



NATIONAL BANK OF CAMBODIA
Riel. Stability. Development.



FINANCIAL STABILITY REVIEW

2023

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Foreword

After overcoming difficulties posed by the COVID-19 crisis, the global economy has faced subsequent challenges, particularly heightened geopolitical tensions and aggressive tightening of monetary policy in advanced countries to combat high inflation. Despite these hurdles, global economic activities proved resilient with a positive growth rate of 3.2 percent in 2023 and inflation fell faster than expected in most regions.

As a small open economy, Cambodia has not been insulated from these global challenges. Sectors such as garment manufacturing, construction, and real estate have experienced significant impacts; however, the country's efforts to diversify its industrial base have shown positive results, as seen in the growing proportion of non-garment exports in recent years. In addition, the resurgence in tourism and domestic demand has further lifted the economic growth in 2023.

The banking system has played an important role, contributing to the robustness of Cambodia's economy. Despite pressure from external factors, Cambodia's banking system has been resilient, as reflected in its high capital adequacy and liquidity ratios. Regardless, the National Bank of Cambodia (NBC) remains cautious given a sharp slowdown in credit growth amid a high-interest rate environment and the rise in non-performing loan ratio as a result of the expiry of regulatory forbearance measures.

In 2024, the global outlook is projected to improve, yet significant downside risks remain. Geopolitical conflicts that may disrupt supply chains and lead to trade fragmentation, uncertainties surrounding China's troubled property sector, the impacts of climate change, and the threat of cyberattacks are among the major risks that could hinder global and regional economic growth. Should these risks materialize, they could hinder Cambodia's economic growth, cause inflation and exchange rates to rise, and possibly put pressure on the quality of credit among high-leverage firms and households.

The NBC remains committed to collaborating with all relevant stakeholders to closely monitor recent developments and emerging risks to economic and financial stability. The Financial Stability Review (FSR) 2023 serves as a key tool for the NBC to disseminate its analysis and assessment of Cambodia's economic and financial landscape, highlighting risks inherent in the financial sector, especially in the banking system, and proposing policy options to manage those risks. I hope that this FSR will help stakeholders and the public identify potential threats to financial stability at an early stage, and foster joint efforts with the NBC to implement timely and appropriate measures.

Phnom Penh, 20th May 2024



Chhea Serey

Governor

National Bank of Cambodia

Executive Summary

Confronting high inflation and tightening monetary policy, the global economy remained resilient although the growth decelerated. Global economic growth slowed to 3.2 percent in 2023, notably in advanced countries where the growth rate declined to 1.6 percent from 2.6 percent in 2022. As a result of weak external demands, ASEAN's economic growth also slowed from 5.6 percent to 4.2 percent.

Cambodia's economic growth remained resilient with a growth rate of 5 percent, slightly lower than the 5.1 percent rate in 2022. The exports of garment-related products were impacted by weak external demand in the US and EU, yet the exports of non-garment products were robust. Tourism continued to recover, supporting the service-related sectors, yet the construction and real estate activities still limped. In line with economic recovery, total FDI inflows kept increasing but differed across sectors, and the BoP switched from a surplus to a slight deficit of 0.4 percent of GDP.

Despite external pressure, the KHR exchange rate was stable, partly on the back of the NBC's intervention in the foreign exchange market, while international reserves remained adequate. The KHR nominal exchange rate was KHR 4,111 per USD on average in 2023, depreciating by 0.2 percent against the average rate in 2022 or by 1.5 percent compared to 2019, the pre-pandemic year. However, given that some of Cambodia's main trading partner currencies strongly depreciated against the USD, the country's real effective exchange rate continued its appreciating trend, which might affect Cambodian trade competitiveness. International reserves increased by 13.2 percent to USD 20 billion, sufficient to cover at least 7 months of prospective imports of goods and services.

As a result of the decline in oil prices and the fall in global and regional inflation, Cambodia's inflation decreased from 5.4 percent in 2022 to 2.1 percent in 2023. Cambodian inflation returned to its low levels in 2023 as the prices of oil-related items fell by 2.7 percent, which contributed to decelerating food and core inflation, while a stable nominal exchange rate helped mitigate imported inflation. To better ensure price stability, the promotion of KHR in the economy by all relevant stakeholders must be accelerated to enable the National Bank of Cambodia (NBC) to effectively use its monetary policy to influence inflation and economic activities.

Fiscal balance was negative due to lower revenue collections and increasing expenditures. The decline in tax collection amid deceleration in economic activities in some sectors and the decrease in custom taxes as a result of lower imports and the FTAs, coupled with the increase in expenditures related to the preparation of the SEA & ASEAN Para Games and national election, turned the fiscal balance negative -2.6 percent of GDP in 2023. The government's debt to GDP increased by 1.2 percentage points to equal 26.2 percent of GDP, yet remained well below the threshold of 40 percent.

Despite the rise in credit risk, the banking system remained resilient and continued to provide funding to support post-pandemic economic recovery. Growth in banking system assets and loans decelerated to 8.2 and 4.2 percent in 2023, respectively, yet growth in deposits improved to 13 percent due to more attractive deposit rates amid a higher interest rate environment. Within the banking system, commercial banks accounted for 91 percent of the total assets, with KHR 314.3 trillion (USD 76.9 billion), after the largest MDI was merged with a bank.

The one-time effect of the MDI-bank merger made the growth in bank credit appear healthier at 16.4 percent. Credit was allocated to various sectors, but two broad categories, mortgages, construction and real estate loans followed by retail and wholesale trade, represented half of the total credit. After the withdrawal of regulatory forbearance measures, the expected deterioration in the asset quality was reflected in the rise of the non-performing loan ratio (NPLR) to 5.1 percent in 2023.

Banks' liquidity and capital levels remained healthy, yet profits dropped. On the liquidity side, banks' LCR improved to 166.6 percent, well above the requirement of 100 percent, though some other liquidity indicators, including liquid assets to total assets and liquid assets to deposits, posted a moderate deterioration. Banks' net profits after tax plummeted by 45 percent on account of higher interest and provisions expenses; yet, banks' average capital adequacy level stood at 22.3 percent, higher than the minimum requirement of 15 percent, which reflected banks' loss absorption capacity in case some unexpected shocks materialize.

In the microfinance sector, assets of MDIs almost halved in 2023 after the MDI-bank merger which also led to a drop in credit by 46 percent. Meanwhile, credit quality deteriorated but remained manageable with adequate provisioning and strong capital position as reflected in high CARs of 22.9 percent for MDIs and 31.6 percent for MFIs. Higher provisions coupled with tight financial conditions also contributed to the decline in the microfinance sector's profitability.

For specialized banks, the assets slightly declined because of the slowdown in credit growth, and the NPLR increased. As of 2023, specialized banks' assets accounted for 0.8 percent of the banking system assets, after their assets decreased marginally by 3.2 percent. Credit growth slowed to 1.6 percent, and the NPLR reached 12.1 percent, but CAR remained strong at 39 percent.

The non-bank financial sector continued to expand with the addition of newly listed companies in both equity and debt markets. As a result, the market capitalization for the equity market surged by 71.2 percent to KHR 12.8 trillion (USD 3.2 billion). For the bond market, the total corporate bond outstanding also slightly increased by 0.6 percent to equal KHR 518.2 billion (USD 126.9 million) with the first green bond and sustainable bond officially listed in Cambodia's financial market as well. In addition, the outstanding amount of the government bonds increased, which supported the bond market development in local currency. The insurance sector continued to develop with the total assets of the sector growing by 10.6 percent to more than KHR 4.4 trillion (USD 1.1 billion) although the total gross premium's growth slowed to 2.3 percent in 2023 from 10.7 percent in the previous year.

In line with the government's Pentagon Strategy and market demand, payment systems were constantly modernized and connected with other countries in the region. In recent years, the use of electronic payment systems has increased remarkably with the value of digital payments reaching almost 12 times of GDP in 2023. The increasing use of digital payments such as Bakong and KHQR also encouraged the use of Khmer riel, while the NBC has actively developed cross-border payment connectivity to further deepen economic and financial cooperation as well as to promote the use of local currencies in the region.

Outlook and Risks:

Cambodia's economy is expected to grow by 6 percent in 2024, supported by improved external and domestic conditions. Global growth was projected at 3.2 percent in 2024 by the IMF, higher than the previous forecast, mainly on account of greater-than-expected resilience in the US and faster economic recovery in China, which are also Cambodia's main trading and investment partners. Global inflation is projected to fall from an estimated 6.8 percent in 2023 to 5.9 percent in 2024, with inflation falling faster in advanced countries, which could encourage those countries to reduce their policy rate faster than expected. This improved global outlook would support Cambodia's exports, both garment and non-garment manufacturing products, and tourism. In addition, the Regional Comprehensive Economic Partnership (RCEP) and other Free Trade Agreements (FTAs) could attract more FDIs and help Cambodia to diversify its productions and exports. The increasing flight connections to Cambodia, a fast recovery in tourism in the region, and the rollout of the "Visit Siem Reap 2024" campaign are expected to contribute to strengthening the recovery in tourism, which should also yield positive impacts on other related sectors, including wholesale and retail trade, as well as transportation and communication. Agriculture's growth may remain slow but continue to play a main role in supporting economic development. The construction and real estate sectors could remain sluggish, especially the real estate, which has seen an oversupply of condominiums, commercial buildings, and flat houses, amid the weak demands following the COVID-19 crisis and ongoing global economic uncertainties. Despite a stronger economic growth rate, inflation in Cambodia is projected to remain low and manageable level at around 2 percent.

Despite a better outlook, risks, mostly from external factors, remain elevated. Those risks include geopolitical tension, prolonged tightening of monetary policies in advanced countries, weaker-than-expected growth in China, and climate change. The geopolitical tension has intensified in recent years, which could cause supply disruption and trade fragmentation, affecting global growth and production. Related to this point, global inflation could surge again, which would encourage central banks to keep their policy rate higher, slowing global demand and reducing capital flow to emerging and developing countries. In turn, a small and open economy like Cambodia could be affected, mainly through the export channel, while inflation could face upward pressures through imported products and higher costs of production. Deepening the property sector issue in China could slow regional economic activities, including Cambodia given that China is the country's top foreign investor. Besides this, climate change remains a major risk for agriculture which is strongly sensitive to rainfall patterns.

The banking system would continue to support economic growth while financial stability would be maintained. Cambodia's banking system has been resilient amid the pandemic and the successive external challenges. The robustness of the banking system has also mitigated the impacts of external shocks. Therefore, the banking system is expected to continue to play a crucial role in supporting the country's economic and social development via credit allocation to productive sectors, access to other financial services, and the modernization of the payment system which facilitates trade, investment, and cross-border transactions.

Nevertheless, the banking system is also subject to risks. Prolonged tightening of international financial conditions could keep interest rates in Cambodia higher, affecting the cost of debt servicing for domestic borrowers and the profitability of banks and financial institutions

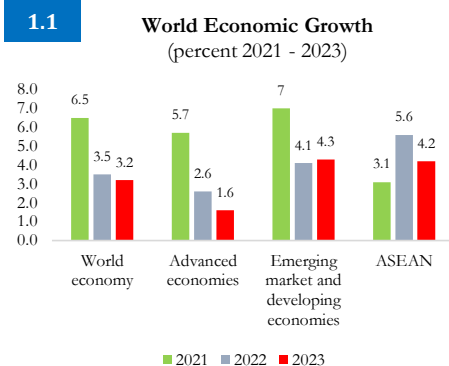
that also partly rely on external funding. Meanwhile, if economic activities grow slower than expected, coupled with higher borrowing costs, this could lead to lower demand for credit, reduce firm and household incomes, and increase the NPLR. The sluggish real estate market is another risk to watch out for as it may affect some banks and financial institutions that have relatively large exposure to the sector. Therefore, the NBC will continue to collaborate with all relevant authorities to closely monitor these developments and risks, and introduce pre-emptive measures if necessary to preserve financial stability and support economic growth.

