceiling permitted by the 2024 budget law of SDR 1,700 million.

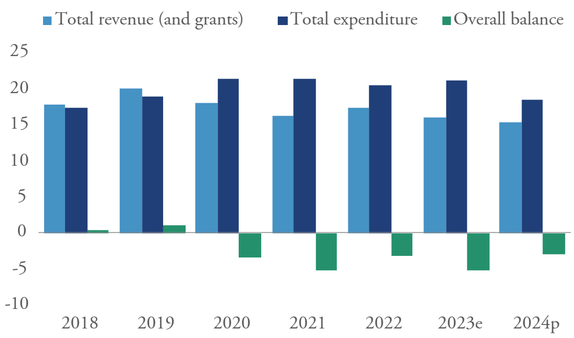
Outlook

Using the newly rebased national accounts data, this year's economic growth is projected to reach 5.3 percent (table 2), compared to 5.0 percent in 2023, driven mainly by services and goods exports. The surge in manufacturing exports—especially in garment, travel goods, and footwear manufacturing; the revival of the travel and tourism industries; and continued FDI inflows have helped sustain this year's economic recovery.

In the short term, Cambodia's real GDP growth is projected to marginally improve, reaching 5.5 percent in 2025 and 2026. Even though domestic demand is expected to further improve in the next two years, supported by an improved job market and well-anchored inflation expectations, the recovery remains incomplete. This is because a rebound in domestic consumption, which accounts for about two-thirds of GDP, will be dampened by subdued domestic credit growth caused by a prolonged downturn in the construction and real estate sector. In addition, the negative wealth effects of falling house prices and notably high household debt, with debt service payments close to 50% of income, are likely to constrain consumption going forward.

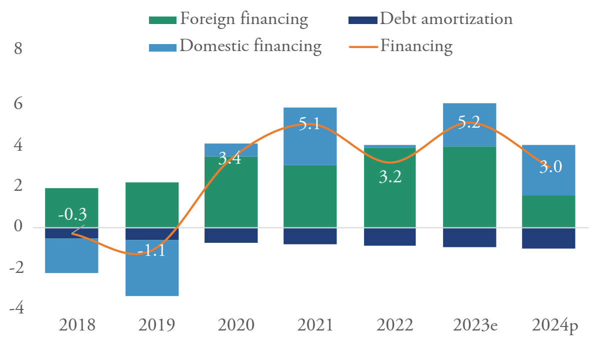
On the production side, the tourism and hospitality industries are likely to improve further, with projected increases in international arrivals. While manufacturing exports—especially in garments, travel goods, and footwear—will remain susceptible to external demand, agricultural production and agroprocessing industries continue to be boosted by bilateral and multilateral free trade agreements. The travel, transport, and logistics industry should benefit from strong private investment in several key infrastructure projects, such as a newly built expressway linking Phnom Penh to Sihanoukville, where a deep-sea port is located; new logistics complex and multimodal port development projects in Kampot and Phnom Penh; and a new expressway project linking Phnom Penh to Bavet, on the Cambodia-Vietnam border, among others.

Figure 19. **General government operations**
(percent of GDP)



Sources: Budget Settlement Laws; World Bank staff estimates and projections.
Note: e = estimate; p = projection.

Figure 20. **General government surplus/deficit and financing**
(percent of GDP)



Sources: Budget Settlement Laws; World Bank staff estimates and projections.
Note: e = estimate; p = projection.

Table 2. The macro outlook indicates continued economic improvements

Macro outlook	2019	2020	2021	2022	2023e	2024p	2025p	2026p
National Accounts and Prices								
GDP per capita (USD, nominal)	2,258.5	2,131.5	2,217.1	2,357.6	2,524.6	2,696.2	2,886.2	3,089.0
GDP at constant market prices (% change)	7.9	-3.6	3.1	5.1	5.0	5.3	5.5	5.5
Agriculture	-0.4	0.6	1.5	0.6	1.6	1.6	1.4	1.5
Industry	13.0	-2.2	8.4	8.2	7.6	7.2	7.1	6.9
Services	6.6	-6.7	-1.8	3.6	3.4	4.5	5.2	5.4
Consumer Price Index (year-average)	1.9	2.9	2.8	5.5	2.1	2.2	2.2	2.2
General Government (% of GDP)								
Revenue and grants	20.0	17.9	16.2	17.2	15.9	15.4	15.4	15.3
Tax Revenues	14.8	13.6	12.3	13.8	12.4	12.2	12.3	12.5
Taxes on Goods and Services	9.5	8.0	6.9	7.7	6.5	6.3	6.5	6.7
Direct Taxes	3.4	4.1	3.9	4.5	4.5	4.6	4.6	4.7
Taxes on International Trade	2.0	1.6	1.4	1.6	1.5	1.3	1.2	1.1
Grants	1.4	1.4	1.1	0.5	0.8	0.4	0.3	0.1
Expenditure and net lending	18.8	21.3	21.3	20.4	21.0	18.4	18.7	18.5
Overall balance (excluding grants)	-0.3	-4.8	-6.3	-3.8	-5.9	-3.4	-3.6	-3.3
Overall balance (including grants)	1.1	-3.4	-5.1	-3.2	-5.1	-3.0	-3.3	-3.2
Foreign financing	2.3	3.5	3.1	3.9	4.0	1.6	2.7	2.7
Net domestic financing (from current savings)	-2.8	0.7	2.8	0.2	2.1	2.3	1.4	1.5
Amortization	-0.6	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-1.0
Money and Credit								
Broad money (% change)	18.2	15.3	16.4	8.2	12.5	15.0	16.5	17.0
Credit to the private sector (% change)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
External Sector (US$m unless otherwise indicated)								
Exports (goods and services)	16,351	16,692	18,566	24,494.7	28,570.2	31,599.6	35,950.2	38,193.9
Imports (goods and services)	18,198	19,955	29,489	40,467.1	32,468.2	34,155.1	37,747.8	39,889.0
Foreign Direct Investment, net inflows	-3,561	-3,498	-3,391	-3,425	-3,639	-4,080	-4,351	-4,620
Gross official reserves	18,733	16,237	17,675	17,764.8	19,895.6	20,978.4	22,180.8	23,502.7
(months of imports)	9.7	10.4	8.1	7.0	6.0	5.5	5.0	5.0
Current account (percent of GDP)	-5.9	-5.5	-29.1	-18.8	1.3	-1.0	-1.5	-1.8
Exchange rate (riel per US$ average)	4,070	4,077	4,100	4,150	4,110	4,100	4,090	4,080
Total public debt (% of GDP)	20.8	26.6	26.5	27.0	27.5	26.9	27.4	27.4
Memorandum items:								
Nominal GDP, USD million	36,606	34,949	36,779	39,532	42,779	46,164	49,912	53,934

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

With subdued private consumption due to the prolonged downturn in the property sector, external imbalances are expected to improve in the short to medium term. While remittances and tourism receipts will continue to boost net income and services, FDI should continue to finance the projected modest current account deficit going forward. In the short to medium term, the authorities' efforts to improve revenue collection, implement fiscal consolidation, and enhance spending efficiency under the Public Financial Management Reform Program should narrow the overall fiscal deficit, which is targeted to be equal to or below 5 percent of GDP.

Challenges and risks

Despite continued improvements, the economy is facing downside risks, including weaker-than-expected global demand amid rising debt and elevated borrowing costs, and a sharper-than-anticipated slowdown in China. Cambodia's small, open economy, with a trade-to-GDP ratio of 112 percent in 2023, faces risks from geo-economic fragmentation and rising protectionism.

Domestically, a faster-than-expected increase in nonperforming loans could affect macro-financial stability as the housing market correction continues. Falling house prices are negatively impacting the health and stability of the banking sector by increasing the risk of loan defaults and reducing the value of the collateral held by banks. However, the housing market correction can also be seen as a natural part of the credit cycle, potentially enabling more Cambodian families to enter the housing market at a lower price point.

Policy options

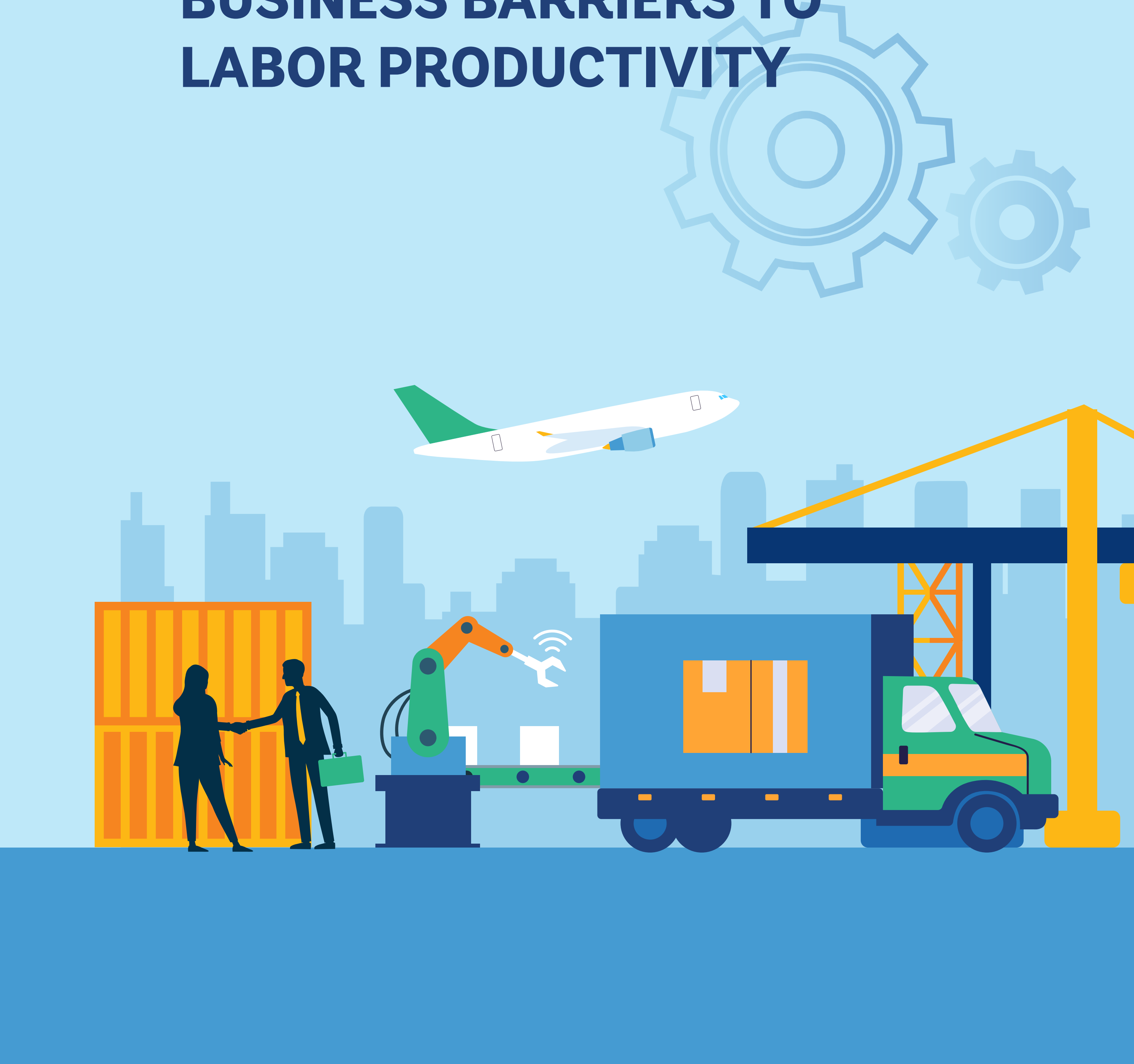
Building on the ongoing improvement in post-pandemic fiscal management, fiscal reforms to boost domestic revenue mobilization should be a top priority. Ongoing fiscal consolidation due to slow revenue collection will likely impact social spending and basic education and health services unless fiscal space is restored in the short term. First, pandemic-induced fiscal interventions and tax incentives should be discontinued. Second, introducing stricter governance of tax incentives should minimize the unnecessary revenue losses they may cause. In this regard, developing the capacity to track, manage, and control tax expenditures within medium-term fiscal and budgetary decision-making is particularly important. Third, taxes on goods and services should be strengthened by reviewing the VAT rate, exemptions, and zero rating, while introducing ambitious excise tax increases on alcohol and tobacco, benchmarking against good practices in middle-income countries. Introducing a personal income tax should be a medium-term objective of the next revenue mobilization strategy. Fourth, as the authorities are now embarking on a gradual fiscal consolidation policy, strengthening spending efficiency, or value for money, is essential.

To safeguard financial stability, the immediate focus should be on intensified bank supervision: stress testing of individual institutions, systematic onsite inspections, further alignment of the regulatory framework with international standards, and thorough assessments of the quality of loan portfolios, among others. There was a rapidly growing number of financial institutions in Cambodia until 2022. Therefore, a consolidation of the financial sector through mergers and acquisitions should help preserve profit margins by improving their efficiency and increasing market share. To prepare for increasing levels of nonperforming loans, it is crucial to ensure that resolution options are now ready to be deployed as needed, and to strengthen the country's insolvency regime. Efforts to prepare legislation on deposit insurance and bank resolution must continue.