Global economy continued to recover in 2023 but at a slower speed amid several challenges related to geopolitical conflicts, high inflation, and tightening financial conditions. Despite the external pressures, Cambodia's economy grew at 5 percent, similar to 2022, yet still below its potential growth. The slowdown in external demands from the US and EU made the growth in the manufacturing sector slower, notably the garment manufacturing industry. However, the tourism sector continued to rebound with the number of international tourist arrivals reaching 82.5 percent of the pre-pandemic level, though the receipts recovered at a slower pace at 62.7 percent. Agriculture grew at a low rate, while the construction and real estate sectors still faced challenges from external headwinds, especially the real estate activities that declined by 0.9 percent. The pressures were also reflected in a slight deficit of the BoP of 0.4 percent of GDP. Fiscal balance recorded a deficit of 2.6 percent of GDP amid a fall in tax collection and higher fiscal expenditures related to the preparation of the SEA Game and ASEAN Para Game as well as the national election. Nevertheless, the KHR exchange rate remained stable, while inflation declined from 5.4 percent to 2.1 percent, mainly due to the fall in oil prices that also led to the reduction in food and core inflations. International reserves increased to equal USD 20 billion, yet a high level of dollarization implies that more accumulation of reserves is still desirable, and the acceleration of the riel promotion strategy is required to provide the country with more independent monetary policy, necessary for long-term growth and its resilience against external shocks.

1.1 External Condition

A. Global Economy

Global economy in 2023 continued to recover from the pandemic, but the speed was slower amid challenges. Global economic growth slowed from 3.5 percent in 2022 to 3.2 percent in 2023, mainly due to a sharp slowdown in advanced economies, from 2.6 to 1.6 percent, while the growth rate in emerging and developing economies remained moderate at 4.3 percent (Figure 1.1). The prolonged Russia-Ukraine war, high inflation, and tightening financial conditions were the main challenges to the global recovery to the pre-pandemic output trends, but the global economy was quite resilient to keep a positive growth rate despite the speed being slower. Impacted by the weak external demand, the economic growth in ASEAN also decelerated to 4.2 percent in 2023.



Source: IMF's WEO and AMRO's AREO reports in April 2024

Inflation has fallen faster than expected across advanced economies, which is expected to open the door for their central banks to start cutting interest rates this year. The world headline inflation decelerated to 6.8 percent in 2023 from the previous year's 8.7 percent (Figure 1.2) as a result of unwinding supply-side disruptions and tightening monetary policy that reduced the demand pressures. Inflation in advanced countries, in particular, fell quickly from 7.3 percent to 4.6 percent in 2023 and was projected to decline to 2.6 percent in 2024. This supports the markets' views that policy rates in advanced economies would be cut this year. Nevertheless, in ASEAN, inflation increased from 7.9 percent to 8 percent. This increasing rate was due to high inflation in Laos and Myanmar because of their specific economic and political challenges. Excluding these countries, the inflation in ASEAN also fell from 4.7 percent in 2022 to 3 percent in 2023.

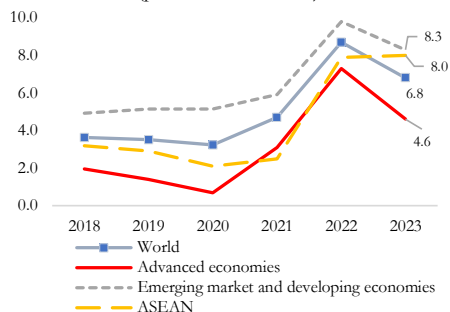
Policy rates in advanced countries were raised to fight against inflation, yet it was expected that the rates would likely be cut this year. Given the highest inflation in 2022, which was never seen in their economies over the last few decades, advanced countries such as the US, EU, and UK aggressively raised their policy rate (Figure 1.3). With the expectation that the inflation will converge back to targets by the end of 2025 in most G20 economies, central banks in advanced countries are expected to start adjusting their policy rate to a less restrictive stance during this year.

B. Cambodia's Balance of Payments (BoP)

The BoP recorded a slight deficit of 0.4 percent of GDP (Figure 1.4). A significant improvement in the merchandise trade deficit from 22.1 percent of GDP¹ in 2022 to 7 percent in 2023 and the recovery of the tourism sector brought the current and capital account to a surplus of 1.6 percent of GDP in 2023. However, the financial account, including net errors and omissions, switched from a surplus to a deficit of 2 percent of GDP, mainly due to the net outflow of

1.2

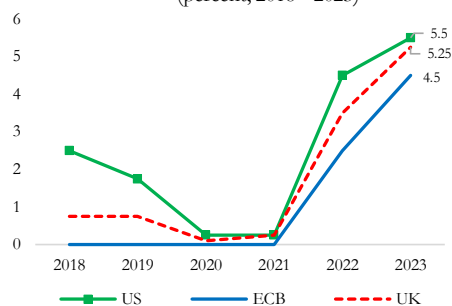
World Inflation
(percent, 2018 - 2023)



Source: IMF's WEO and AMRO's AREO reports in April 2024

1.3

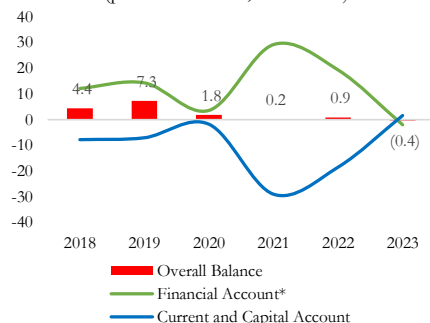
Policy Rates in Advanced Economies
(percent, 2018 - 2023)



Source: Trading Economics

1.4

Balance of Payments
(percent of GDP, 2018-2023)



*Note: Financial Account includes net error and omission

Source: National Bank of Cambodia

¹ National Institute of Statistics' new GDP, base year 2014.

other investments given an increase in net foreign assets held by the private sector.

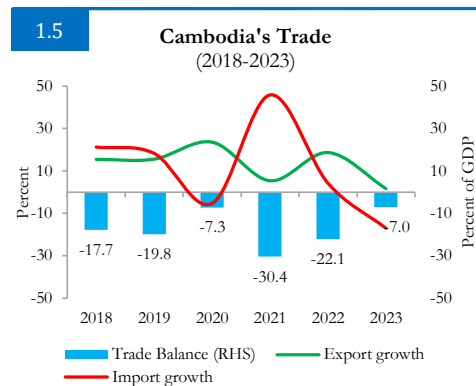
B.1. Current and Capital Account

Current and capital accounts switched to a surplus, mainly on the back of an improved trade deficit. Despite the decrease in the export of garment products² by 13.2 percent due to weakening demands in the US and EU which are the main export destinations of garment products, a significant increase in electrical parts (66.3 percent) and agricultural products such as rice (12.4 percent) and rubber (29 percent) lifted the total export to slightly increase by 1.7 percent. This reflected the diversification efforts of the Royal Government of Cambodia (RGC) and the effect of multilateral and bilateral FTAs. Meanwhile, imports declined by 17 percent mainly due to a decrease in imports of vehicles (35.9 percent), garment material (6.4 percent), petroleum (5.3 percent), and others (25.6 percent). Overall, the trade deficit improved from 22.1 percent of GDP in 2022 to 7 percent in 2023 (Figure 1.5).

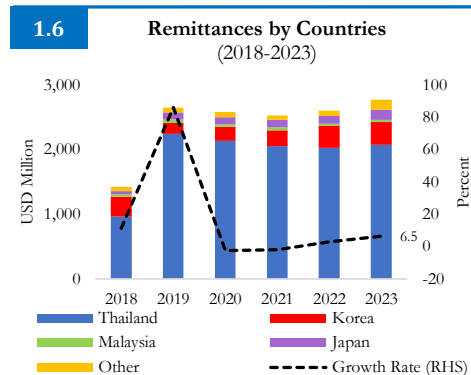
A jump in international tourist arrivals and an increase in remittance receipts also contributed to the current and capital account surplus. International tourist arrivals doubled from 2.3 million to 5.5 million in 2023. Remittance receipts increased by 6.5 percent to USD 2.8 billion (Figure 1.6), mainly attributed to the rise in remittances from Thailand by 2.4 percent, which accounted for more than two-thirds of total remittances. Remittances from Korea (a share of 12.5 percent) also increased by 3.6 percent, while those from Japan strongly increased by 33 percent.

B.2. Financial Account

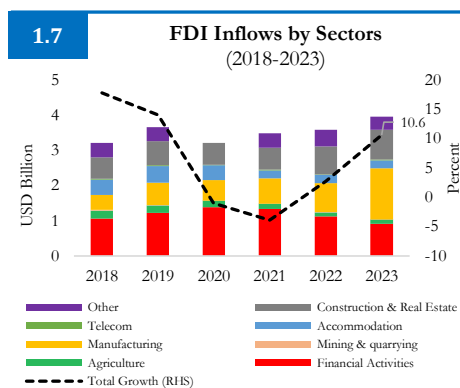
Foreign Direct Investment (FDI) inflows continued to rebound to the pre-pandemic trend, yet the inflows were uneven across sectors. FDI inflows reached USD 4 billion in 2023, equivalent to a growth rate of 10.6 percent and exceeding the inflow before the pandemic (USD 3.7 billion in 2019) (Figure 1.7). FDI to manufacturing surged by 76.4 percent and



Source: National Bank of Cambodia



Source: National Bank of Cambodia



Source: Council for the Development of Cambodia

² This includes garments, footwear, and other textile.

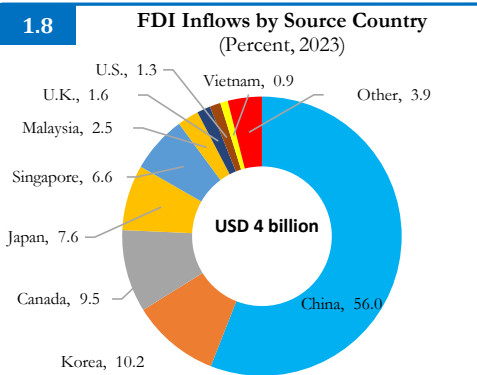
represented 36.5 percent of total FDI inflows. Traditional manufacturing industries such as garment, footwear, and textile remained attractive; yet other industries also emerged, including solar manufacturing, food processing, and car tires. FDI to several non-manufacturing sectors also recorded positive growths including construction (17.4 percent), agriculture (2.7 percent), and hydropower (20.3 percent). Nonetheless, FDI inflows to some sectors declined, for instance, finance (-18.6 percent), real estate (-11.8 percent), and accommodation (-1.6 percent).

China’s FDI remained at the top. China accounted for more than half of FDI inflows in 2023 (Figure 1.8), with most investments in manufacturing, finance, construction, real estate, and accommodation. Other Asian countries also contributed to FDI flows including South Korea (10.2 percent), Japan (7.6 percent), and Singapore (6.6 percent) etc, while FDI from Canada was also sizeable (9.5 percent). These countries invest mainly in finance, real estate, and manufacturing.

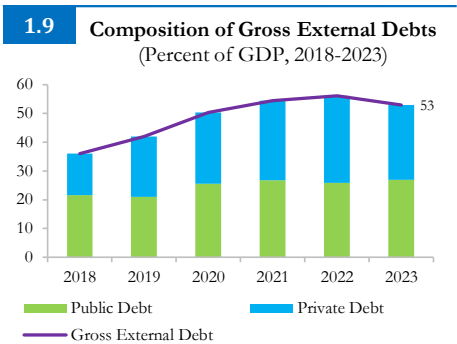
Gross external debt³ continued to rise but declined relative to GDP. The gross external debt increased by 1.1 percent compared to last year, reaching USD 22.6 billion of which USD 18.3 billion was long-term debt. In terms of share to GDP, however, it decreased from 56.1 percent to 53 percent (Figure 1.9). The public external debts, all of which were long-term credits, amounted to USD 11.5 billion, rising by 11.8 percent. The deposit-taking corporations’ gross external debt declined by 8.1 percent to USD 11.1 billion of which USD 6.7 billion were long-term borrowings.

C. Exchange Rate and International Reserves

Despite external pressures, Khmer Riel (KHR) exchange rate remained stable against the USD. The slowdown in the net inflows of the USD, the appreciation of the USD in international markets, and public expenditures related to the SEA Games and ASEAN Para Games caused the KHR nominal exchange rate to depreciate from May 2023 and reached KHR 4,158 per USD by the end of August. In



Source: Council for the Development of Cambodia



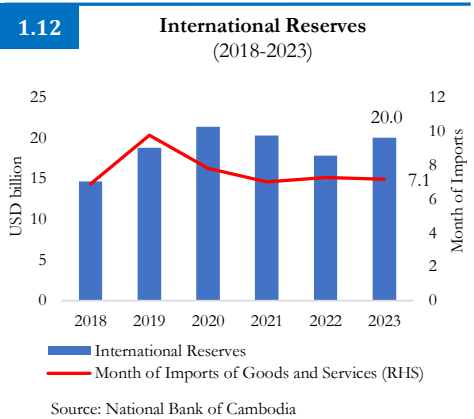
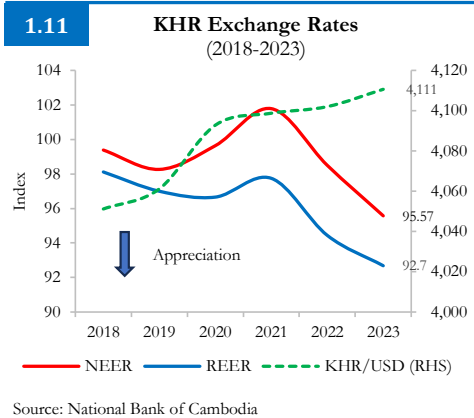
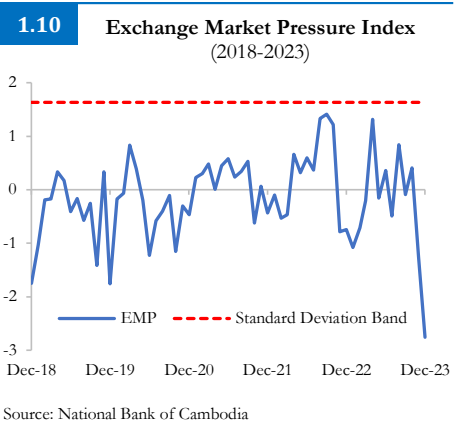
Source: Ministry of Economy and Finance, and National Bank of Cambodia

³ The external debts cover external borrowings by the public sector (the government and central bank) and deposit-taking corporations only.

this situation, the NBC intervened in the foreign exchange market and implemented monetary policy instruments to stabilize the exchange rate. As a result, the nominal exchange rate was stable at KHR 4,111 per USD on average in 2023, a slight depreciation of 0.2 percent compared to 2022 or 1.5 percent compared to the year before the pandemic (2019). This slight depreciation does not cause any concerns as the Exchange Market Pressure (EMP) index⁴ remained below its standard deviation threshold⁵ thanks to a high level of international reserves (Figure 1.10).

Nonetheless, the stability of KHR against the USD led the effective exchange rate to appreciate against key trading partners. In 2023, Cambodia’s main trading partner currencies depreciated against the USD. For instance, the Japanese Yen depreciated by 9 percent, the Chinese Yuan by 6.7 percent, the Canadian Dollar by 4.9 percent, the Korean Won by 3.7 percent, the Vietnamese Dong by 2.6 percent, the Thai Baht by 1.4 percent, and the Great British Pound by 1.3 percent. Consequently, the KHR nominal effective exchange rate (NEER) against key trading partners appreciated by 3 percent, and the real effective exchange rate (REER) appreciated by 1.9 percent (Figure 1.11), which could affect Cambodian trade competitiveness.

After declining for two years, international reserves rebounded in 2023. Reserves equaled USD 20 billion by the end of 2023, equivalent to an increase of 13.2 percent compared to 2022. This level was equivalent to 7.1 months of prospective imports of goods and services (Figure 1.12), higher than the minimum benchmark of 3 months for developing countries. In comparison to the broad money (M2), it equaled 42 percent of M2, which was again higher than the benchmark of 20 percent. However, in the context of high dollarization (reserves were around 51 percent of foreign currency deposits), further accumulation of



⁴ EMP index is used to analyze foreign exchange pressure in the market as reflected in monthly changes of nominal exchange rate and international reserves (a proxy of the central bank’s capacity to carry out foreign exchange intervention to stabilize the exchange rate if necessary). In the context of a highly dollarized economy, when EMP exceeds the upper bound, it does not imply that Cambodia encounters the risk of a currency crisis, yet it reflects a decline in international reserves and/or a strong depreciation of local currency, which might affect the market confidence in the country’s macroeconomic stability.

⁵ The standard deviation band was defined by $\mu\text{EMP} + \sigma\text{EMP} \times \varphi$, where μEMP : average of EMP; σEMP : standard deviation of EMP; φ : 99 percentiles of σEMP .

international reserves would be desirable to strengthen the economic resilience against external shocks.

Box 1.1

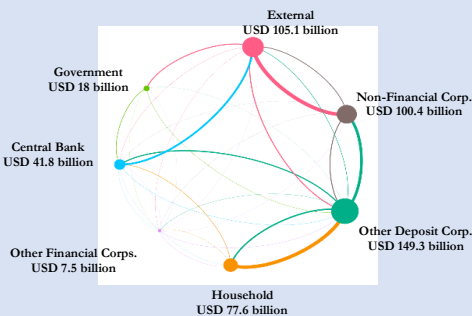
Balance Sheet Analysis

From the perspective of assets and liabilities, the gross financial position of all sectors at the end of 2023 was USD 499.6 billion, increasing by 9.8 percent compared to 2022. This increase was mainly a result of the growth of external sector (10.5 percent), household (11.4 percent) and other deposit corporations (8.9 percent). In terms of size, other deposit corporations (ODCs), external sector, non-financial corporations (NFCs), and household are the major contributors of USD 149.3 billion, USD 105.1 billion, USD 100.4 billion, and USD 77.6 billion, respectively.

For the net position, the ODCs reported a net creditor of USD 2.7 billion, an increase of 27.3 percent (y-o-y) from USD 2.2 billion in 2022. The liabilities of ODCs to the rest of the sectors accumulated USD 73.3 billion, representing an 8.6 percent (y-o-y) rise, mainly due to the rise in liabilities of households (12.4 percent), and NFC (8.9 percent). Whereas the claims of ODCs on the rest of the sectors reached USD 76 billion, an increase of 9.1 percent from USD 70 billion in 2022, which was attributed mainly to a rise in the provision of funds to NFCs (2.2 percent) and households (9.6 percent), most of which were in the form of loans. In addition, NFCs show a net debtor of USD 70.2 billion, an increase of 7.1 percent. The fund's inflow from the rest of the sector into the NFCs accumulated USD 85.3 billion, which was an increase of 7.2 percent (y-o-y); in contrast, the claims from the rest of the sectors to NFCs recorded USD 15.1 billion, a 7.8 percent increase.

The external sector indicated a net credit or of USD 40 billion to Cambodia, which was an increase of 0.9 percent. Cambodia received the influx of funds from external sector, totaling USD 72.6 billion, up by 7.7 percent, while the outflows from Cambodia to the external sector amounted to USD 32.5 billion, a rise of 17.4 percent. NFCs were the main recipients of funds from the external sector, accounting for 67.9 percent, while the inflow from NFCs to the external sector contributed only 17.7 percent of the total inflows.

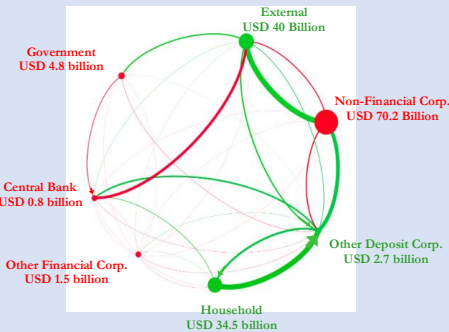
A Gross Financial Position of All Sectors in 2023



Notes:

- The size of bubbles represents the total assets and liabilities of each sector.
- The line color from each sector toward the other sectors represents the claim from those sectors.

B Net Financial Position of All Sectors in 2023



Notes:

- The size of the bubble represents the relative size of the net financial position of each sector.
- The bubbles in red represents net debtors, while the green represents net creditors
- The line color from each sector toward the other sectors represent the claim from those sectors

1.2 Domestic Sector

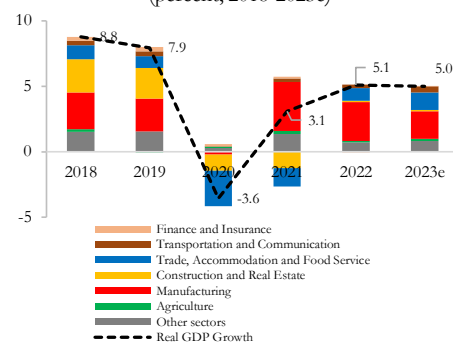
A. Economic Growth

Cambodia's economy grew by 5 percent in 2023 similar to 2022, but still far below its growth before the pandemic (Figure 1.13). The GDP growth was mainly contributed by the industry (2.52 percentage points) and service sectors (2.36 percentage points), while agriculture marginally contributed to the economic growth (0.148 percentage point). By sub-sectors, the garment manufacturing still played an important role with a share of contribution of 0.72 percentage point, declining from 1.8 in the previous year. However, non-garment manufacturing emerged as a promising sector with a contribution of 1.38 percentage point, up from 1.16. With a fast recovery of international tourist arrivals and domestic tourism, the share of tourist-related sectors continued to recover, including the wholesale and retail trade, accommodation and food service, transportation and communication.

The manufacturing sector continued to be a major driver of Cambodia's economy despite external challenges (Figure 1.14). The sectoral growth rate slowed down to 7.2 percent in 2023 from 10.6 percent in the previous year, mainly due to the slowdown in external demands, especially from the US and EU, on the export of garment products. However, the export of non-garment manufacturing products has been promising, making the non-garment manufacturing industry grow by 11.1 percent.

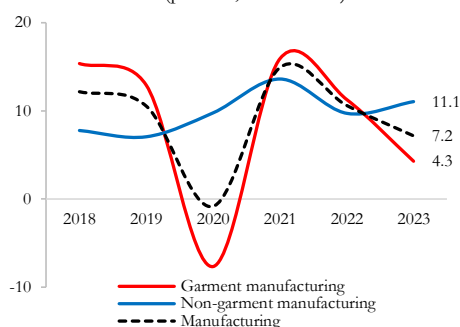
The tourism sector rebounded strongly in terms of number of tourist arrivals. This impressive recovery was a result of several factors including the successful organization of the SEA Games and ASEAN Para Games, which attracted a lot of tourists in the region, the reintroduction of direct flights, and the opening of the new Siem Reap Angkor International Airport. As a result, the number of international visitor arrivals to Cambodia jumped to about 5.5 million from 2.3 million in 2022 (Figure 1.15), and equaling 82.5 percent of the number of international tourists before the pandemic.