Finally, to avoid a slowdown in economic growth, Cambodia should transition to a more sustainable growth pattern through further structural reforms to boost and diversify exports of goods, especially manufactured products and agroprocessing, and services, particularly travel and hospitality. Further efforts are needed to fast-track ease-of-doing-business reforms. As indicated in the 2024 Business-Ready report, the most challenging issue is that Cambodia lacks quality public services to support businesses, especially in areas such as business insolvency, market competition, and business entry. Therefore, strengthening the country's institutions to ensure that regulations are effectively implemented and enforced will help create a predictable and stable business environment, which is essential for promoting trade and investment. That is the focus of this edition's special topic section.

PART 2.

STRUCTURAL, FIRM, AND BUSINESS BARRIERS TO LABOR PRODUCTIVITY



I. INTRODUCTION[13]

There have been limited contributions to growth from productivity in Cambodia over the past decade in part due to a disabling business environment. Previous World Bank research has highlighted that Cambodia's impressive rates of economic growth over the past decade were largely driven by factor accumulation (especially from capital) and that the country's structural transformation from agriculture to manufacturing and services stalled in the past five years.[14] One outcome of this growth model is very low levels of labor productivity in Cambodia compared to its peers, across all sectors of the economy. The previous research traced Cambodia's poor productivity performance to a relatively difficult business environment and low levels of economic competitiveness, human capital, and governance.

Cambodia will need to significantly improve its productivity performance in the coming decades to sustain high rates of economic growth and realize its vision of rapidly becoming a high-income country. Becoming a high-income country requires a sixfold increase in income per capita, from around US$2,200 today to around US$13,800. Achieving this goal requires Cambodia to sustain high rates of growth for decades to come and to avoid the "middle-income trap"—that is, a situation where a country's GDP per capita reaches middle-income level but it does not develop further into a high-income country—which in turn will likely require a transition to a more sustainable, productivity-led growth model. Reaching high-income status at an accelerated timeline would likely require Cambodia to match the Republic of Korea's world-leading historical productivity performance during its phase of rapid development. Korea was at Cambodia's current level of development in 1968 and sustained total factor productivity growth of 2.2 percent per year over the subsequent 25 years (1968–93). This productivity growth rate is almost two times higher than Cambodia's historical average of 1.3 percent between 2000 and 2019.

This Special Focus section of the *Cambodia Economic Update* provides new, more granular insights on what is required to support a rapid transition to a productivity-led economic growth model. The Special Focus explores the underlying structural drivers of firm-level labor productivity in Cambodia as well as the external environment and bureaucratic impediments to higher productivity. The aim of this work is to help develop and prioritize actionable policy recommendations that can inform government- and private-sector actors.

II. STRUCTURAL AND FIRM-LEVEL FOUNDATIONS OF LABOR PRODUCTIVITY

Data from Enterprise Surveys confirms relatively low levels of labor productivity among Cambodian firms relative to their peers, across both manufacturing and services (figure S.1). Median labor productivity among all Cambodian firms is estimated to be US$6,899 per worker and is higher among services firms (US$8,555) compared to manufacturing firms (US$4,784). This level of productivity is significantly lower than firms in peer countries overall (41 percent lower) as well as across both the manufacturing (28 percent lower) and services sectors (43 percent lower).[15]

Moreover, there is significant variation in labor productivity among Cambodian firms based on characteristics such as location, sector, and size (figure S.2). Firms based in the capital, Phnom Penh, are 73 percent more productive on average than firms based in the more remote, mountainous regions of the north and northeast. In addition, services firms are 87 percent more productive on average than manufacturing firms, with "other services"[16] the most productive subsector and "other manufacturing" the least productive. Finally, there is a "U-shaped" relationship between productivity and firm size, with both small and large firms typically more productive than medium-sized firms. This

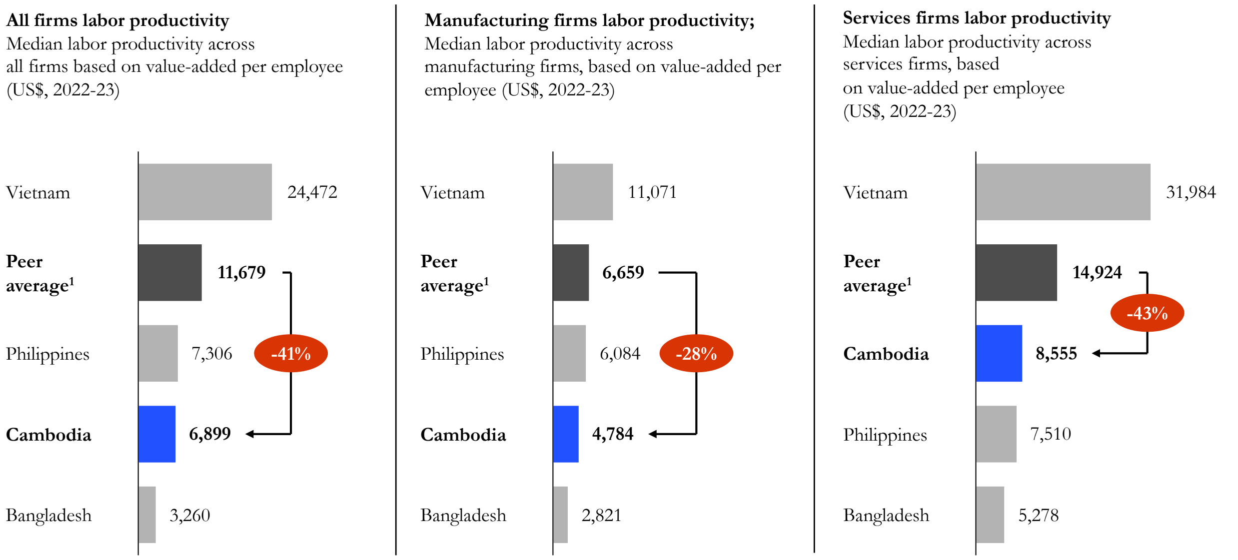
13 The Special Focus section was written by Faya Hayati, Hassan Noura and Aka Kyaw Min Maw.

14 Cambodia Economic Update (November 2023) and the Cambodia Second-Generation Systematic Country Diagnostic Update (World Bank 2024).

15 Note that estimates of labor productivity based on Enterprise Survey data differ from estimates based on national accounts and are typically significantly higher. The higher estimate is due to the exclusion from the Enterprise survey of sectors and firms that typically have lower productivity, including agriculture, government, informal firms, and state-owned enterprises.

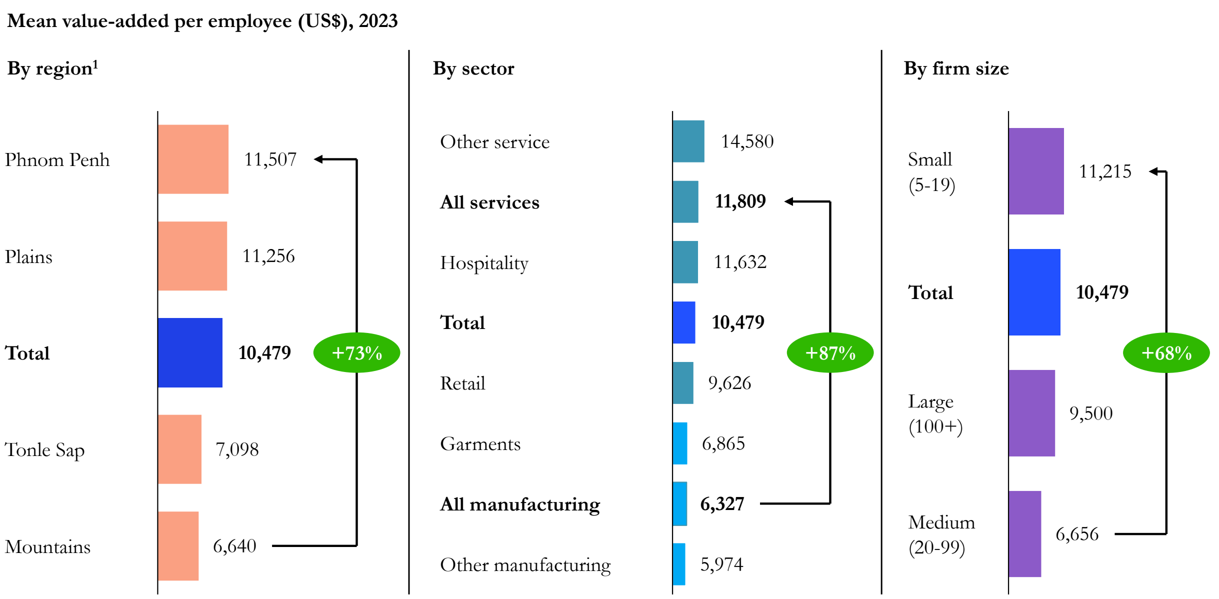
16 Other services include construction, motor vehicle sales and repair, wholesale, storage, transportation, and communications and information technology.

Figure S.1. **Labor productivity among Cambodian firms compared to peers, by sector**



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Enterprise Surveys only cover private registered firms in the manufacturing and services sectors. They exclude informal firms and state-owned enterprises as well as the agricultural and government sectors. Peer group includes Bangladesh, the Philippines, and Vietnam.

Figure S.2. **Variation in labor productivity among Cambodian firms based on their characteristics**

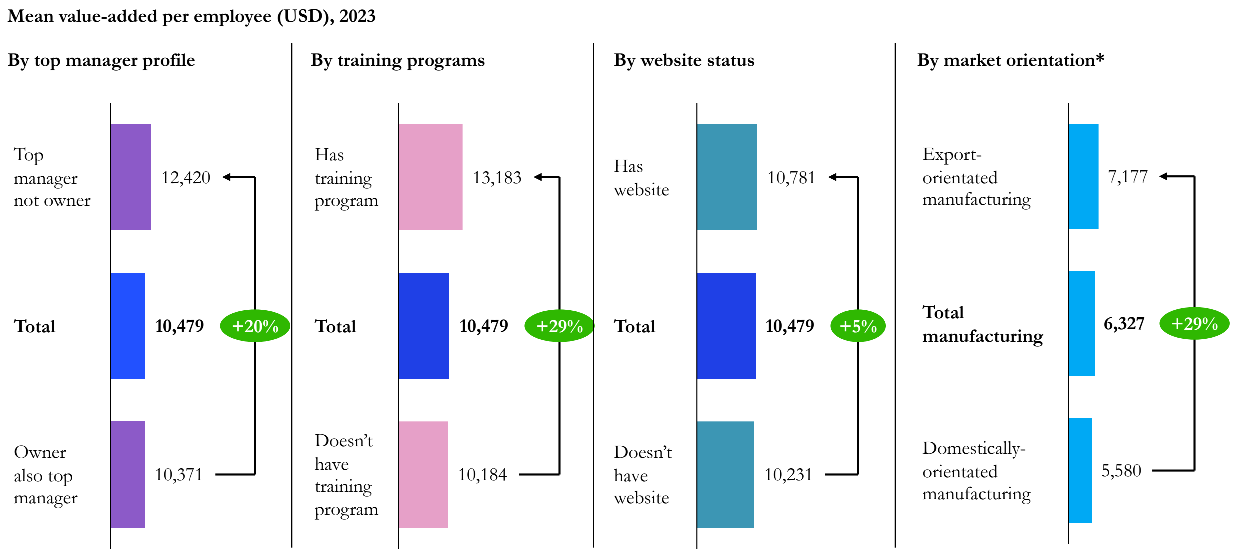


Source: Enterprise Survey for Cambodia (2023), World Bank.
Note: 1. The Plains includes southern provinces that surround the capital such as Kandal and Prey Veng. Tonle Sap includes provinces such as Siem Reap and Battambang. The Mountains includes northern and northeastern highland provinces such as Kracheh and Preah Vihear.

indicates that medium-sized firms may face unique structural barriers to higher productivity. Moreover, econometric analysis indicates that these relationships between labor productivity and location, sector, and size are statistically significant and robust.[17] In contrast, there is limited and non-significant variation in average labor productivity by other basic characteristics such as firm age. These insights point to productivity opportunities for Cambodia from accelerating the country's structural transformation toward higher-productivity sectors and subsectors as well as from addressing structural barriers faced by medium-sized firms and firms located in more rural and less developed parts of the country.

17 World Bank, forthcoming (a).

Figure S.3. Variation in labor productivity among Cambodian firms by practice



Source: Enterprise Survey for Cambodia (2023), World Bank.
Note: * Manufacturing firms only.

There is also significant, albeit smaller, variation in labor productivity among Cambodian firms based on practices related to personnel, the use of technology, and market orientation (figure S.3). Cambodian firms with more advanced personnel practices, while still a small share of firms, are typically more productive. Specifically, firms managed by an independent chief executive officer (CEO) (just 5 percent of firms), are 20 percent more productive than firms managed by their owner. There is also a significant positive relationship between better management practices and labor productivity. Similarly, firms that offer formal employee training programs (just 10 percent of firms), are 29 percent more productive. In addition, firms that leverage technology—for example, firms that have a website and use electronic payments—are typically more productive. Econometric analysis indicates that these relationships are statistically significant in most sectors.[18] Finally, manufacturing firms that are export orientated are 29 percent more productive on average than those focused on the domestic market. These insights point to productivity opportunities for Cambodia from encouraging the faster diffusion of best practices across firms as well as greater international orientation.