1.13 Contribution to Growth
(percent, 2018-2023e)



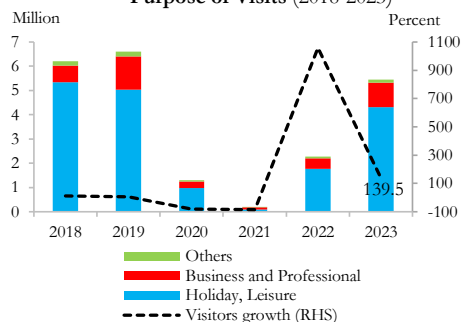
Source: National Institute of Statistics

1.14 Growth of Manufacturing Sector
(percent, 2018-2023e)



Source: National Institute of Statistics

1.15 Number of International Arrivals by Purpose of Visits (2018-2023)

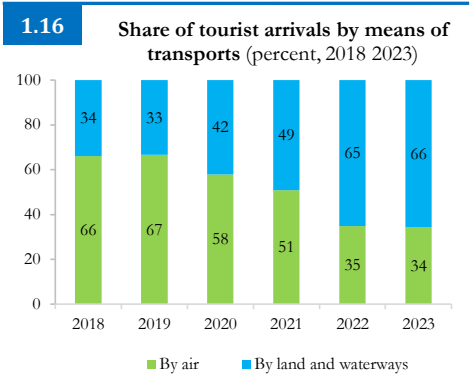


Source: Ministry of Tourism

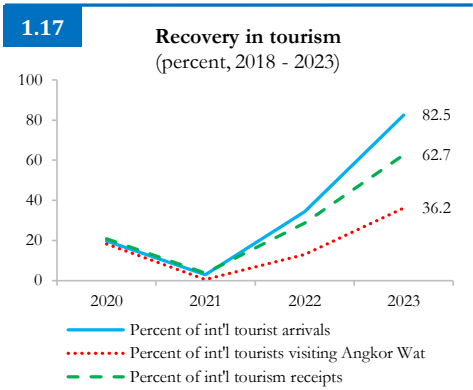
Despite a quick rebound in tourist arrivals, the quality of recovery appeared less promising as most tourists arrived by land, who normally spent less than those who arrived by air. As shown in Figure 1.16, tourist arrivals by air before the pandemic represented around two-thirds of total arrivals. However, the share of these tourists, who normally spend more than those arriving by other means of transportation, dropped to one-third in the last two years. For instance, while the number of total international tourists recovered to equal 82.5 percent of the numbers in 2019, the number of international tourists visiting Angkor Wat was only 36.2 percent and the international tourism receipts were still at 62.7 percent of the figure in 2019 (Figure 1.17).

Nevertheless, Cambodian domestic tourism exhibited remarkable resilience, with a notable increase of 34.5 percent, surpassing the pre-pandemic level. This surge in domestic tourists was attributed to various factors, including heightened interest in exploring local destinations and improved accessibility facilitated by infrastructure developments. Notably, 44 percent of domestic tourists gravitated towards coastal regions, drawn by the completion of infrastructure projects such as the Sihanoukville expressway. Moreover, an additional contributing factor to this uptick in domestic tourism was the implementation of targeted promotional campaigns by the RGC, aimed at fostering a sense of national pride and encouraging citizens to discover the beauty and heritage of Cambodia. This approach not only bolstered the domestic tourism sector but also served as a catalyst for economic growth and cultural appreciation within Cambodia (Figure 1.18).

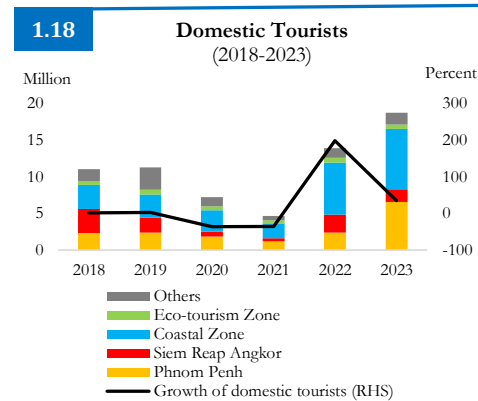
The agriculture sector continued to grow at a slow rate. In 2023, the agriculture sector increased by 1 percent growth compared to 0.6 percent in 2022 (Figure 1.19), mainly due to the favourable weather conditions as well as the beneficial effects of FTAs and participation in the Regional Comprehensive Economic Partnership (RCEP). Despite these positive factors, this sector is strongly vulnerable to climate change, emphasizing the need for adaptive methods to mitigate climate-related hazards.



Source: Ministry of Tourism



Note: The percents are compared to the number in 2019
Source: Ministry of Tourism



Source: Ministry of Tourism

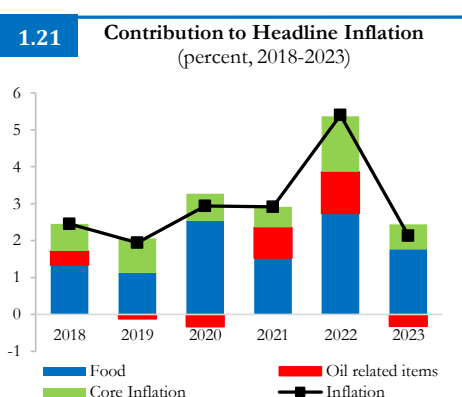
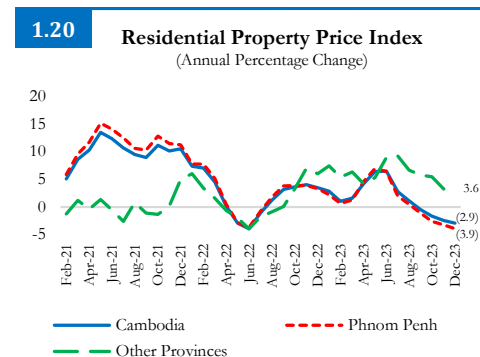
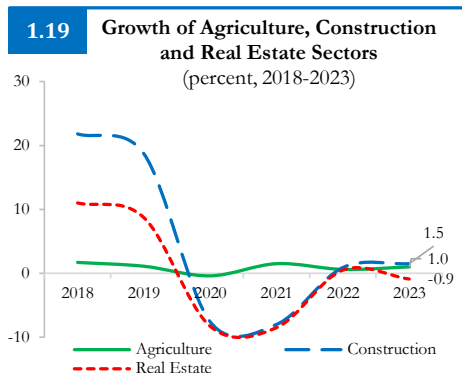
The construction sector continued to slowly recover from the pandemic, but the real estate sector development was impacted by external conditions. The construction sector grew by 1.5 (Figure 1.19) supported by the development of public infrastructure, yet much below the average growth rate of 18.5 percent during the 2010s. The real estate sector, which usually grew in line with the construction, marginally contracted, with a negative growth rate of -0.9 percent.

The residential housing prices saw a decline in the second half of 2023 amid uncertainties of external conditions. After bouncing back in the second half of 2022 from the negative effect of rising cases of Omicron in Cambodia, the residential prices started to decelerate once again during the second half of 2023. By December of 2023, the price dropped by 2.9 percent (y-o-y), of which the price in Phnom Penh declined by 3.9 percent, even though the price in provinces rose by 3.6 percent (Figure 1.20). The overall decline was attributed to the slow recovery of the real estate sector as reflected in slower FDI inflows to this sector, given the existing level of oversupply and uncertainties surrounding external conditions including the real estate problems in China and tightened global financial conditions.

B. Inflation and monetary conditions

Inflation decreased from 5.4 percent in 2022 to 2.1 percent in 2023 due to the decrease in prices of oil-related items and the deceleration in food and core inflation (Figure 1.21). The prices of oil-related items fell by 2.7 percent after the average global crude oil prices dropped by 16.8 percent in 2023. This decline also made Cambodia's food inflation slow to 3.2 percent in 2023 from 5 percent in the previous year as the pressures on fertilizers, fuel, and transportation costs were eased. Meanwhile, core inflation slowed to 2 percent from 4.4 percent.

Broad money (M2) increased by 12.5 percent in line with economic conditions (Figure 1.22). This growth rate was supported by the growth of deposits in both KHR (14.1 percent) and foreign currencies (13 percent)



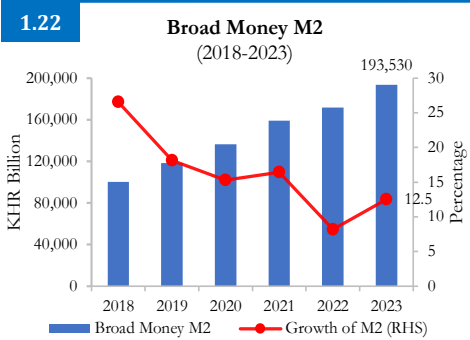
as well as the increase in currency in circulation (5.9 percent). It is worth highlighting that the growth of total deposits in 2023 (13.1 percent) was higher than in 2022 (9.3 percent) despite 2023 being the national election year. This showed an improved public confidence in Cambodia's economy and the banking system.

Financial dollarization remained high despite the efforts of the NBC in the promotion of riel. Financial dollarization, measured by foreign currency deposits (FCD) to broad money (M2) remained above 80 percent, which has been stable at that level for more than a decade, while the FCD to total deposits has slightly declined over recent years, yet was still high at around 90 percent (Figure 1.23). This highlights that to reduce the level of dollarization, a joint effort from all stakeholders is vital because of a strong interaction between dollarization in the financial and real sectors.

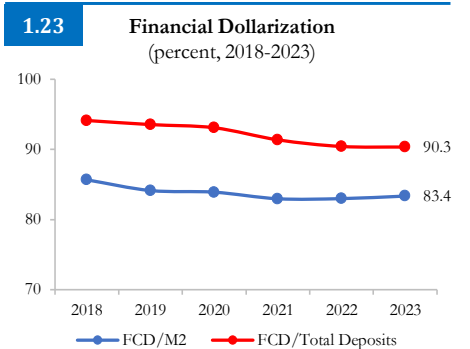
C. Fiscal Sector

Lower revenue collections coupled with higher expenditures widened the overall deficit. In 2023, the fiscal position indicated a further deficit from 0.4 percent of GDP in 2022 to 2.6 percent in 2023 (Figure 1.24). This was a deficit of four years in a row since 2020 when the country was affected by the COVID-19 outbreak.

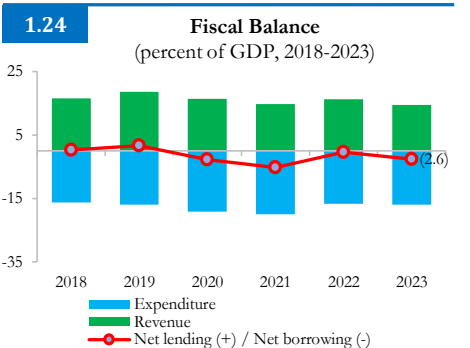
Revenues declined by 4.7 percent, which was mainly due to the fall in tax collections (Figure 1.25). Revenue collections equaled KHR 25.2 trillion (USD 6.1 billion), in which tax represented 84.2 percent or equivalent to 21.2 KHR trillion (USD 5.2 billion). The decline in tax collections was due to the slowdown in domestic consumption and the fall in imports, while the increasing participation in FTAs also partly played a role. Overall, tax collections decreased by 4.3 percent of which tax on goods and services declined by 11.7 percent, and tax on international trade and transactions inched down by 1.2 percent. On the other hand, the tax on income, profit, and capital gains grew by 6.9 percent.



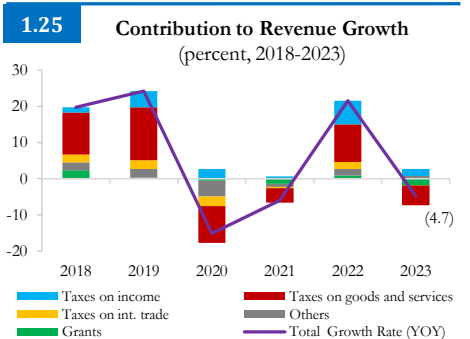
Source: National Bank of Cambodia



Source: National Bank of Cambodia



Source: Ministry of Economy and Finance

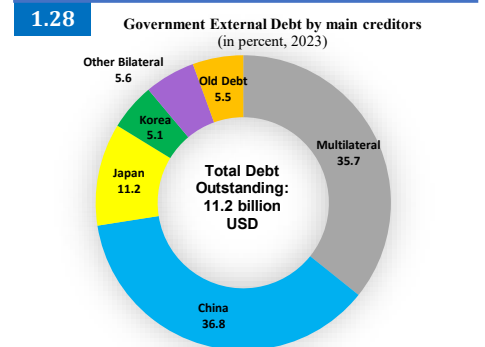
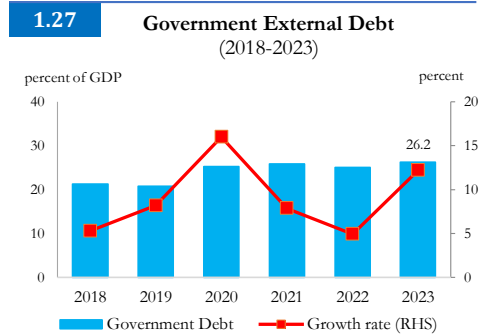
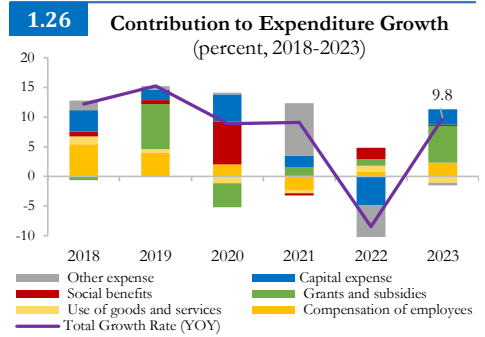


The government expenditures increased because of the preparation for the SEA Games, ASEAN Para Games and national election, as well as an increasing capital expenditure on the development of infrastructure. The overall expenditures in 2023 equaled KHR 29.7 trillion (USD 7.2 billion), an increase of 9.8 percent over last year (Figure 1.26). The current spending increased by 10.1 percent of which wages increased by 7.9 percent, grants to other general unit (65.9 percent) and social security benefits (10 percent) as the government continued to support the most vulnerable families to the COVID-19 and inflation impacts, while the use of goods and services declined by 9.6 percent. In addition, the capital spending amounted to KHR 8.4 trillion, which increased by 9.9 percent.

The government's debt to GDP slightly increased and 99 percent of total debt was external.⁶ The government's external debt reached USD 11.2 billion, equivalent to 26.2 percent of GDP, increasing by 1.2 percentage point from 25 percent of GDP in 2022 (or a 12.2 percent growth rate) to finance public investment projects in the priority sectors (Figure 1.27). China remained the largest creditor, accounting for 36.8 percent of the total government debt, followed by multilateral loans (35.7 percent), Japan (11.2 percent), and Korea (5.1 percent) (Figure 1.28). Overall, the government's external debt remains sustainable, as it is well below the 40 percent threshold. Thus, the RGC still has space to borrow more to finance more development projects, yet since Cambodia is on the verge of transitioning out of the LDC status, the RGC could be more cautious as the availability of concession loans with low-interest rates would decline.

1.3 Conclusion

Cambodia's economy continued to recover from the pandemic but the recovery remained heterogenous across sectors, and the GDP growth was still below its pre-pandemic trajectory. The service sector related to tourism continued to recover but the growth in real estate activities was marginally negative; moreover, the growth momentum in manufacturing was also impacted



⁶ If we compare to the figure reported in last year's FSR report, the government's external debt to GDP narrowed because we use a rebased GDP that is larger than the old GDP by around 30 percent.

by weak external demands. In this challenging situation, the BoP and fiscal balance as a percent of GDP were slightly negative, yet the KHR exchange rate was stable. Meanwhile, inflation declined and international reserves increased, proving an overall resilient and stable macroeconomic condition. To finance public investment projects, the government's debt to GDP continued to slightly increase but remained sustainable.

Despite the rise in credit risk, the banking system remained resilient and continued to provide necessary funding to support post-pandemic economic recovery. The share of banks improved further to reach 91 percent of the banking system assets in 2023 as the largest MDI was merged with a bank, which in turn also impacted multiple other ratios. Growth in banking system assets and particularly in loans decelerated sharply to 8.2 and 4.2 percent respectively in 2023. Though the growth in bank credit appeared healthier at 16.4 percent, it was essentially a one-time effect of the MDI-bank merger. Once adjusted for the merger, deceleration in bank credit was noticeable across sectors as high interest rates, elevated debt levels and cautious bank lending weighed on credit off-take. Total bank credit reached KHR 211 trillion (USD 51.6 billion), almost entirely availed by the private sector. Retail and wholesale trade accounted for around 26.7 percent of the outstanding bank credit, with the share of real estate and construction reaching 20.3 percent. While the growth in households' mortgage loans decelerated sharply, personal loans surged, again an outcome of the MDI-bank merger. The non-performing loan ratio climbed up further, from 2.9 percent in 2022 to 5.1 percent in 2023, amid some additional and expected deterioration in asset quality after the withdrawal of regulatory forbearance measures. On the liquidity side, banks' LCR improved further and remained well above the requirement of 100 percent, though some other liquidity indicators posted a moderate deterioration. Banks' net profits after tax plummeted by 45 percent on account of higher interest and provisions expenses. Yet, banks' average capital adequacy level, at 22.3 percent, stayed well above NBC's minimum requirement of 15 percent, reflecting banks' loss absorption capacity to withstand materialization of any unexpected shocks. In the microfinance sector, assets of MDIs almost halved in 2023 after the MDI-bank merger which also led to a drop in credit by 46 percent. Credit quality deteriorated but remained manageable with adequate provisioning and strong capital position as reflected in high CARs of 22.9 percent for MDIs and 31.6 percent for MFIs. High provisioning coupled with tight financial conditions contributed to the decline in microfinance sector's profitability. For specialised banks, credit growth slowed down to 1.6 percent; while the NPLR reached 12.1 percent, CAR remained strong at 39 percent.

2.1 Banking System Landscape

The bank-centric nature of Cambodian financial system has been further strenghtned by the merger of the largest MDI into a bank. Banking system in Cambodia is dominated by commercial banks, as 58 banks with KHR 314.3 trillion (USD 76.9 billion) as of December 2023 account for around 91 percent of the domestic banking system.⁷ Four microfinance deposit-taking institutions (MDIs) distantly follow as the second major group with 5.4 percent share in overall assets. The upgradation and subsequent merger of Prasac, the largest MDI, into a commercial bank in late 2023 has halved the share of MDIs from a year earlier while further enhancing the share of commercial banks.⁸ Another 83 (non-deposit taking) microfinance

Table 2.1: Cambodia: Structure of the Banking System (as of December 2023)

Institutions	Number	Assets (KHR, trillion)	Share (percent of total assets)
Commercial			
Banks	58	314.3	91.0%
MDIs	4	18.6	5.4%
MFIs	83	7.5	2.2%
Specialised			
Banks	9	2.6	0.8%
Leasing			
Institutions	16	2.0	0.6%
Rural Credit			
Institutions	114	0.3	0.1%

Source: National Bank of Cambodia

⁷ Banking system is somewhat broadly defined here to include commercial banks, MDIs, MFIs, specialized banks, leasing institutions and rural credit institutions, in line with the regulatory ambit of the NBC. As we cover later in Chapter 3, size of non-bank finance sector (primarily insurance companies) is negligible in comparison, and both equity and bond markets are still at an early stage of development. While lending from shadow banks (real estate developers) appear sizeable, data is not available to determine the exact size of exposure.

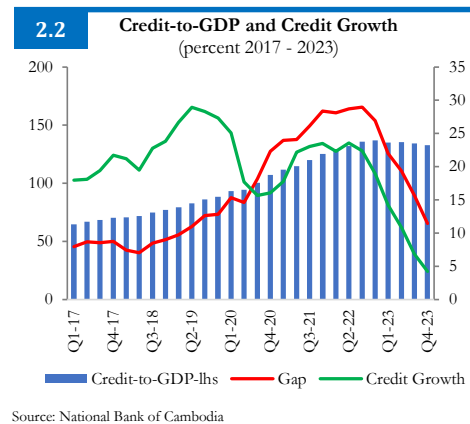
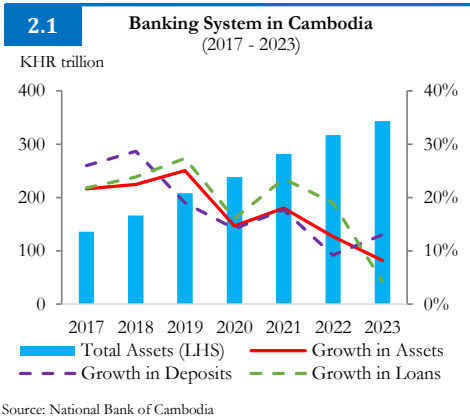
⁸ In 2023, Prasac Microfinance Institution Plc, the largest MDI by asset size, was merged with Kookmin Bank Cambodia Plc. to become KB Prasac Bank Plc. This merger had a one-time impact on multiple ratios, both for banks and MDIs.

institutions (MFIs) and 9 specialized banks respectively represent 2.2 percent and 0.8 percent of total banking system assets. The remaining 1 percent is represented by 16 leasing institutions and 114 rural credit institutions. In 2023, certificates of 105 inactive rural credit institutions were revoked to strengthen the compliance with applicable laws and regulations and to enhance the soundness of the rural credit sector.

The banking system has continued to develop and expand, though the pace has moderated amid a sharp drop in credit growth. By the end of 2023, total assets of the banking sector⁹ reached KHR 343.1 trillion, posting an annual y-o-y growth of 8.2 percent (Figure 2.1). Critically, growth in loans has plummeted, from 19 percent in 2022 to 4.2 percent in 2023 as higher interest rates, elevated debt levels and banks' cautious lending have weighed on credit off-take. On the other hand, growth in deposits (13%) improved compared to the previous year (9.2%), which could be attributed to more attractive deposit rates offered by banks amid a higher interest rate environment.

Amid a sharp slowdown in credit growth, the credit gap has visibly narrowed (Figure 2.2). In terms of credit-to-GDP¹⁰, the level remains high though the ratio has marginally decreased to 133 percent in 2023. However, the credit-to-GDP gap¹¹ has dropped swiftly, from its peak of 29 percent in Q3 2022 to 11.5 percent by the end of 2023. Despite narrowing of the credit gap, it is still above the 10% Basel threshold and therefore warrants close monitoring to ensure that banks lend prudently, and credit quality remains healthy.

Banking sector remains sizeable in terms of GDP. In terms of domestic output, the banking sector asset appears sizeable, almost 195 percent of the nominal GDP of 2023. On the other hand, total loans and deposits of the banking sector are respectively 133



⁹ For figures 2.1 to 2.3, banking system includes commercial banks, MDIs, MFIs and specialized banks (except for deposits data which only covers banks and MDIs). Other institutions such as leasing institutions and rural credit institutions have not been included here due to data limitations, though their combined share is quite small as evident from Table 1.

¹⁰ Here, credit includes lending by commercial banks, specialised banks, MDIs, and MFIs. Throughout this chapter, the rebased GDP figures by the National Institute of Statistics have been used, with 2014 as the base year.

¹¹ The gap is equal to the difference between credit-to-GDP ratio and its long-term trend, measured by a one-sided HP filter with a smoothing parameter of 400,000.

percent and 112 percent of the nominal GDP (Figure 2.3). The intermediation ratios, measured in terms of key banking variables relative to the GDP, have plateaued, particularly as growth in assets and loans have noticeably dropped. At the same time, as deposit growth has outpaced loan growth, the gap, in terms of their share to GDP, has marginally narrowed.

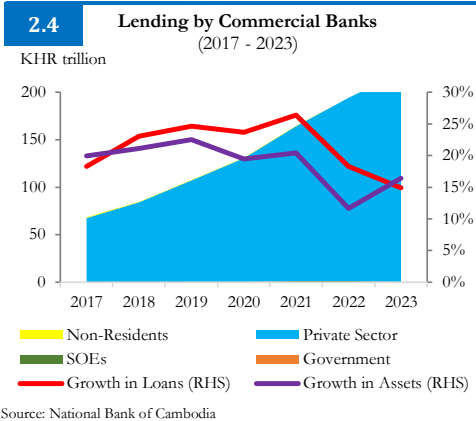
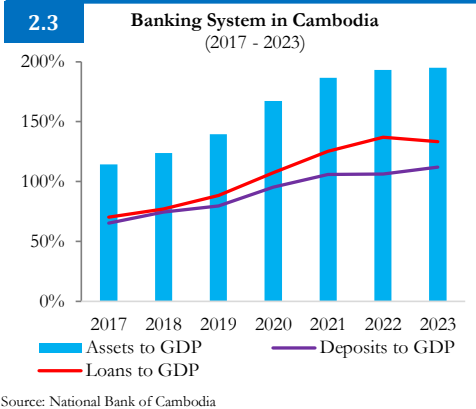
Growing financial intermediation, digitalization and expansion of banks’ branch networks have in turn helped improve financial inclusion. Recent estimates¹² indicate that around 67 percent of Cambodians now have access to various financial services. Over the years, MFIs and rural credit institutions have played an important role in providing access to financial services to people residing in rural areas as well as to sectors such as agriculture and micro, small and medium enterprises (MSMEs). Moreover, banks have also continued to expand their branches to rural areas.