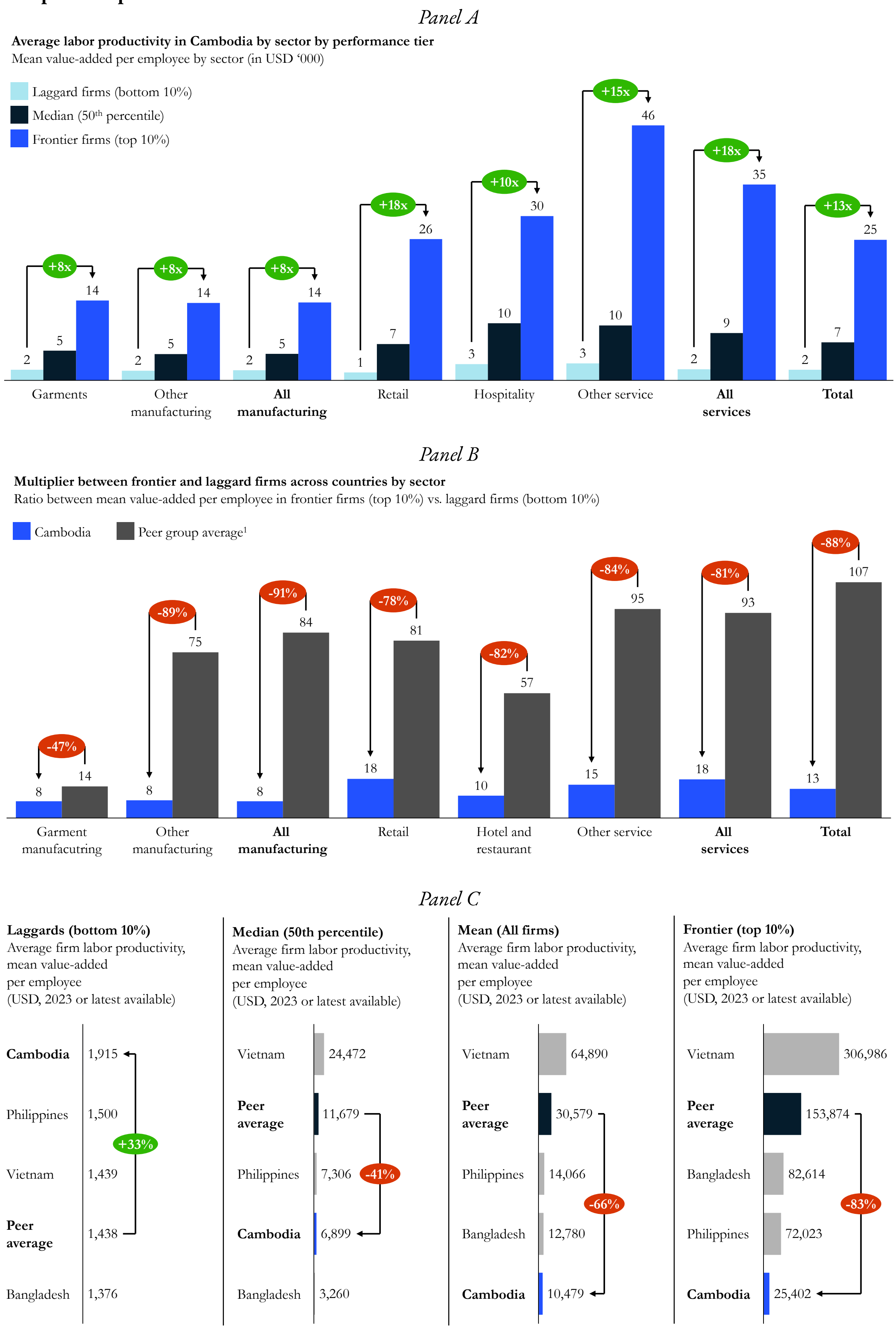
Finally, there is also significant within-sector variation in labor productivity among Cambodian firms, with a large gap between frontier and laggard firms (figure S.4, panel A). Consistent with patterns observed globally and in Asia,[19] Cambodia's productivity frontier firms (top 10th percentile) are significantly more productive than its productivity laggards (bottom 10th percentile), by 13 times, on average (and almost four times more productive than the "typical" median firms). This pattern is observed across all sectors and subsectors of the economy but is stronger across service sectors, where frontier firms are typically 18 times more productive than laggard firms (compared to eight times more productive in manufacturing).

Moreover, Cambodia's frontier firms have distinct characteristics and practices. At the economy-wide level, frontier firms are overwhelmingly services firms (97 percent), with almost half in the "other services" subsector that includes knowledge sectors such as information technology (IT). They are also overwhelmingly small (91 percent), located in Phnom Penh or the Plains (90 percent), fully domestically owned (96 percent), and domestically orientated (97 percent). Within the manufacturing sector, however, frontier firms are more likely to be large (64 percent), have some foreign ownership (60 percent), and be export-orientated (64 percent). Moreover, frontier firms are also more likely to have adopted best practices such as having an independent CEO (10 percent compared to 5 percent nationally) and employee training programs (15 percent compared to 10 percent), and to leverage technology. These characteristics are broadly consistent with regional research, which identified that frontier

18 World Bank, forthcoming (a).

19 See, for example, World Bank. 2024f.

Figure S.4. **Variation in labor productivity among Cambodian firms based on their performance tier and compared to peers**



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2016 and 2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

firms in Asia are typically concentrated in digital-intensive sectors and are more likely to use advanced technologies.[20] These insights point to productivity opportunities for Cambodia from encouraging and incentivizing laggard and median firms to strive to learn from and catch up to sectoral and national frontier firms on various best practices.

Despite their national success, however, Cambodia's frontier firms remain well below the regional productivity frontier, which hinders national innovation and drags down national productivity levels. Despite being few in number, frontier firms play an important role in driving national innovation and helping establish and continuously push out the national productivity frontier.[21] However, Cambodia's frontier firms are not as far ahead of laggards compared to their peers in other countries, where the productivity gap is much wider (figure S.4, panel B). Moreover, Cambodia's national frontier firms are far below the regional productivity frontier (which itself is below the global productivity frontier set by firms in advanced economies). For example, the average productivity level of Cambodia's frontier firms (around US$25,000 per worker) is approximately the same as the typical or median firm in Vietnam and 83 percent below the average of its peer frontier firms (figure S.4, panel C). One implication of this performance gap is that Cambodia's lower productivity levels are driven by the relative underperformance of its frontier firms. These insights point to productivity opportunities for Cambodia from encouraging and incentivizing its frontier firms to do even better and to strive harder to reach the regional and global productivity frontier.

III. OVERVIEW OF OBSTACLES TO DOING BUSINESS

The top obstacles to doing business cited by Cambodian firms today are informal firms, taxes, corruption, courts, and transport (figure S.5). Cambodian firms most commonly cite the practices of informal competitors (78 percent of firms) as an "obstacle" to doing business, followed by tax rates (68 percent), corruption (57 percent), and courts (57 percent). Similarly, Cambodian firms most commonly cite the informal sector (42 percent of firms) as the "biggest obstacle" to doing business, followed by tax rates (32 percent), tax administration (9 percent), and transport (6 percent). In contrast, access to finance, workforce education, and labor regulations consistently feature in the bottom five obstacles cited by Cambodian firms.

Figure S.5. Ranking of obstacles to doing business in Cambodia over time and compared to peers

Top 5 | Bottom 5 | External | Bureaucratic | Worse | Better

Obstacles today Share of Cambodian firms choosing this topic as an obstacle (%), 2023		**Biggest obstacles today** Share of Cambodian firms choosing this topic as the biggest obstacle (%), 2023		**Relative obstacles, Cambodia vs. peers**[1] Difference in share of firms choosing topic as an obstacle, Percentage points, 2022/23		**Obstacles over time** Difference in share of Cambodian firms choosing this as an obstacle, Percentage points, 2023 vs. 2016	
Informal sector	78%	Informal sector	42%	Courts	39%	Informal sector	6%
Tax rates	68%	Tax rates	32%	Corruption	26%	Tax rates	6%
Corruption	57%	Tax administration	9%	Tax rates	21%	Courts	2%
Courts	57%	Transport	6%	Informal sector	18%	Electricity	1%
Tax administration	52%	Crime	4%	Crime	17%	Labor regulations	-2%
Transport	48%	Electricity	2%	Trade regulations	15%	Corruption	-9%
Business documents	48%	Trade regulations	2%	Tax administration	14%	Tax administration	-9%
Political instability	45%	Courts	1%	Business documents	14%	Workforce education	-10%
Crime	45%	Land	1%	Political instability	14%	Political instability	-14%
Electricity	43%	Business documents	1%	Labor regulations	10%	Business documents	-18%
Trade regulations	41%	Labor regulations	0%	Transport	4%	Transport	-18%
Workforce education	39%	Workforce education	0%	Workforce education	1%	Trade regulations	-21%
Labor regulations	38%	Finance	0%	Land	1%	Crime	-23%
Land	38%	Corruption	0%	Finance	-8%	Land	-28%
Finance	37%	Political Instability	0%	Electricity	-13%	Finance	-28%

Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2016 and 2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

20 World Bank. 2024f.

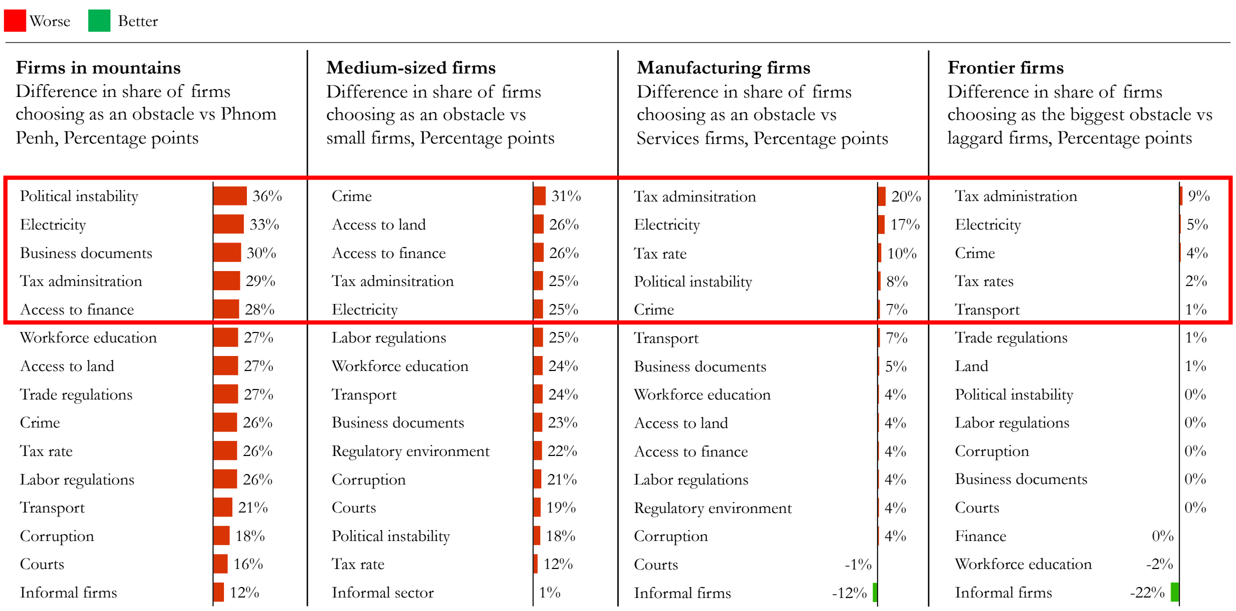
21 World Bank. 2024f.

Overall, the business environment in Cambodia remains more challenging than in peer countries, despite significant improvements over time. Most topics became less of a concern for Cambodian firms between 2016 and 2023, except for informal firms and electricity. However, comparing Cambodian firms with their peers indicates that Cambodian firms are more concerned about almost all topics, suggesting they experience a more challenging business environment. This result is consistent with the findings of the World Bank B-Ready Report,[22] which finds that Cambodia has a much worse overall business environment than regional leader Singapore, or than Vietnam, the Philippines, or Bangladesh. That report also found that Cambodia performs particularly poorly on the provision of public services and on topics such as business insolvency, market competition, and business entry.

Moreover, there is significant variation in concerns among Cambodian firms based on characteristics such as location, size, sector, and performance tier (figure S.6). Firms located in mountainous regions (and which have the lowest productivity) are significantly more concerned about all topics than firms in the capital Phnom Penh (which have the highest productivity), which indicates a more challenging doing business environment in these less urban, more remote parts of the country. Similarly, medium-sized firms (which have the lowest productivity) are significantly more concerned about all topics than small firms (which have the highest productivity). This suggests that medium-sized firms either objectively face bigger obstacles to doing business, are less capable of navigating business obstacles, or both. For example, it might become harder to deal with obstacles as firms scale and are no longer small and agile, but do not yet have the capabilities and organizational processes of large firms. In addition, manufacturing and frontier firms are somewhat more concerned about taxes and electricity compared to services and laggard firms, but less concerned about informal firms.

The rest of this Special Focus takes a closer look at the external and bureaucratic obstacles to doing business. External obstacles indirectly impact firms, while bureaucratic and governance obstacles directly impact firms when they interact with government officials and processes and comply with rules. Three of the top five "biggest obstacles" to doing business in Cambodia are external (figure S.5, above), while four of the top five "obstacles" are bureaucratic. The next two sections of this Special Focus explore external and bureaucratic obstacles to doing business in Cambodia in more detail.

Figure S.6. Ranking of obstacles to doing business in Cambodia by firm characteristics



Source: Enterprise Survey for Cambodia (2023), World Bank.Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

22 World Bank 2024d.

IV. EXTERNAL OBSTACLES TO DOING BUSINESS

This section explores four external obstacles to doing business: (a) competition with informal firms; (b) infrastructure (transport, electricity, and internet services); (c) access to skills; and (d) access to finance.

A. Informal firms

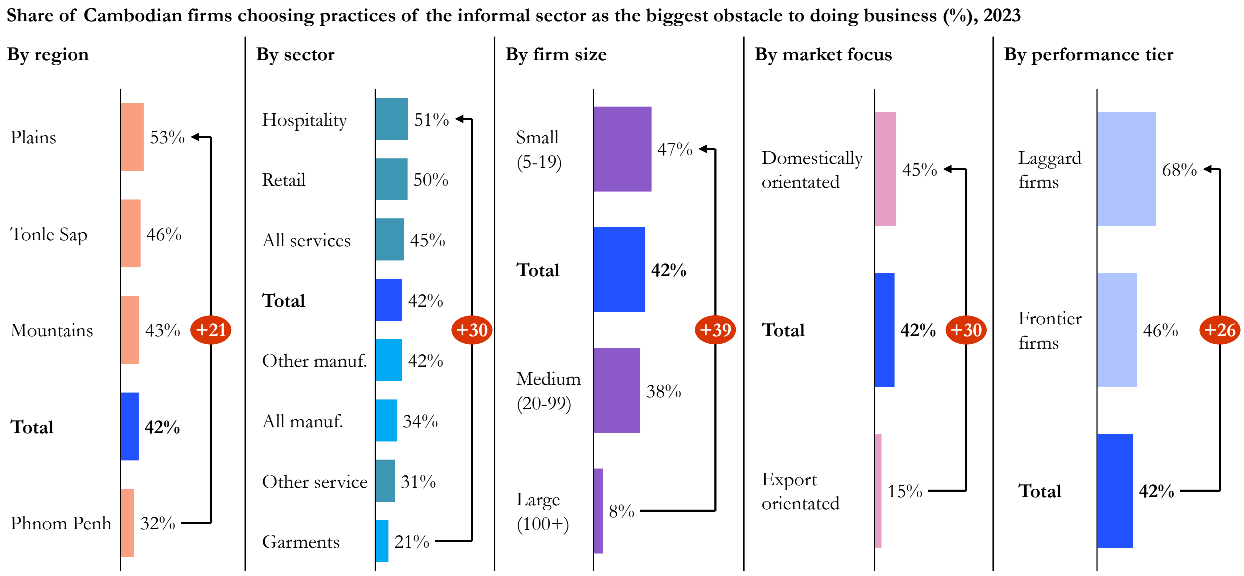
Most Cambodian firms are competing with informal firms and view this as their top obstacle to doing business. In 2023, 85 percent of Cambodian firms reported that they were competing with informal or unregistered firms, ranging from 72 percent among "other manufacturing" firms to 96 percent among garment firms, which is not surprising given widespread informality across the Cambodian economy. Moreover, Cambodian firms overwhelmingly view competition with informal firms as unfair, with "the practices of competitors from the informal sector" the most cited obstacle (78 percent of firms) and biggest obstacle (42 percent) to doing business (figure S.5, above). In addition, concerns about the informal sector have increased over time and are a significantly bigger concern for Cambodian firms compared to their overseas peers.

Moreover, concerns about informal firms are typically more acute for smaller and less sophisticated firms that are more likely to be in direct competition with them (figure S.7). The practices of informal firms are a greater concern for firms located outside the capital, especially for firms located in the Plains (53 percent). The informal sector is also more of a concern for laggard firms (68 percent), hospitality firms (51 percent), retail firms (50 percent), small firms (47 percent), and domestically orientated firms (45 percent). In contrast, informal firms are less of a concern for manufacturing (especially garment firms), larger and export-orientated firms, and firms based in Phnom Penh. These patterns indicate that the benefits of registration may not be worth it for many smaller and less sophisticated firms that are in head-to-head competition with informal firms, which likely creates disincentives for firms to formalize.

B. Infrastructure

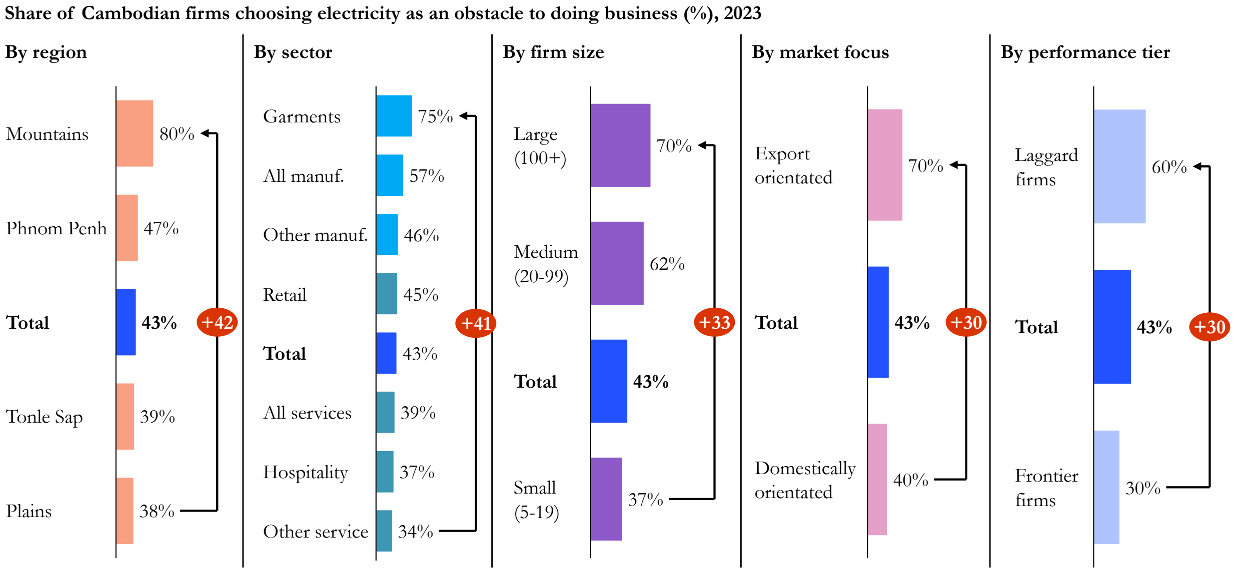
Cambodian firms are moderately concerned about basic infrastructure, with transport their top concern (figure S.5, above). Transport is the sixth most cited obstacle to doing business in Cambodia (48 percent of firms) and remains a bigger concern than peers despite improvements over time. In addition, electricity is the 10th most cited obstacle for Cambodian firms (43 percent) but is significantly less of a concern than for peers. Internet services in Cambodia appear to be comparable to peers, with 88 percent of Cambodian firms having access (compared to 84 percent among peers) and 36 percent experiencing disruptions (like peers). Key drivers of these concerns about basic infrastructure

Figure S.7. **Informal sector obstacles in Cambodia by firm characteristics**



Source: Enterprise Survey for Cambodia (2023), World Bank.

Figure S.8. **Electricity obstacles in Cambodia by firm characteristics**



Source: Enterprise Survey for Cambodia (2023), World Bank.

include poor domestic and international road and rail connectivity, growing urban congestion in Phenom Penh, relatively high electricity prices, slow internet speeds, and poor digital services for utilities.[23]

However, concerns about infrastructure are typically more acute for firms located in mountainous provinces of Cambodia and for firms where infrastructure is a more critical production input. Transport is more likely to be cited as an obstacle by firms located in the mountainous regions of Cambodia (79 percent) and medium-sized firms (68 percent), and by firms that must physically move goods such as retail firms (56 percent) and garment firms (56 percent). There is even more variation in concerns about electricity (figure S.8). Electricity is far more likely to be cited as an obstacle by firms located in the mountainous regions of Cambodia (80 percent), where electricity services are poorer. However, electricity is also more of a concern for manufacturing firms (57 percent), especially garments (75 percent), which depend on electricity to run their operations and which are typically larger and export orientated.[24] Finally, garment firms are also more likely to report disruptions in internet services (51 percent).

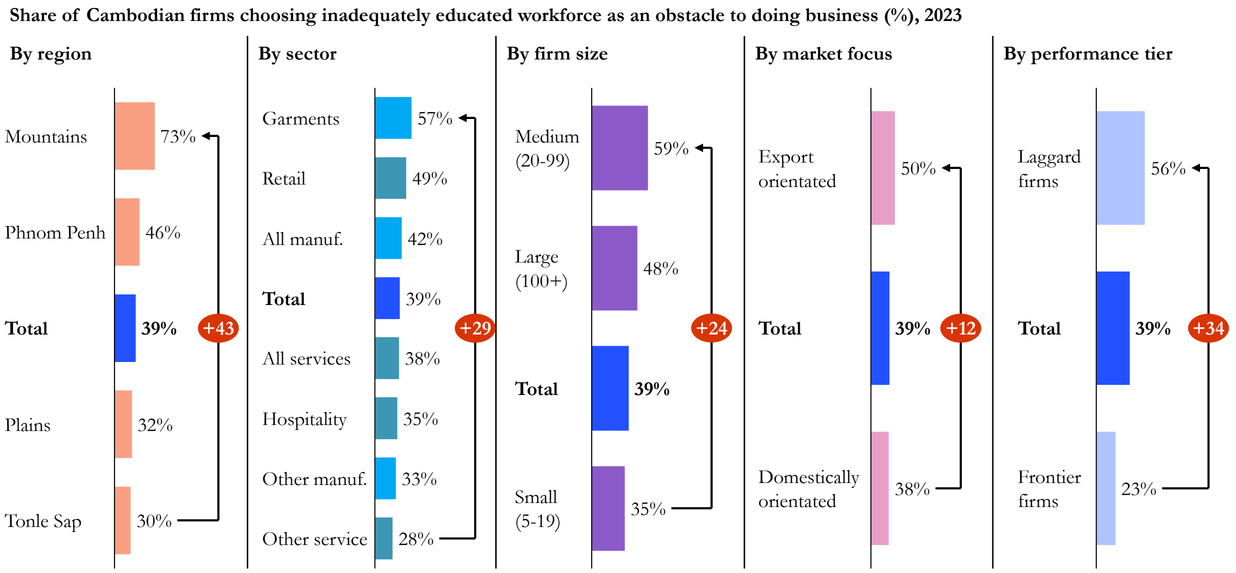
C. Access to skills

While most Cambodian firms are not very concerned about workforce skills (and less so than peers), they are a bigger concern among Cambodia's larger and export-oriented firms (figure S.9). An inadequately educated workforce is one of the five lowest concerns among Cambodian firms (39 percent of all firms cite this as an obstacle), and these concerns have declined over time and are lower than most peers (figure S.5, above). However, there is significant variation in concerns about workforce education levels among Cambodian firms based on their characteristics. For example, workforce skills are far more likely to be cited as an obstacle by firms located in the remoter, mountainous regions of Cambodia (73 percent), where access to schooling is poorer. Moreover, skills are also more likely to be cited as an obstacle by medium-sized firms (59 percent), garment firms (57 percent), export-oriented firms (50 percent), large firms (48 percent), and firms located in the capital (46 percent). This cross-section suggests that skills are in fact a significant concern for some firms that are likely among the country's more sophisticated. This finding is also consistent with previous research that found that major Cambodian firms (as well as government officials) view education

23 Cambodia Second-Generation Systematic Country Diagnostic Update (World Bank 2024); and B-Ready Report (World Bank 2024d).

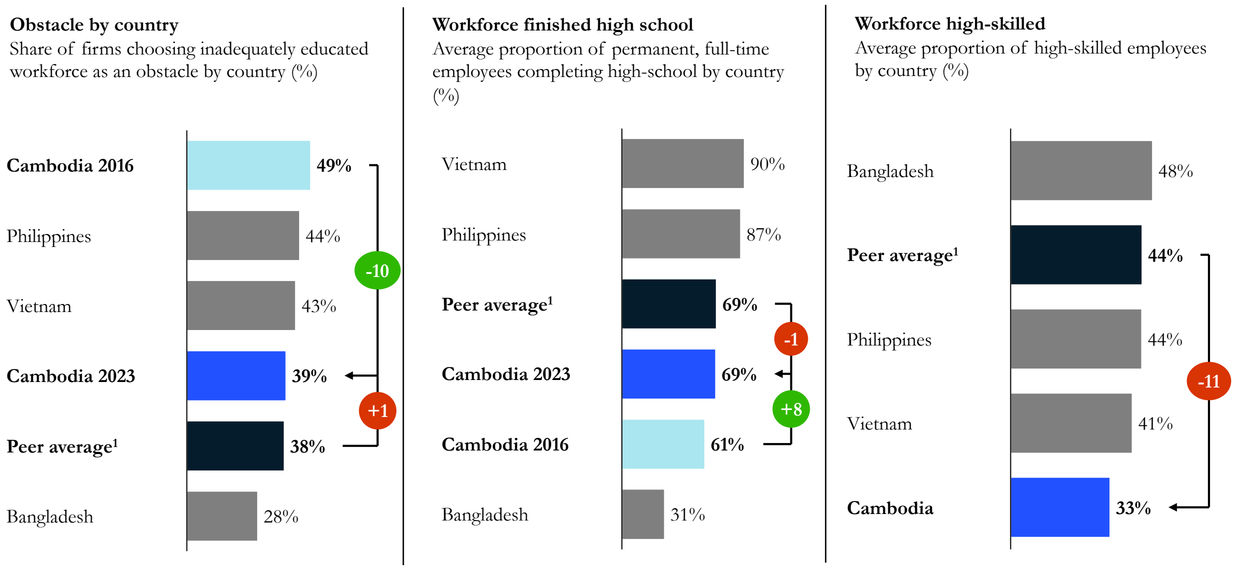
24 There is a strong correlation between garment, large, and export-orientated firms in Cambodia.