2.2 Commercial Bank

A. Credit Intermediation and Credit Risk

Commercial banks have extended almost their entire lending to the private sector, with corporate sector being the lead recipient, followed by households. While growth in bank credit to the private sector remained in double digits, it has slowed down from 18.3 percent YoY in 2022 to 14.9 percent in 2023 (Figure 2.4). This double-digit growth in commercial bank credit (14.9 percent) was much stronger than the credit growth of the overall banking system (4.2 percent) as the merger of the largest MDI¹³ into a commercial bank in 2023 has caused a shift in credit portfolio, among other things, from the MDIs to banks¹⁴.

Segregation in terms of lending to the public and private sectors reveals that almost entire bank credit was channelled to the private sector, with the share of lending to the public sector confined to a meagre 0.1



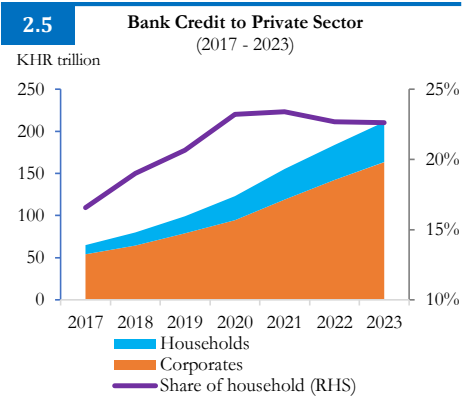
¹² United Nations Capital Development Fund’s report titled ‘Cambodia Financial Inclusion Refresh, 2021’.
¹³ See footnote 8.
¹⁴ Given that the merger has impacted all indicators, both for the banks and MDIs, caution is needed in interpreting trends and particularly in comparing data with a year earlier (2022).

percent in 2023. Moreover, within the public sector, all the financing was availed by the state-owned enterprises (SOEs). This in turn meant that private sector was virtually the sole recipient of bank credit, with banks playing their due role in facilitating private-sector-led economic growth.

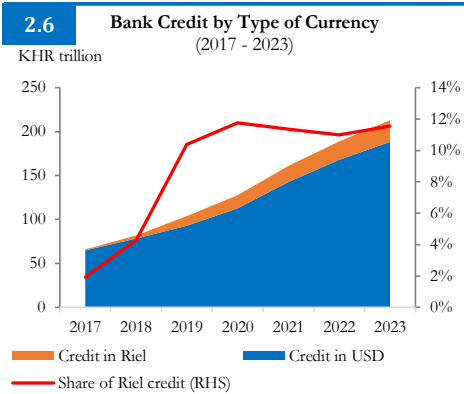
Within the private sector, bulk of the lending was availed by the corporates, followed by households. Specifically, corporates (including businesses of all types and sizes) received KHR 163.3 trillion of the total credit in 2023 (77.4 percent of private sector credit), posting 15 percent growth. On the other hand, total outstanding credit to households reached KHR 47.8 trillion in 2023, accounting for 22.6 percent of bank credit to the private sector. The share of lending to households has narrowed marginally from a peak of 23.4 percent in 2021, after steadily improving from 16.6 percent in 2017. (Figure 2.5).

While banks’ local currency lending has stayed above NBC’s required threshold of 10 percent, most of the lending continues to be in USD. Currency-wise breakdown of the gross loans indicates that almost 88.5 percent of the overall lending in 2023 was in the US dollar, with the share of riel loans around 11.5 percent (Figure 2.6). With an aim to promote rielisation of Cambodia’s otherwise highly dollarized economy, NBC issued the Prakas in 2016, requiring banks to allocate at least 10 percent of their total lending in riel. Consequently, the share of riel loans in overall credit has gradually improved since 2016, even if somewhat tapering off during 2021-22, suggesting that a potentially higher threshold for riel lending could have been introduced in 2020 to capitalize on the momentum towards riel-based lending.

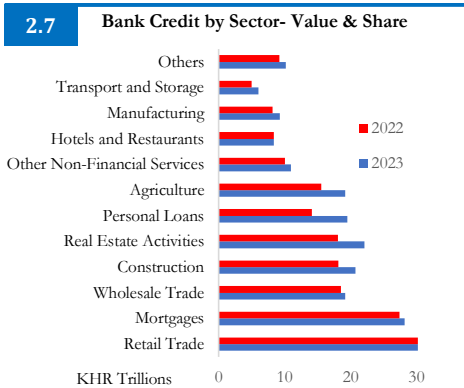
Overall credit allocation across sectors appears diversified, though half of the bank credit falls into two broad categories; mortgages, construction and real estate loans followed by retail and wholesale trade. Banks’ credit allocation across different sectors reveals that retail trade was the single largest recipient, with almost KHR 37.1 trillion of outstanding gross loans, accounting for 17.6 percent of total bank credit in 2023. While some media reports



Source: National Bank of Cambodia



Source: National Bank of Cambodia



Source: National Bank of Cambodia

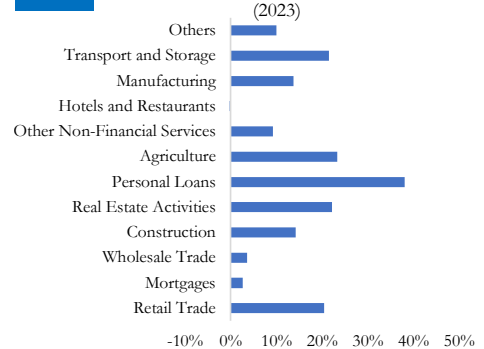
might have created the perception that real estate or construction sectors are the top recipients of bank credit, retail and wholesale trade collectively account for a relatively larger share (Figure 2.7). It is worth highlighting that banks only provide a part of the overall financing for construction and real estate activities, with a sizeable portion covered by FDIs.

Mortgage loans by households, with KHR 28.2 trillion outstanding, represented the second major sector, with almost 13.4 percent share in total credit in 2023; lending to real estate activities accounted for 10.5 percent of the total credit. Credit is somewhat equitably distributed in the next four sectors, if ranked by size, (construction, personal, wholesale trade, and agriculture) as each sector has a share of at least 9 percent or higher. Banks' credit exposure to hotels and restaurants, a sector hit especially hard by the pandemic induced domestic lockdowns and the plunge in tourist arrivals, was relatively modest, standing at 4 percent of total outstanding loans in 2023.

Credit disbursement in general has decelerated across sectors, though the merger of an MDI with a bank has lifted growth trends in some sectors. Credit growth has slowed significantly in some sectors with loans for wholesale trade and mortgages growing by a modest 3.6 and 2.7 percent respectively while the credit to the hotels & restaurants sector contracting by 0.2 percent (Figure 2.8). On the other hand, loan growth for sectors like retail trade, agriculture and particularly personal loans appears robust; however, these rates are primarily driven by the merger of the largest MDI with a commercial bank and should therefore not be viewed as a sign of strong credit disbursements. In fact, one adjusted for the merger, growth in most sectors appears record low, as higher interest rates, accumulated debt levels and slower economic activity in some sectors has weighed on demand for credit in general.

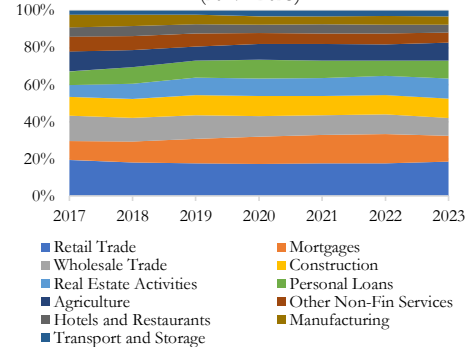
Share of mortgage and real estate related credit has increased over time. Given the differences in pace and volume of credit to various sectors, broader long-term trend in credit disbursement reflects some reallocation of credit, with a few sectors gaining share

2.8 Bank Credit Growth (y-o-y) in Sectoral Loans (2023)



Source: National Bank of Cambodia

2.9 Bank Credit by Key Sectors (2017 - 2023)

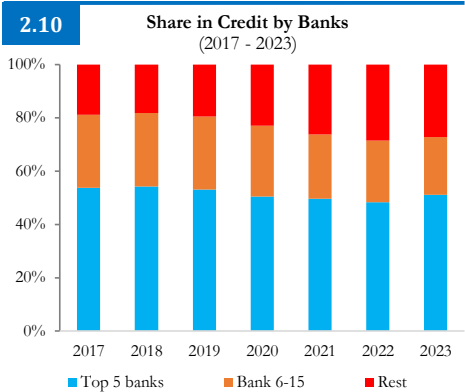


Source: National Bank of Cambodia

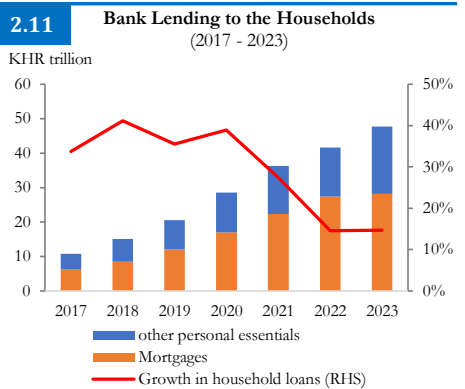
over the years (Figure 2.9). When compared to 2022, share of retail trade and personal loans have improved while those of wholesale trade and mortgage loans have declined, again essentially because of the impact of a merger.¹⁵

Top five banks accounted for over half of the bank credit. The credit share of top five banks inched up to 51.1 percent of total credit extended to the private sector in 2023, with the share of the top three banks at 37.4 percent (Figure 2.10). Bank 6 to 15, ordered in terms of loan size, collectively provided 21.7 percent of total financing, while the remaining 44 banks had 27.2 percent share in total gross loans in 2023.¹⁶ Over the years, the share of top five banks has marginally declined from 53.1 percent in 2019 to 51.1 percent in 2023, somewhat reducing credit concentration among the largest banks, despite the uptick in 2023 due to a merger. Moreover, smaller banks have been able to gain some ground over the years, in part because the number of banks has also grown. Additionally, structural changes seen in the banking sector, as evident from the growing digitalization of finance, might have added to the competitive pressures.

Growth in households’ credit largely reflects the impact of an MDI’s merger with a bank. Banks’ credit to the households grew by 14.7 percent in 2023; though still in double digits, this has been the slowest growth rate in years and is very similar to that in 2022. Critically, this growth is essentially a result of an MDI-bank merger, as the transfer of the largest MDI’s assets to the bank has lifted the overall personal loans of the banks (Figure 2.11). The overall outstanding credit to the households reached KHR 47.8 trillion in 2023, making households sector a major recipient of bank credit with 22.6 percent share in terms of total loans outstanding. Breakdown of households’ loans indicates that around 59.1 percent of the borrowings fall under the mortgage loans, while personal loans, including credit cards, account for the rest (40.9 percent).



Source: National Bank of Cambodia



Source: National Bank of Cambodia

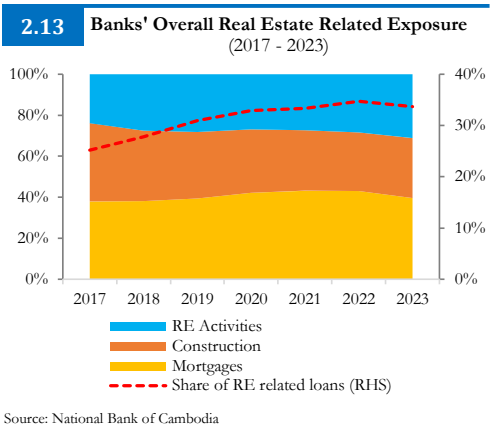
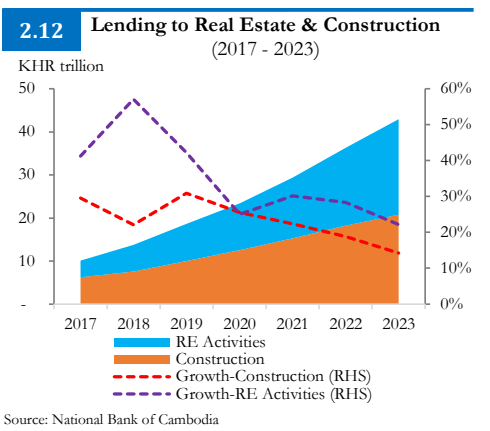
¹⁵ For instance, Prasac Microfinance Institution Plc, the MDI that was merged with Kookmin Bank Cambodia Plc had no loans classified as mortgages but a sizable share of personal loans.