Figure S.9. **Skills obstacles among Cambodian firms based on their characteristics**



Source: Enterprise Survey for Cambodia (2023), World Bank.

Figure S.10. **Summary of workforce education characteristics among Cambodian firms over time and compared to peers**



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2016 and 2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

and skills as a growing concern and the biggest obstacle to Cambodia's development over the next five years.[25]

Moreover, Cambodian firms are less likely in practice to have skilled workers than their overseas peers (figure S.10), due to their positioning at the low-skilled end of the value chain. The average share of full-time employees among Cambodian firms that have finished high school is 69 percent, which is an improvement from 2016 (61 percent), but still significantly below Vietnam (90 percent) and the Philippines (87 percent). In addition, only 33 percent of Cambodian employees are classified as "high skilled," below the peer average of 44 percent. The gap between perception and

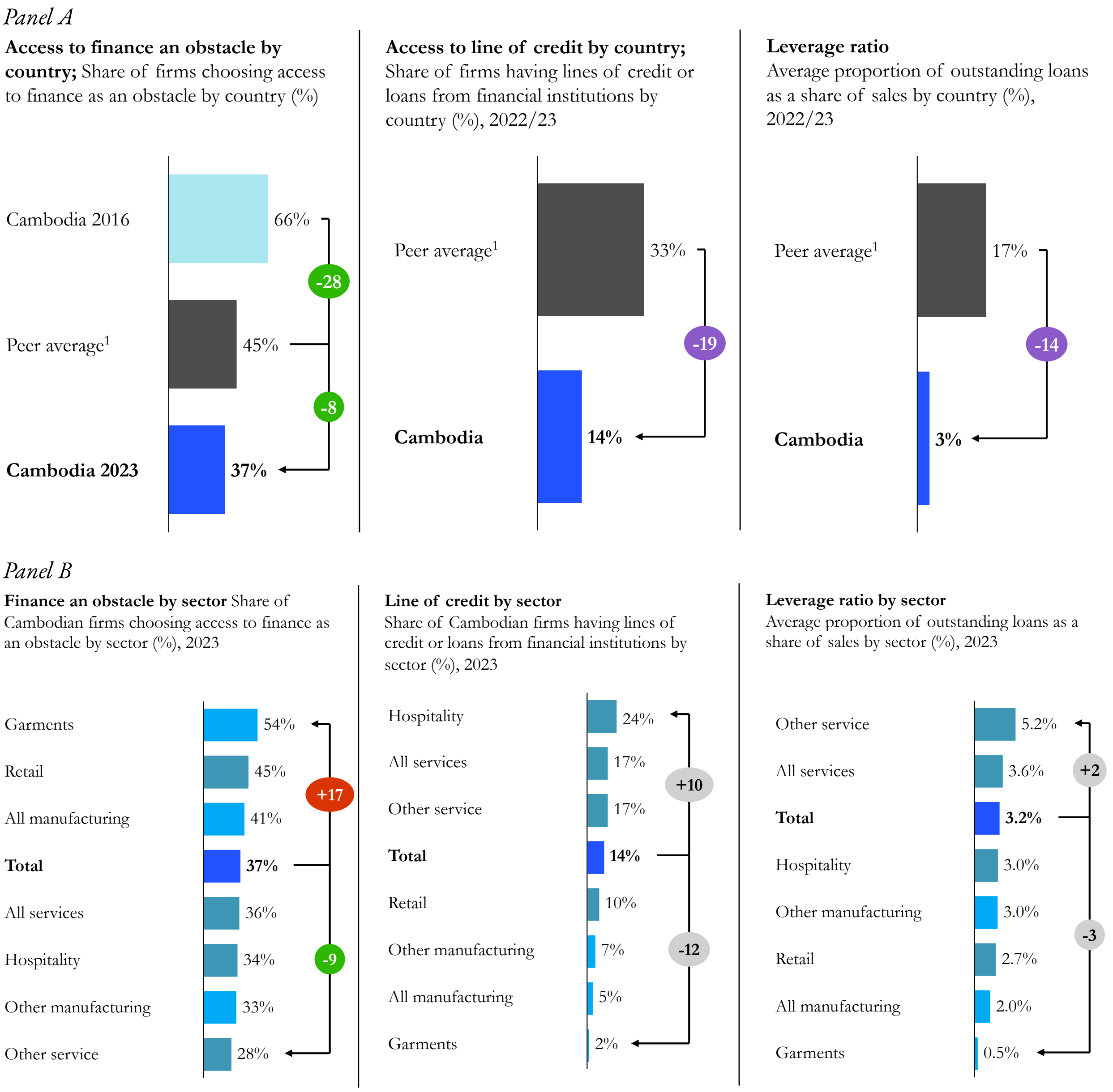
25 Cambodia Second-Generation Systematic Country Diagnostic Update (World Bank 2024).

reality among Cambodian firms reflects that most are positioned in segments and value-chains that primarily rely on low-skilled workers. In other words, most Cambodian firms are stuck in a low-skilled, low-wage equilibrium and many foreign investors are only coming to Cambodia to take advantage of this equilibrium (especially in manufacturing). Ultimately, Cambodia needs to transition to a high-skilled, high-wage equilibrium to become a high-income country.

D. Access to finance

Most Cambodian firms are also not very concerned about access to finance (and less so than peers), although this is a bigger concern among Cambodia's larger and potentially more sophisticated firms. Access to finance is the lowest concern for Cambodian firms (cited by 37 percent as an obstacle), and these concerns have declined

Figure S.11. **Access to finance variables among Cambodian firms compared to peers and by sector**



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2016 and 2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

significantly over time and are below peers (figure S.5, above). The lack of concern about access to finance is perhaps not surprising given a credit boom in Cambodia over the past decade. However, access to finance is more likely to be cited as an obstacle by firms located in the remoter, mountainous regions of Cambodia (73 percent), where financial services are more limited. Moreover, they are also more likely to be cited as an obstacle by medium-sized firms (59 percent), garment firms (54 percent), export-orientated firms (47 percent), large firms (45 percent), and firms located in the capital (45 percent). This cross-section suggests that access to finance could in fact be a significant concern for some firms that are likely to be among the country's more sophisticated.

Moreover, Cambodian firms are less likely in practice to use financial instruments than their peers and, in turn, have lower leverage ratios (figure S.11, panel A). Only 14 percent of Cambodian firms have a line of credit or a loan from a financial institution, 19 percentage points below the peer average of 33 percent. As a result, Cambodian firms also have much lower average leverage ratios of just 3 percent, 14 percentage points lower than the peer average of 17 percent. This is somewhat counterintuitive amidst a credit boom and given that most firms say they are not concerned about access to finance. There is also significant variation in the use of financial instruments (and leverage ratios) by sector (figure S.11, panel B) and, as expected, a negative correlation between concerns about access and utilization rates. For example, garment firms—which are the most concerned about access to finance—are the least likely to have a line of credit (2 percent) and have the lowest average leverage ratios (0.5 percent).

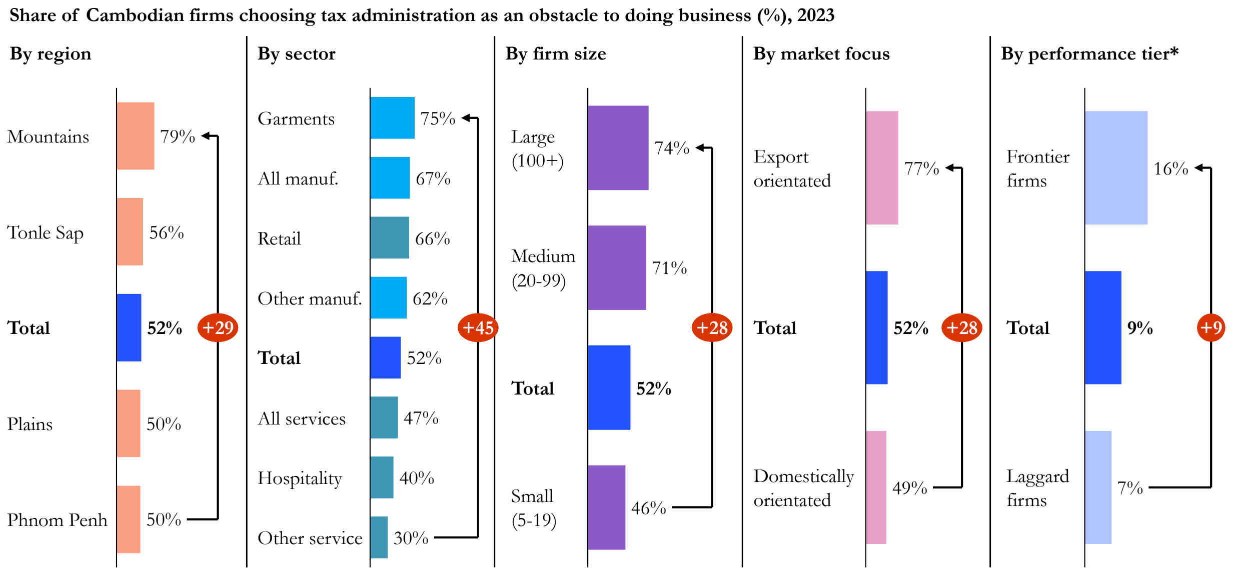
V. BUREAUCRATIC OBSTACLES TO DOING BUSINESS

This section explores four bureaucratic and governance factors: (a) taxes, both rates and administration; (b) corruption and informal payments; (c) courts, including independence in resolving commercial disputes; and (d) the timeliness of critical business documents and processes delivered by government.

A. Taxes

Most Cambodian firms view taxes, both the rates and their administration, as top obstacles to doing business, especially for larger, export-oriented, and manufacturing firms. Tax rates and tax administration are, respectively, the second- and third-highest "biggest obstacles" to doing business in Cambodia, have become significantly bigger concerns over time, and tax rates are a bigger concern for Cambodian firms than their peers (figure S.5, above). Moreover, tax administration is more likely to be cited as an obstacle to doing business by firms located away from the capital (figure S.12), as well as by

Figure S.12. Tax administration obstacles among Cambodian firms based on their characteristics



Source: Enterprise Survey for Cambodia (2023), World Bank.
Note: *Figures for the 'biggest' obstacle to doing business shown (instead of figures for 'an' obstacle).

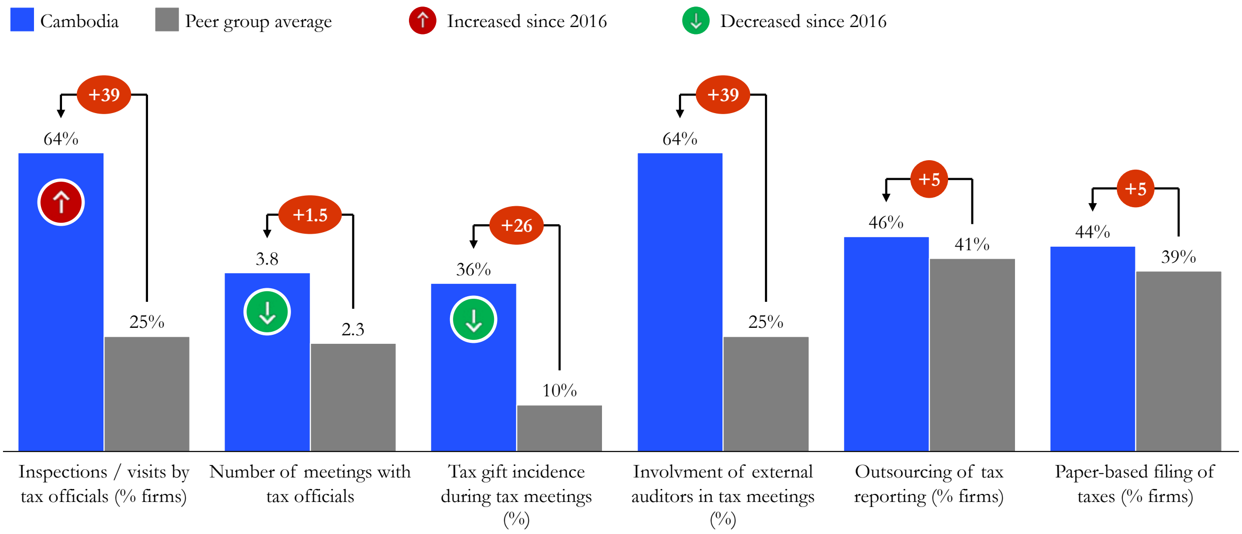
manufacturing firms (67 percent), especially garments (75 percent), export-orientated firms (77 percent), large firms (74 percent), and medium-sized firms (71 percent). Moreover, tax administration is more of a concern for frontier firms (with 16 percent citing it as the biggest obstacle). In contrast, tax administration is less of a concern for services firms (apart from retail firms), domestically orientated firms, and small firms. A similar pattern of variation is observed among firms about tax rates.

The concerns about both policy and tax administration in Cambodia appear to be driven by a heavy and costly compliance burden, combined with a high incidence of informal payments, rather than "tax rates" per se. The standard corporate income tax rate in Cambodia is 20 percent, which is broadly in line with the average in ASEAN (21 percent), Vietnam (20 percent), Bangladesh (22.5 percent), and the Philippines (25 percent).[26] In contrast, tax administration is more cumbersome and costly (in terms of time and money) in Cambodia (figure S.13). This reflects not so much the direct cost of mandatory contributions, but the large administrative burden and the prevalence of informal payments. Compared to their peers, Cambodian firms report (i) a higher likelihood of being visited or inspected by tax officials, and this has increased over time; (ii) a higher number of visits by tax officials, although this has declined over time; (iii) a higher likelihood of an expectation or request for an informal payment or gift to officials in these tax meetings, although this has declined over time; (iv) a higher likelihood of involving paid external auditors in these tax meetings; (v) a higher likelihood of outsourcing tax reporting; and (vi) a lower likelihood of filing taxes electronically. There is also considerable variation among Cambodian firms depending on their characteristics. For example, garment firms (90 percent) and large firms (95 percent) are far more likely to be inspected by tax officials, and far more likely to report an informal payment. Other contributing factors to poor tax administration include weaknesses around tax audits and related disputes, as well as transparency.[27] For example, there is a lack of a dedicated audit quality assurance function, with no routine evaluation of audit impacts on compliance.

B. Corruption

Corruption remains a more widespread concern for Cambodian firms relative to their peers, despite significant improvements over time, reflecting still widespread and large informal payments. Most measures of corruption in Cambodia declined (that is, improved) significantly between 2016 and 2023, albeit off relatively high starting points. However, corruption remains

Figure S.13. **Potential drivers of tax concerns among Cambodian firms over time and compared to peers**

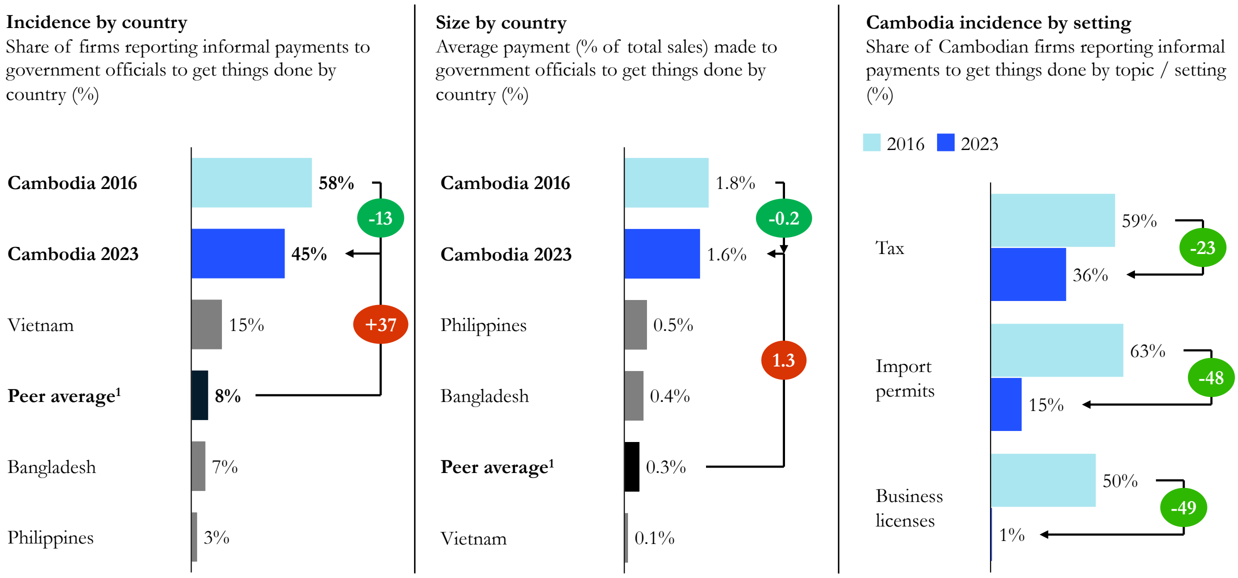


Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2016 and 2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

26 World Bank, forthcoming (b).

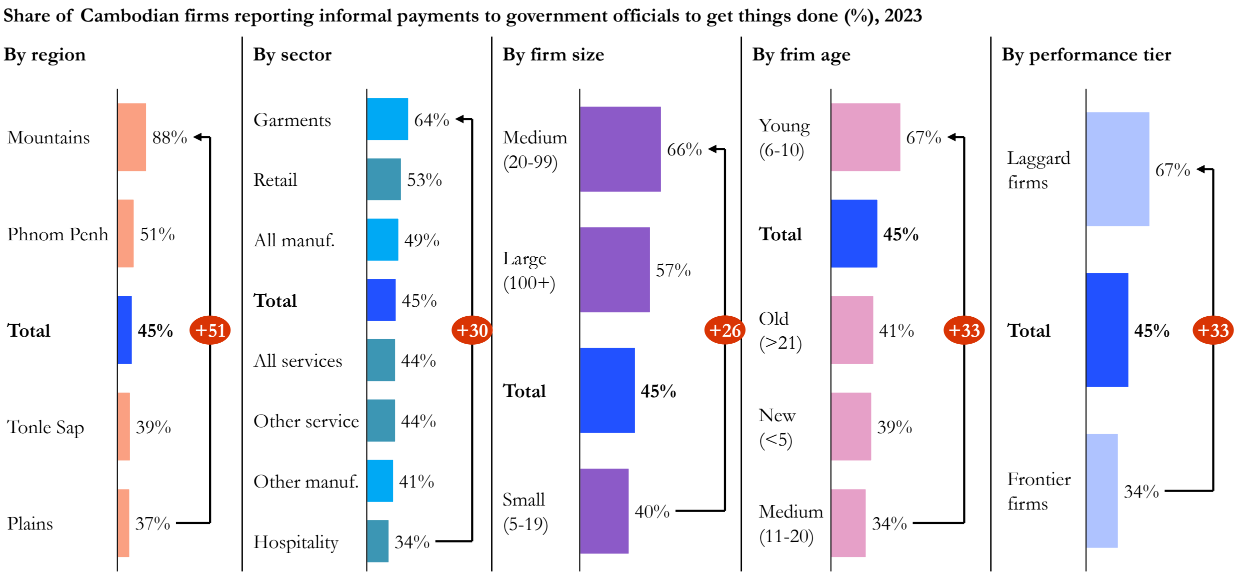
27 B-Ready Report (World Bank 2024d).

Figure S.14. **Drivers of corruption concerns among Cambodian firms over time and compared to peers**



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2016 and 2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

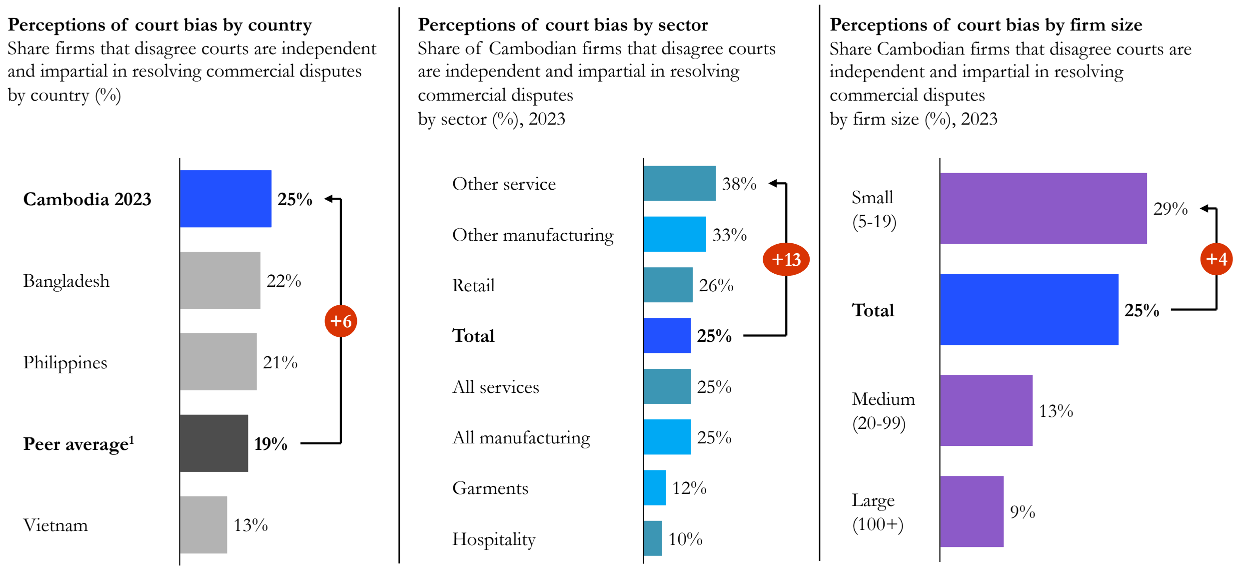
Figure S.15. **Incidence of informal payments among Cambodian firms by their characteristics**



Source: Enterprise Survey for Cambodia (2023), World Bank.

the third-highest "obstacle" to doing business in Cambodia and is a significantly bigger concern for Cambodian firms than their peers (figure S.5, above). Moreover, informal payments to government officials "to get things done" remain roughly six times more prevalent in Cambodia relative to their peers and roughly three times larger, despite reductions over time (figure S.14). Overall, 45 percent of Cambodian firms reported making an informal payment in 2023, compared to just 8 percent of peers. Moreover, Cambodian firms report average payments worth 1.6 percent of total sales compared to just 0.3 percent among peers. Cambodian firms are most likely to make an informal payment during meetings with tax officials (36 percent report a payment), followed by meetings related to import permits (15 percent). Business licenses have the lowest incidence of informal payments (1 percent), which is a sharp reduction from 50 percent in 2016. This impressive reduction

Figure S.16. Perceptions about court independence in commercial disputes among Cambodian firms over time and compared to peers



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

is likely the result of most business license processes moving online during the COVID-19 pandemic, which largely eliminated opportunities for informal payments. This insight points to the anticorruption as well as productivity opportunities for Cambodia from more rapid digitization of government services.

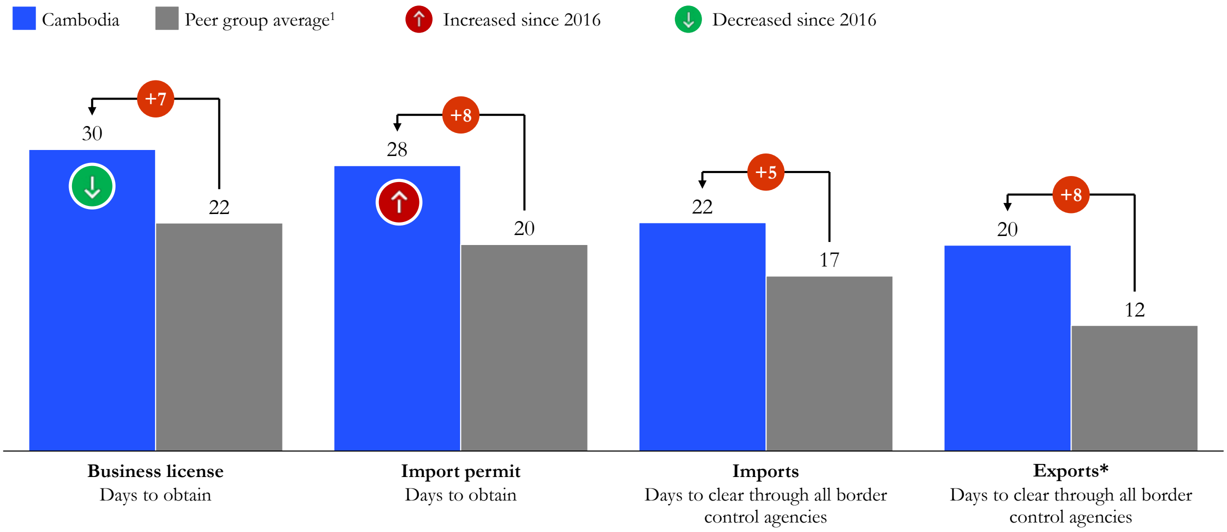
Moreover, informal payments are typically more prevalent and larger among firms located in mountainous regions of Cambodia as well as young, larger, and garment firms. Corruption is more likely to be cited as an obstacle to doing business by firms located in mountainous regions of Cambodia as well as by retail, garment, and medium-sized firms, and these concerns are roughly correlated with the variation in the incidence and size of informal payments (figure S.15). For example, firms located in the mountainous regions of Cambodia are more likely to make an informal payment (88 percent), along with young firms (67 percent), laggards (67 percent), medium-sized firms (66 percent), and garment firms (64 percent). Similar patterns of variation among firms are also observed for the size of payments, with the largest payments made by garment firms in mountainous regions (3.5 percent of sales), medium-sized firms (2.4 percent), young firms (2.3 percent), garment firms (2.3 percent), and large firms (2.1 percent).