¹⁶ As the number of banks have varied over the years, the ‘rest’ in the graph would have a different number of banks each year. In 2023, as there were 58 banks in operation, rest includes 43 banks.

Credit to real estate activities and construction, if combined, accounts for almost one-fifth of banks' gross loans. Bank credit for real estate activities and construction sectors grew by 22.2 percent and 14.2 percent respectively in 2023 (Figure 2.12). Since 2017, while the share of lending to construction was initially bigger than that of real estate loans, the relatively higher growth in lending to real estate has increased the share of these loans over time; consequently, real estate and construction loans now account for around 10 percent each of total bank credit.

One potential way to assess banks' overall 'real estate related exposure' is by combining their lending for (a) real estate sector (b) construction sector, and (c) mortgage loans to the households. Adding up the lending under these three categories, banks' real estate related exposure accounts for over one third of their entire loan portfolio (Figure 2.13). However, it is worth emphasizing that the risk profile of these three sectors is different; for instance, mortgage loans typically consist of smaller loans to large number of households and are thus better diversified. This potentially explains the lowest non-performing loans ratio of mortgage loans among all sectors. Moreover, despite banks' sizeable exposure to the real estate related sectors, credit risk remains manageable, as we will highlight in the next section on asset quality.

Given the slower recovery in real estate and construction sectors in the post COVID-19, existing oversupply in the market and increasingly weaker demand, residential property prices have come under pressure, leading to an increase in credit risk which in turn can affect some banks, particularly those with relatively large exposures to the sector. In general, however, real estate market receives only a part of its overall financing from banks, as FDI inflows account for a sizeable share. While it appears that commercial property market has also experienced serious headwinds, banks' exposure to this segment is limited to only 16.8 percent of their total lending to real estate activities.

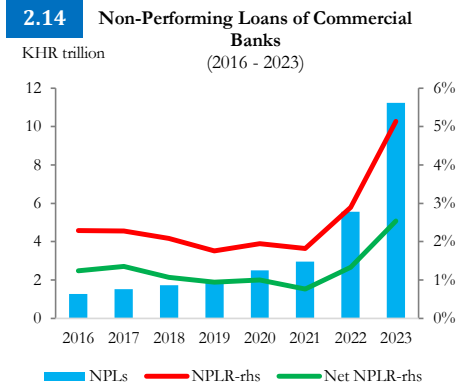


Post-pandemic slowdown and expiry of NBC’s regulatory forbearance measures has resulted in some expected deterioration in asset quality.

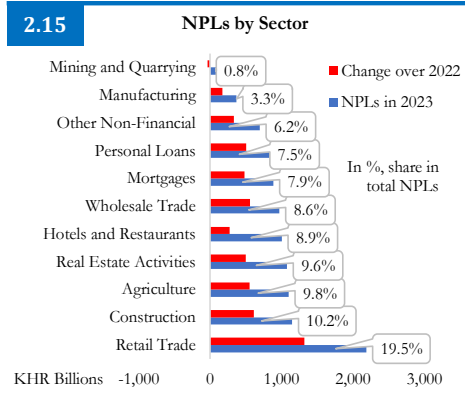
Commercial banks’ overall non-performing loan ratio (NPLR), a key indicator of their asset quality, increased from 2.9 percent in 2022 to 5.1 percent in 2023 (Figure 2.14). NPLR went up as the size of non-performing loans doubled in 2023 and credit growth slowed. At 5.1 percent, overall NPLR reached a decade high, and was almost three times of the pre-pandemic level. Net NPLR (adjusted for specific provisions) also increased from 1.3 percent to 2.5 percent in 2023, though it obviously remained lower than the gross NPLR. With different methodology and regulatory definitions applied across different jurisdictions, it is not advisable to compare NPL indicators with other countries without first taking into account those differences.

The rise in NPLR is however not unexpected; the ratio remained low during the pandemic as NBC’s regulatory forbearance measures, introduced after the outbreak of COVID-19, enabled banks to restructure loans during 2020-21 without changing their loan classifications, thus delaying formation of NPLs.¹⁷ However, once the forbearance measures were withdrawn, a certain rise in NPLs was bound to happen. Additionally, the higher interest rates, elevated debt levels and slower than expected recovery in some sectors have also contributed to the rise in NPLs of late.

NPLs in most sectors posted significant increase during 2023. NPLs by different sectors reveal that, in 2023, retail trade had the highest amount of NPLs outstanding in absolute terms (KHR 2.2 trillion) followed by construction (KHR 1.2 trillion) and agriculture (KHR 1.1 trillion) (Figure 2.15). The size of NPLs in most sectors more than doubled in 2023, including in retail and wholesale trade, mortgages, personal essentials, construction, and agriculture. Only one sector, mining and quarrying, posted a decline (28 percent) in its NPLs.



Source: National Bank of Cambodia



Source: National Bank of Cambodia

¹⁷ For instance, banks on average restructured around 10.4 percent of their total loans between April 2020-December 2021. At the end of December 2022, restructured loans were 5.7 percent of total loans.

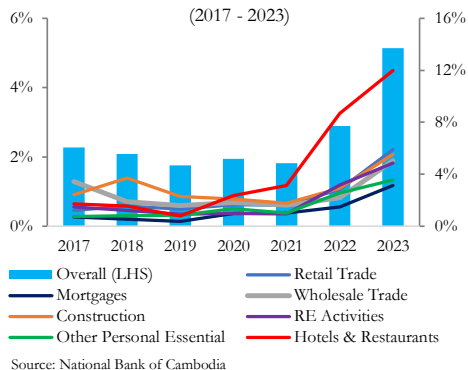
Sector-wise NPLRs reflect an uptick in all key sectors. Quality of loans to the hotel and restaurant sector deteriorated further in 2023, with its NPLR reaching 12 percent in 2022, the highest ratio by any sector; this was the result of sluggish recovery in the tourism sector amid the lingering impact of the pandemic and the slowdown in China, a key source of international tourists in Cambodia before COVID-19¹⁸ (Figure 2.16). Sectors like retail and wholesale trade, construction and transport & storage also posted noticeable rise in NPLRs. For the household's segment, the NPLR for personal loans was well above the ratio for mortgages. While mining and telecommunication sectors posted a decline, overall NPLR increased to 5.1 percent due to the rise in most sectoral ratios, underpinning broader though still manageable deterioration in asset quality.

Specific provisions almost doubled, necessitated by the rising NPLs. During 2023, specific provisions reached KHR 5.9 trillion, on the back of KHR 2.8 trillion worth of additional specific provisions, the highest increase in absolute terms in the last seven years (Figure 2.17). Despite the substantial rise in specific provisions set aside by banks, specific provisions to NPLs ratio edged lower from 56 percent in 2022 to 52.3 percent in 2023 on the back of relatively stronger increase in NPLs.

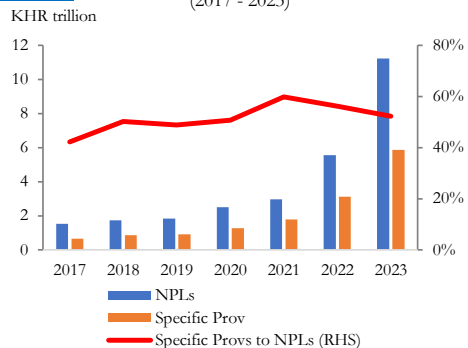
B. Funding and Liquidity

Banks' liquidity levels, in terms of LCR, noticeably improved. Liquidity coverage ratio (LCR), the measure to test whether banks hold sufficient high quality liquid assets to survive a 30-day severe liquidity stress, was first introduced by the NBC in September 2016 with a minimum ratio set at 60 percent. The LCR was gradually phased in, reaching to 100 percent in 2020 where it has stayed since, in line with the Basel III recommendations. The overall LCR of commercial banks, after posting a decline in the earlier two years, improved to 166.6 percent in 2023 (Figure 2.18), well above the NBC's required benchmark (100 percent),

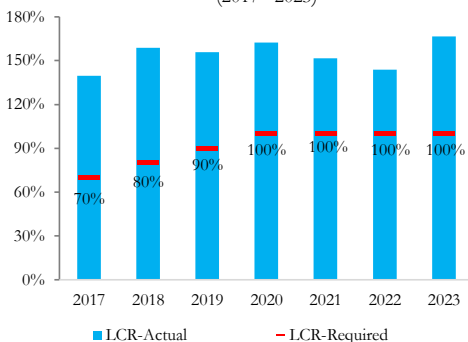
2.16 Gross Non-Performing Loan Ratio by Sector
(2017 - 2023)



2.17 NPLs and Provisions
(2017 - 2023)



2.18 Banks' Liquidity Coverage Ratio
(2017 - 2023)

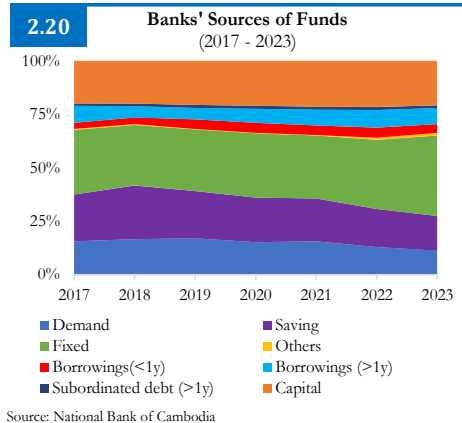
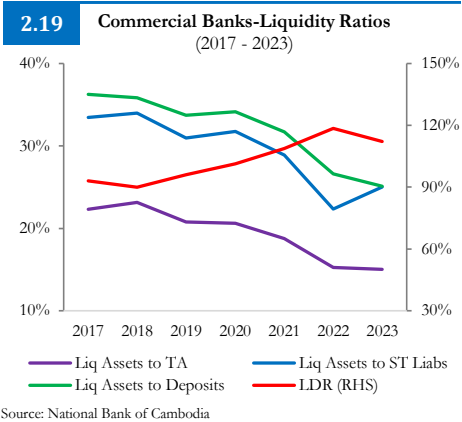


¹⁸ While the number of tourists surged in 2023, tourism related receipts recovered only modestly as the composition of tourists drastically changed, with arrivals from land borders accounting for a larger share.

indicating healthy liquidity levels to face any short-term liquidity stress.

Yet other indicators of liquidity exhibited a mixed trend. On the positive side, a couple of indicators posted an improvement, similar to LCR. For instance, loan to deposit ratio declined to 112.2 percent in 2023 as growth in deposit mobilization (21.3 percent). outpaced credit disbursement (14.9 percent). Likewise, liquid assets to short-term liabilities, which reveals the extent to which banks can meet short-term withdrawals of funds without experiencing a liquidity squeeze, improved from 22.3 percent to 25 percent during the same period (Figure 2.19). On the other hand, both liquid assets to total assets as well as liquid assets to deposits declined in 2023 when compared to a year earlier.

Share of customer deposits, the main source of funding, improved further. In terms of banks' sources of funds, customer deposits represented around 66.4 percent, with borrowings (both short and long-term) accounting for 13 percent and capital over 20.6 percent (Figure 2.20). The share of deposits inched up while that of borrowings (and capital) marginally declined compared to 2022, potentially as higher interest rates somewhat dampened borrowings from abroad and encouraged banks to intensify their deposit mobilization efforts. Breakdown by types of deposits revealed that highest share was of fixed deposits (56.8 percent), followed by savings (24.5 percent), demand deposits (16.9 percent), and others (1.8 percent); in particular, the share of fixed deposits visibly improved amid higher interest rates. Overall customer deposits reached KHR 188.1 trillion in 2023, posting much stronger growth of 21.3 percent compared to 8.5 percent in 2022.