C. Courts

Courts also remain a more widespread concern for Cambodian firms relative to their peers, reflecting more widespread perceptions of bias in commercial disputes and various operational issues. Courts were the fourth-highest “obstacle” to doing business in Cambodia (cited by 57 percent of firms), have become a bigger concern over time, and are a significantly bigger concern for Cambodian firms than their peers (figure S.5, above). Moreover, courts are a more prevalent concern for retail firms (78 percent) and for medium-sized firms (74 percent). Cambodian firms are also far more likely than their peers to think that courts are not independent or impartial when resolving commercial disputes (figure S.16). In 2023, 25 percent of Cambodian firms disagreed that “courts are independent and impartial in resolving commercial disputes” (compared to the peer average of 19 percent). There is also variation in perceptions about court independence among Cambodian firms, with frontier firms (40 percent), “other service” firms (38 percent), “other manufacturing” firms (33 percent), and small firms (29 percent) more likely to think that courts are biased. Other contributing factors to poor perceptions about courts include a lack of dedicated commercial courts in Cambodia and limited digitalization and transparency in court processes.[28]

28 B-Ready Report (World Bank 2024d).

Figure S.17. **Timeliness of business services for firms in Cambodia over time and compared to peers**



Source: Enterprise Surveys for Bangladesh (2022), Cambodia (2023), the Philippines (2023), and Vietnam (2023), World Bank.
Note: Peer group includes Bangladesh, the Philippines, and Vietnam.

D. Business documents and processes

Business documents and processes also remain a more widespread concern for Cambodian firms relative to their peers, partly reflecting significantly longer wait times for services. Business documents were the seventh-highest "obstacle" to doing business in Cambodia (cited by 48 percent of firms) and remain a bigger concern for Cambodian firms than their peers, despite improvements over time (figure S.5, above). Moreover, business documents are a more prevalent concern for medium-sized firms (67 percent), retail firms (64 percent), and garment firms (59 percent). These concerns partly reflect longer wait times across critical services provided by governments (figure S.17). Compared to their peers, Cambodian firms report waiting longer to (i) obtain a business operating license (30 compared to 22 days, down from 33 days in 2016); (ii) obtain an import permit (28 compared to 20 days, up sharply from 16 days in 2016); (iii) to clear imports through border control agencies (22 compared to 17 days); and (iv) to clear exports (20 compared to 12 days). Cambodian firms are waiting seven days longer than their peers, on average, across all these services. There is limited variation among Cambodian firms in days to obtain business documents, due to a standardized online process. However, there is some variation in the time to clear imports and exports. For example, it takes frontier firms and services firms longer—34 days and 24 days, respectively—to clear their imports through all agencies than manufacturing firms and laggards. It also takes significantly longer for small firms (26 days) than large firms (19 days). Other contributing factors to poor scores on business documents include weaknesses around digital services, the interoperability of services (across government agencies), transparency, and the costs to register a business. For international trade, issues include poor trade infrastructure (for example, equipment, facilities, and amenities), border management, and time taken to comply with trade requirements.[29]

VI. POLICY IMPLICATIONS AND RECOMMENDATIONS

This section outlines the following four priority reform areas to support a rapid transition to a more productivity-led economic growth model in Cambodia: (1) accelerate structural transformation both within and across sectors toward higher-value adding products, value-chains, and activities; (2) address structural barriers and/or disincentives faced by medium-sized firms, frontier firms, and firms in more rural/less urban regions; (3) encourage faster firm modernization and international orientation; and (4) address the most urgent and pressing obstacles to doing business raised by Cambodian firms. These four reform areas are interdependent and mutually reinforcing.

29 B-Ready Report (World Bank 2024d).

Cambodia needs to accelerate structural transformation both within and across sectors toward higher value-added products, value-chains, and activities. This Special Focus highlighted wide variation in labor productivity among Cambodian firms both within and across sectors, with some sectors (for example, services) and subsectors (for example, other services) significantly more productive than others (for example, garment manufacturing). Improving Cambodia's productivity performance requires reigniting and accelerating the country's structural transformation toward higher value-added activities and firms both within sectors and from lower- to higher-productivity sectors and from rural to urban areas. This is aligned with a broader need to pursue greater economic diversification in Cambodia to reduce the risks associated with the high concentration of products and markets. Specific policy ideas to accelerate structural transformation include:

- **Making it easier and faster for new firms to open and for underperforming firms to close,** including by fully digitalizing the business registration portal; reducing costs and wait times in all business services, possibly by mandating minimum services standards and enabling the capacity to meet these standards; and increasing the provision (and efficiency) of public services related to business insolvency and bankruptcy.[30] See (g) business services below for further details.
- **Encouraging the development of new industries and the transformation of existing ones into higher value-added segments,** including by providing well-designed incentives for investment in emerging industries and supporting small and medium-sized enterprises (SMEs) in their growth and innovation efforts. This could be supported by the co-development between government and industry of long-term roadmaps for critical sectors. For example, in garments, there is a clear need to develop a pathway for the country to move beyond the low-value-added assembly of low-priced, fast fashion products owned by foreign brands, especially considering Cambodia's impending graduation from least-developed country status, which will result in a loss of preferential trade access. A long-term roadmap could outline how the sector could take advantage of global trends (for example, consumer shifts to more organic and sustainable clothing) and Cambodia's existing expertise to move into higher-quality, more sustainable, and premium-priced products that are potentially locally designed and owned.

Cambodia also needs to address specific structural barriers and/or disincentives faced by medium-sized, rural/remote, and frontier firms. This Special Focus highlighted that medium-sized firms and firms located in the mountainous regions of Cambodia (and to a lesser extent in Tonle Sap) have lower labor productivity and are significantly more concerned about all doing business topics. Moreover, Cambodia's frontier firms are lagging far behind their regional peers. The cross-sectional analysis in sections IV and V also reveal that these firms have distinct concerns, which call for tailored policy interventions. Policies to support these firms include:

- **Targeted support to medium-sized firms to help them better navigate business obstacles.** Medium-sized Cambodian firms are the least productive, are more concerned about all business topics, are more likely to make informal payments to government officials to "get things done," and have lower management capabilities (which is a significant driver of productivity). Hence, medium-sized firms would benefit from greater government support to navigate business obstacles and build their capabilities. Potential interventions could include establishing (i) "one-stop shops" for firms, with outreach for SMEs; and (ii) training programs, courses, and grants to help SMEs build up their management and business capabilities as they scale.[31]
- **Targeted infrastructure and business service extension programs in rural/remote areas of Cambodia.** Firms located in more rural/remoter regions of Cambodia are less productive and more concerned about all business topics, including electricity and transport. Potential interventions to better support these firms could include new capital projects and initiatives to reduce

30 In the last 15 years, only a handful of high-profile insolvency cases have been handled by the Cambodia municipal courts. All cases processed in Cambodian courts to date have resulted in the piecemeal liquidation of the firm's assets, leading to a low recovery rate for creditors (14.6 cents on the dollar in Cambodia, compared to 35.5 cents in the EAP, on average, and 70.2 in Organisation for Economic Co-operation and Development countries). In addition, there is a lack of awareness of the benefit of restructuring among businesses and judges, and insolvency administrators lack specialized skills training in insolvency matters.

31 There are many examples of such programs throughout Asia including, for example, the ASEAN SME Academy.

inequalities in infrastructure and service standards with more urban areas. Examples include (i) upgrading provincial and rural roads, which fall behind national standards; (ii) improving access to broadband internet in rural areas; and (iii) opening new centers for government business services in these regions to better support local firms.[32]

- **Creating an environment for national frontier firms to strive for the regional productivity frontier.** Cambodia's frontier firms are operating far below the regional productivity frontier. Reforms that increase competition could help better incentivize national frontier firms to upgrade their productivity to better compete with regional and global frontier firms. Cambodia has already taken steps in this area, approving a new competition law in 2021 and establishing a Competition Commission, and it may take more time for the results of these reforms to take effect. However, Cambodia could consider further reforms to increase competition (especially in services and digital sectors) such as reducing trade barriers, opening more sectors to foreign investment, and reducing the influence of state-owned enterprises, particularly in sectors where competition is low.

- In addition, investing in digital and physical infrastructure, especially improving access to high-speed broadband, is critical to enabling firms to adopt advanced technologies. Finally, improving education and workforce skills, particularly in digital and technical areas, is essential to help firms innovate and stay competitive.[33] Frontier firms could also be encouraged and incentivized to invest in advanced technologies (for example, data analytics, cloud computing), focus on skills development (for example, through training programs and partnerships with educational institutions to ensure their employees have the necessary skills to drive innovation), and to expand their global networks (for example, to gain insights into global best practices, technology adoption, and competitive strategies).

In addition, Cambodia should incentivize greater and faster modernization and digitalization of its firms as well as a greater international orientation. This Special Focus highlighted that firms with more modern personnel practices (for example, a professional CEO, better management, provision of formal employee training programs) and that leverage technology (for example, have a website, use electronic payments) as well as firms that are export-oriented, typically have higher labor productivity. There would be productivity benefits from promoting the rapid diffusion of these best practices across firms in Cambodia.

- **Support and incentivize firms to upgrade their organizational, management, and workforce development practices.** Specific ideas include (i) encouraging the adoption of globally recognized management practices through public-private partnerships that expose local firms to international best practices and managerial methods, especially in sectors where global competitors excel; (ii) supporting management training programs by offering government-backed training programs or incentives for firms to invest in managerial skill development; (iii) incentivizing firm-level training programs through tax credits or direct subsidies to firms that establish in-house training programs focused on improving technical and managerial competencies; and (iv) providing financial incentives or grants for companies that focus on process improvements, lean management, and continuous innovation.

- **Support and incentivize firms to adopt productivity-enhancing technologies.** Specific ideas include (i) improving workforce technology skills by establishing or improving skill development programs and public-private training partnerships aimed at boosting digital and technical skills (for example, artificial intelligence and big data analytics); (ii) providing targeted tax breaks or grant programs to encourage firms, especially small and medium-sized enterprises (SMEs), to invest in technology adoption and digital transformation; (iii) establishing public research and development programs and technology transfer hubs to help firms access cutting-edge technologies and innovations that they can implement to improve productivity; and (iv) supporting the development and diffusion of digital platforms that can have positive spillover effects on productivity (for example, e-commerce platforms or cloud-based services).

- **Support firms to increase their international**

33 World Bank 2024f.

orientation, including by addressing infrastructure barriers to trade and improving the efficiency of trade processes (see "b. Infrastructure," below for further details) and improving services to help firms access new markets. For example, Cambodia could upgrade its export promotion, diversification, and connection services to help Cambodian firms better tap into and integrate with East Asian markets and supply chains (Cambodia's trade is concentrated with the United States and the EU).

Finally, Cambodia should prioritize and address the most pressing obstacles cited by its firms. This Special Focus highlighted that the most pressing needs include (a) ensuring the benefits of firm registration outweigh the costs, especially for small firms; (b) improving transport infrastructure; (c) improving access to skills and finance among pockets of more sophisticated firms; (d) streamlining the cumbersome and costly tax administration regime; (e) reducing corruption; (f) improving the efficiency and impartiality of court arbitration in commercial matters; and (g) improving the provision and efficiency of business services. Specific policy ideas to address each of these issues include:

a. **Informal firms: ensure that the benefits of firm registration outweigh the costs,** and that formality offers a pathway to higher productivity and better business opportunities.[34]

    - **Reducing the barriers and costs of firm registration.** While the business registration process largely went online during the COVID-19 pandemic (helping to significantly reduce informal payments and hence costs), it continues to cost more and take longer to obtain a business license in Cambodia relative to its peers, which is a clear disincentive to register. Cambodia should explore further opportunities to streamline and accelerate the process and to reduce costs (see "g. Business documents, below). Cambodia could also consider expanding business registration centers and services in rural and less urbanized areas to make it easier for informal firms operating in those areas to register, removing the geographic barriers to formalization.
    - **Increasing the benefits of registration.** Cambodia could consider offering a range of incentives to encourage informal firms to register and to make it worth doing so. For example, Cambodia could offer temporary tax breaks or reduced fees for newly registered firms. In addition, registered firms could be offered easier access to formal financial services, including bank loans, credit lines, and financial support from government programs. Cambodia can also provide grants or subsidies (for example, for technological adoption and capacity building, and workforce and management training programs) that are only available to registered firms. Finally, the government could give small, registered firms preferential access to government procurement contracts.

b. **Infrastructure: address well-known priorities[35]:**

    - **In transport,** the priority is to address deficiencies along prioritized regional transport corridors to facilitate efficient regional connectivity and trade, improve resilient domestic connectivity (provincial and rural roads), and increase funding for asset maintenance to ensure sustainability of investments. Priority initiatives include improving the (i) East-West corridor between Thailand, Cambodia, and Vietnam (and the only road corridor connecting Cambodia with Lao PDR); (ii) inland waterway connection with Vietnam; and (ii) existing railway operations and infrastructure links with Thailand.
    - **In logistics,** there is a need to improve resilient and efficient logistic flows by promoting multimodal transport operations and advancing the efforts on cross-border trade facilitation, such as full automation and transparency in customs clearance in the form of one-stop border posts (OSBPs) focusing on Single Stop Inspection (SSI)/Common Control Area (CCA) with Thailand and Vietnam to smooth cross-border and transit shipments.
    - **In telecommunications,** there is a need

34 The landscape of informal firms in Cambodia and their constraints will be examined in more detail as part of a forthcoming working paper series, "Leveraging a Dedicated Survey of Informal Firms."

35 See, for example, the Cambodia Second-Generation Systematic Country Diagnostic Update (World Bank 2024).

to promote investment in fixed broadband infrastructure, particularly in rural areas, improve connectivity speed and quality, and improve cybersecurity infrastructure to detect cyber threats better, protect critical information infrastructures, and safeguard the country's digital assets.

c. **Access to skills and finance: improve uptake/** utilization among high-skilled/sophisticated firms:

   - Access to skills, especially for larger and more sophisticated firms, could be enhanced by strengthening partnerships between the education sector, especially vocational education, and industry. There also needs to be a greater focus on imparting cross-sectoral modern and relevant skills to students (digital, technological, socioemotional, green, and advanced cognitive skills).

   - Cambodia can improve access to finance and the use of financial instruments, as well as the greater adoption of electronic payments by adopting a holistic and strategic approach to promoting transaction account ownership and use of digital payments; streamlining payments infrastructure, including through promoting and expanding Bakong, the peer-to-peer fund transfer service; expanding the acceptance network for digital payments; digitizing government payments; committing adequate public and private sector resources to effective digital and financial education; and designing products that meet the needs of different market segments.

d. **Tax administration: reduce the cost and burden of tax compliance,** especially by minimizing in-person meetings and manual paper-based processes that are heavily prone to informal payments. Specific ideas include (i) rationalizing and/or setting limits on the number of visits/inspections and moving them online as much as possible (where they can be more easily monitored and audited); (ii) streamlining the use of tax agents that are incentivized through commissions to aggressively pursue audits, which creates incentives for informal payments; (iii) automating and digitizing the tax system and potentially moving beyond expanding e-filing and e-payments, to mandating them and introducing prefilled declarations for taxpayers; (iv) improving the tax registration process, including by expanding or even mandating the use of Taxpayer Identification Numbers (TINs); (v) strengthening tax audit performance, including by implementing random internal and external audits to deter corrupt behavior, establishing appropriate dispute mechanisms to challenge the results of audits, reviewing the quality of audits periodically, and evaluating the impact of audits on tax compliance; (vi) setting up systems (for example, hotlines, independent investigation units) for firms to report solicitation of informal payments and other misconduct; (vii) developing a comprehensive compliance improvement plan (CIP); and (viii) streamlining tax procedures and documents to reduce complexity to reduce the need for meetings as well as the heavy reliance on external tax advisors, auditors, and agents.[36]

e. **Corruption: reduce the high incidence of informal payments among Cambodian firms by** (i) setting up systems (for example, hotlines) and encouraging firms to report solicitation of informal payments; (ii) increasing penalties for public officials caught soliciting informal payments; (iii) digitalizing payments for public services to reduce opportunities for informal payments, as an initial step along a broader government digital transformation; and (iv) strengthening institutions that facilitate constructive dialogue between the government and citizens to improve transparency, accountability, and participation.

f. **Courts: improve the enforcement of commercial contracts** by establishing specialized commercial courts and increasing court transparency and digitalization. Further effort is required to reduce the time and resources needed to resolve a case at the court of first instance (trial) court, appellate court, or at arbitration. An electronic case management system for communication with courts should be established. Allowing e-filing of court documents and the possibility to conduct online hearings would facilitate efficiency gains. Out-of-court commercial mediation should be promoted, with an established legal basis for its application.

36 World Bank, forthcoming (b).

g. **Business authorizations: reduce the direct and indirect costs and timelines** for business documents such as obtaining an operating license or import permit by increasing transparency and making greater use of digital technology. Specific ideas include:

  - **Fully digitizing the business registration portal and continuing to expand the list of institutions connected.** Completing the implementation of the business registration portal would ensure a fully online process. New features that could be added to the portal include electronic signatures and authentication as well as identity document verification. The portal should also be expanded to include other institutions such as the National Social Security Fund (for which it could be used to register employees) and potentially subnational entities (to register smaller companies and thereby reduce informality). In addition, allowing automatic exchange of information among public sector agencies connected to the portal would reduce multiple requests for the same information.
  - **Establishing a complete inventory of licenses and permits, introducing and implementing risk-based approaches to licensing, and streamlining sectoral licenses.** An inventory of licenses—with information on processes, documentation requirements, and fees—would increase transparency and reduce the administrative costs of compliance for businesses. However, such actions often present coordination challenges due to the numerous agencies involved in providing licenses for business operations. Cambodia could also consider transitioning to a risk-based approach to licensing, which would help reduce the compliance burden on low-risk firms and help direct limited government resources toward regulating and inspecting firms involved in activities that pose higher risks (environment, public health, safety, and so forth).

ANNEX. CAMBODIA – SELECTED INDICATORS

CAMBODIA

SELECTED INDICATORS*	Avg. '10-19	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 F
INCOME AND ECONOMIC GROWTH																
GDP growth (annual %)	7.6	5.1	7.3	7.7	7.9	8.0	7.2	7.9	8.1	8.8	7.9	-3.6	3.1	5.1	5.0	5.3
GDP per capita growth (annual %, real)	6.1	3.6	5.7	6.1	6.3	6.5	5.8	6.5	6.7	7.5	6.7	-4.7	1.9	4.0	3.9	4.2
GDP per capita (US$, nominal)	1,554	995	1,112	1,206	1,321	1,452	1,585	1,700	1,849	2,060	2,259	2,131	2,217	2,358	2,525	2,696
Private consumption growth (annual %)	6.4	9.3	10.8	6.0	6.8	5.4	5.7	4.6	6.7	5.5	3.4	-1.9	-2.4	5.2	-0.2	0.7
Gross investment (% of nominal GDP)	27.0	21.3	21.4	23.7	25.9	29.1	29.0	29.5	29.8	30.0	30.7	30.6	29.7	34.0	20.4	17.5
Gross investment - Public (% of nominal GDP)[2]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
MONEY AND PRICES																
Inflation, consumer prices (annual %, EOP or MRV)[1]	2.9	2.9	4.6	2.3	4.5	0.9	2.8	3.8	2.2	1.6	3.1	3.0	3.8	3.0	2.8	0.7
Inflation, consumer prices (annual %, period average)	2.9	2.6	5.5	3.0	2.9	3.9	1.2	3.0	2.9	2.5	1.9	2.9	2.8	5.5	2.1	2.2
Base money (% of GDP)	54.0	33.9	31.3	39.5	43.3	51.1	54.1	59.7	66.6	74.7	85.9	106.5	95.8	66.2	63.0	62.8
Domestic credit to the private sector (% of GDP)[2]	66.6	27.6	28.3	38.7	52.0	62.7	74.3	81.7	86.7	99.6	114.2	139.6	166.3	180.0	..	..
10-year interest rate (annual average)[1]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nominal exchange rate (local currency per USD)	4,043	4,044	4,016	4,033	4,027	4,030	4,025	4,058	4,062	4,067	4,070	4,077	4,100	4,150	4,110	4,100
Real exchange rate index (2015=100)	97.7	91.8	91.1	90.7	91.7	93.1	100.0	105.2	103.1	105.4	105.1	98.4	100.4	94.0	79.6	78.0
FISCAL																
Revenue (% of GDP)	15.6	14.4	14.1	13.9	14.2	15.2	14.7	15.7	16.5	17.7	20.0	17.9	16.2	17.2	15.9	15.4
Expenditure (% of GDP)	17.0	17.1	18.0	17.1	16.7	16.6	15.1	15.9	17.1	17.4	18.8	21.3	21.3	20.4	21.0	18.4
Interest payments (% of GDP)	0.3	0.2	0.2	0.4	0.6	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Non-interest expenditure (% of GDP)	16.6	16.9	17.7	16.7	16.1	16.1	14.8	15.6	16.8	17.1	18.5	20.9	20.9	20.1	20.7	18.1
Overall fiscal balance (% of GDP)	-1.3	-2.7	-3.9	-3.2	-2.5	-1.3	-0.3	-0.2	-0.6	0.3	1.1	-3.4	-5.1	-3.2	-5.1	-3.0
Primary fiscal balance (% of GDP)	-1.0	-2.5	-3.6	-2.8	-1.9	-0.8	-0.1	0.1	-0.3	0.6	1.4	-3.1	-4.8	-2.9	-4.8	-2.6
General government debt (% of GDP)	23.1	23.4	23.8	24.9	24.4	24.2	23.3	22.0	22.9	21.0	20.8	26.6	26.5	27.0	27.5	26.9
External public debt (% of GDP)[2]	29.4	27.2	27.0	30.5	31.6	31.5	31.3	29.2	29.7	28.5	28.0	34.0	35.2	34.1	..	..
EXTERNAL ACCOUNTS																
Export growth, G&S (nominal US$, annual %)	12.4	22.9	11.4	16.0	16.8	10.3	7.5	9.0	9.4	12.3	8.5	2.1	11.2	31.9	16.6	10.6
Import growth, G&S (nominal US$, annual %)	12.2	19.1	11.4	14.2	16.9	8.8	7.6	9.0	7.8	9.3	17.4	9.7	47.8	37.2	-19.8	5.2

CAMBODIA

SELECTED INDICATORS*	Avg. '10-19	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 F
Merchandise exports (% of GDP)	33.5	31.1	31.1	32.8	34.8	34.6	33.9	34.3	34.1	34.1	33.9	38.5	46.0	52.7	54.7	57.0
Merchandise imports (% of GDP)	42.1	41.1	40.4	42.3	44.9	43.7	42.8	42.9	42.0	40.9	40.3	48.9	67.7	68.6	54.8	58.4
Services, net (% of GDP)	5.1	5.5	5.0	5.7	6.1	5.8	5.6	5.3	5.3	5.5	1.3	1.0	-8.0	-24.5	-9.0	-4.2
Current account balance (current US$ millions)	-1602.1	-1165.3	-1309.3	-1390.7	-1489.3	-1899.7	-1680.6	-1756.5	-1634.4	-1540.5	-2155.0	-1938.3	-10711.1	-7437.5	561.4	-450.1
Current account balance (% of GDP)	-7.0	-8.2	-8.1	-7.8	-7.5	-8.6	-6.9	-6.6	-5.6	-4.7	-5.9	-5.5	-29.1	-18.8	1.3	-1.0
Foreign direct investment, net inflows (% of GDP)	9.3	9.6	9.4	11.0	10.1	8.0	7.1	9.0	9.1	9.4	9.7	10.0	9.2	8.7	8.5	8.8
Multilateral debt (% of total external debt)[2]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
POPULATION, EMPLOYMENT AND POVERTY																
Population, total (millions)	15.3	14.4	14.6	14.8	15.0	15.2	15.4	15.6	15.8	16.0	16.2	16.4	16.6	16.8	16.9	17.1
Population growth (annual %)	1.4	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.2	1.1	1.2	1.2	1.1	1.1	1.0
Unemployment rate[2]	0.4	0.8	0.6	0.5	0.4	0.7	0.4	0.7	0.1	0.1	0.1	0.2	0.4	0.2	0.2	..
Inequality - Gini coefficient[2]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Life expectancy[2]	69.6	67.7	68.4	68.9	69.3	69.7	69.9	70.2	70.5	70.6	70.7	70.4	69.6	69.9	..	..
OTHER																
GDP (current LCU, millions)	97,180,276	57,788,147	65,068,396	71,894,423	79,768,285	88,992,411	98,334,482	107,784,906	118,907,473	134,279,541	148,984,697	142,502,829	150,792,683	164,059,089	175,822,580	189,270,929
GDP (current US$, millions)	24,010	14,290	16,202	17,827	19,808	22,082	24,431	26,561	29,273	33,017	36,606	34,949	36,779	39,532	42,779	46,164
GDP per capita LCU (real)	6,140,283	4,605,275	4,869,531	5,166,639	5,493,458	5,850,600	6,188,162	6,588,877	7,028,221	7,552,222	8,059,846	7,683,607	7,829,263	8,141,064	8,458,835	8,815,125
Human Development Index Ranking[3]	150.0	149	150	150	151	151	150	150	149	150	150	149	147	148	..	..
CPIA (overall rating)[2]	3.4	3.4	3.4	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.6	3.6	..
Economic management[2]	4.0	4.0	3.8	3.8	3.8	3.8	4.0	4.0	4.0	4.2	4.2	4.2	4.2	4.2	4.2	..
Structural policies[2]	3.5	3.3	3.5	3.7	3.7	3.7	3.5	3.5	3.3	3.3	3.3	3.3	3.5	3.5	3.5	..
Policies for social inclusion and equity[2]	3.4	3.4	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.6	3.8	3.8	..
Public sector management and institutions[2]	2.7	2.7	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.6	2.6	2.7	2.8	2.8	2.8	..

Notes: ".." indicates not available. E = estimate, F = forecast. Data from MFMOD unless otherwise noted.
1/ Haver Analytics database; MRV = Most recent value.
2/ World Development Indicators Database and World Bank Staff Estimates.
3/ The HDI ranking in 2001 is in relation to 175 countries and in 2010 in relation to 169 countries. Methodological enhancements in HDI calculations have resulted in notable improvements in the countries' rankings.
Sources: MFMOD Database, World Bank WDI and Haver Analytics databases, IMF.

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