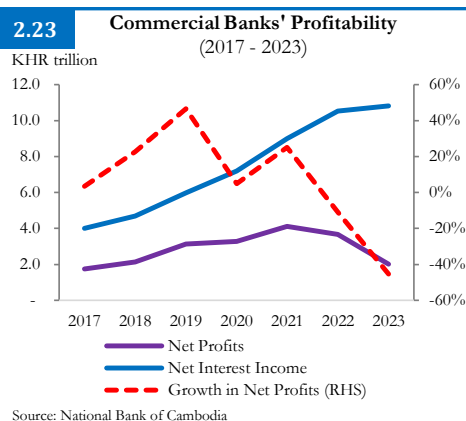
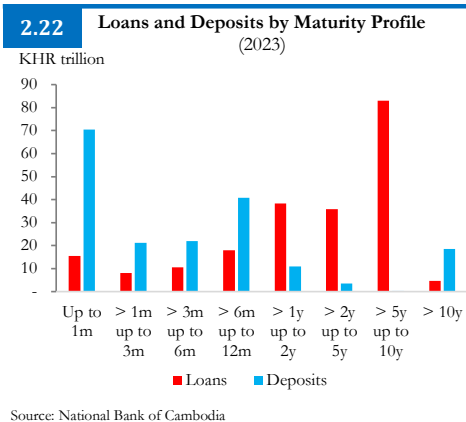
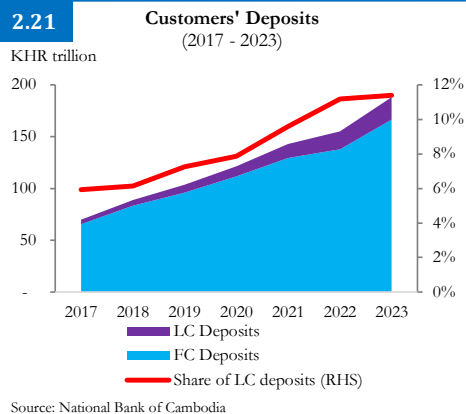


While bulk of banking sector deposits, similar to loans, remained in US dollar, share of riel deposit improved. US dollar deposits continued to remain the primary choice among customers, accounting for 88.6 percent of total deposits in 2023. Though dollarization remained high, the share of riel deposits slightly improved, from 11.2 percent in 2022 to 11.4 percent in 2023 (Figure 2.21). NBC's policy to require banks to lend at least 10 percent of their credit in riel has encouraged banks to raise more local currency deposits; with KHR 24.6 trillion of local currency loans and KHR 21.4 trillion of local currency deposits in 2022, the gap between local currency loans and deposits further narrowed compared to a year earlier.

Term structure of banks' loans and deposits in 2023 reveals that deposits in general were well above the loans for shorter maturities while loans far outstripped deposits in maturities of over one year (Figure 2.22). In fact, a certain degree of maturity mismatch is natural, given banks' very function of maturity transformation where short term liabilities are converted into longer term assets. However, if the scale of mismatch is high, banks could face liquidity risk particularly if they are more reliant on short-term, and less stable, non-core funding.

C. Profitability and Solvency

While still in positive territory, banks' net profits posted a sharp and record contraction as provision and interest expenses soared. Profitability of commercial banks plummeted in 2023, with net profits after tax registering a 45.4 percent drop to reach KHR 2 trillion (Figure 2.23). The sharp rise in both interest and provisions expenses hit banks' profitability. Specifically, interest expenses surged by 70 percent in 2023 on account of higher interest rate environment, relatively higher pass-through of interest rates to deposit rates¹⁹ and greater competition for deposits. Provision expenses also posted a sharp growth of 68 percent amid rising NPLs and as NBC's regulatory forbearance measures came to an end, requiring banks to appropriately classify restructured loans and set

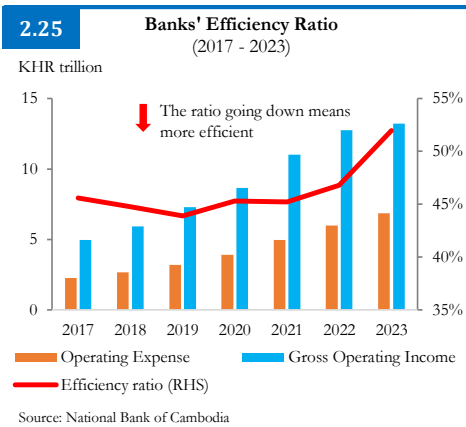
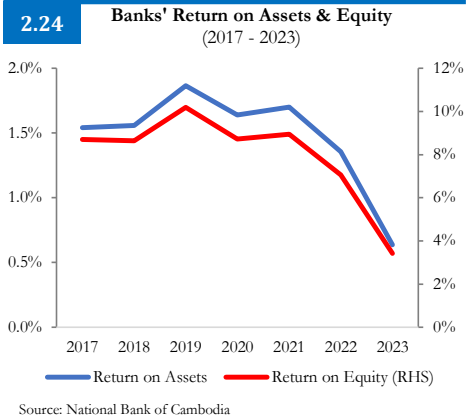


¹⁹ As banks mostly lend using fixed rates, pass-through of higher rates to loans has been slower. On the other hand, deposit rates are set more frequently, thus reflecting the changes in interest rates relatively more closely.

aside sufficient specific provisions. On the income side, while interest income posted strong growth of 28.4 percent in 2023, growth in non-interest income slowed down to 7 percent compared to 12.5 percent in 2022.

Lower net profits of commercial banks in turn led to a decline in both average return on assets (ROA) and return on equity (ROE) in 2023 (Figure 2.24). Specifically, the ROE deteriorated from around 7.1 percent in 2022 to 3.4 percent; likewise, the ROA declined by 72 basis points to reach 0.64 percent in 2023. This deterioration in return ratios of commercial banks was on account of relatively stronger growth in both average total assets (16.4 percent) and equity (12.8 percent) as well as sharp y-o-y contraction in net profit (45.4 percent).

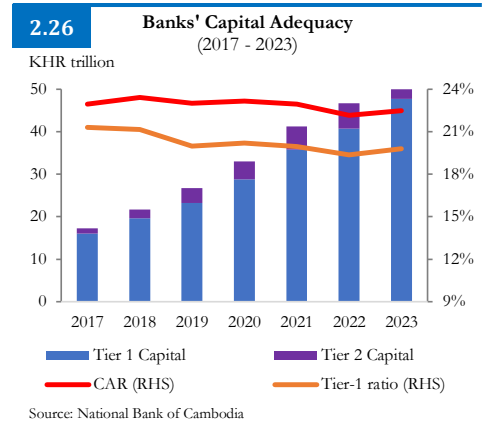
Operational efficiency declined amid rising operating costs. Operational efficiency of commercial banks, as measured in terms of operating expense to gross operating income, deteriorated²⁰ in 2023 to 52 percent (Figure 2.25). The deterioration was on account of operating expenses growing by 14.9 percent while gross operating income by only 3.5 percent; despite the larger size of denominator (operating income), stronger growth in operating expenses led to a marginal decline in efficiency ratio for the banking industry. A part of the rise in expenses could be attributed to banks’ expanding branch and digital footprint, requiring greater investments upfront.



²⁰ A higher ratio indicates deterioration in efficiency as banks incur greater operating expenses to generate the same revenues.

Banks' capital adequacy remained at a comfortably high level, and well above the NBC's required benchmark. Commercial banks in Cambodia continued to maintain high capital levels, with banks' overall capital adequacy ratio (CAR) around 22.5 percent, slightly higher than 22.2 percent in 2022 (Figure 2.26). The marginal improvement in CAR was due to slower growth in risk weighted assets (14.4 percent) in 2023 compared to capital (16.1 percent), reflecting banks' efforts to lend prudently and strengthen their capital positions. Overall, banks' CAR, an indicator of their loss absorbing capacity, was well above the NBC's minimum regulatory requirement of 15 percent; in fact, even Tier-1 capital ratio at 19.8 percent was well above the regulatory minimum required for overall capital. During 2023, banks were instructed to maintain their capital conservation buffers (CCB) at 1.25 percent of the risk-weighted assets, as the scheduled increase of CCB to 2.5 percent by December 2023 was postponed for a year.

The breakdown of total capital reveals that while both Tier-1 and Tier-2 capitals posted strong growth (17 percent and 10.2 percent, respectively), with the former category witnessing much stronger increase. As a result, share of Tier-1 capital further improved to 88 percent in banks' overall capital. Banks' strong capital adequacy level, primarily supported by high quality Tier-1 capital, continued to underpin the resilience of the banking system in weathering major stress scenarios, as has been evident from banks' soundness in recent years despite facing an unprecedented pandemic-induced shock.

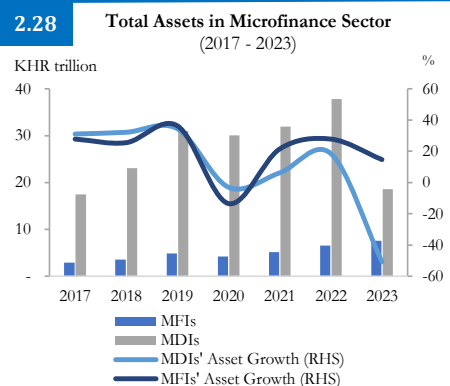
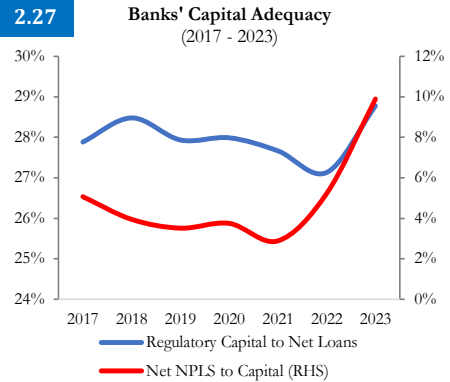


Banks' regulatory capital to net loans ratio inched up to 28.8 percent in 2022, reflecting the scale of cushion banks would have in terms of their capital even if a sizeable chunk of their loans turned bad. On the other hand, banks' net NPLs to capital ratio, an indicator of the fraction of banks' equity that can be wiped out due to loan losses, almost doubled in 2023 on the back of higher growth in NPLs (Figure 2.27). Notwithstanding the rise in NPLs that needs to be seen in the context of an unprecedented COVID-19 shock, banks' overall capital adequacy level remains strong and well above the NBC's regulatory requirement.

Solvency stress test results reveal that banks in general are resilient, despite differences across banks. NBC's internal stress testing exercise, aims to determine banks' resilience under a wide range of extreme but plausible stress scenarios, confirms banks' adequacy of sufficient capital. For instance, under a stress scenario where NPLR for each bank is raised by another five percentage points²¹, most banks would maintain their respective CARs above 15 percent (except a few who would still maintain CAR above 14 percent), highlighting the cushion that banks generally have in withstanding any potential deterioration in asset quality.

2.3 Microfinance Sector²²

While MFIs continued to grow, assets of MDIs almost halved in 2023 after the merger of a major MDI with a bank. As of the end of 2023, microfinance sector consisted of 4 MDIs and 83 MFIs with 912 branches operating countrywide. The total assets in the microfinance sector declined significantly by 41.1 percent to KHR 26.1 trillion (USD 6.4 billion) mainly due to Prasac, the largest MDI with an asset share in the sector of 45 percent, becoming a commercial bank. As a result, the assets of MDIs decreased sharply by 50.8 percent to KHR 18.6 trillion (USD 4.6 billion). On the other hand, the assets of MFIs continued to grow at a double-digit rate of 14.7 percent to KHR 7.5 trillion (USD 1.8 billion), though the growth rate slowed down



²¹ The actual NPLR of the banking sector was 5.1 percent at the end of 2023.

²² The microfinance sector consists of MDIs and MFIs.

compared to 2022 (27.8 percent) amid rising non-performing loans and high interest rate environment (Figure 2.28).

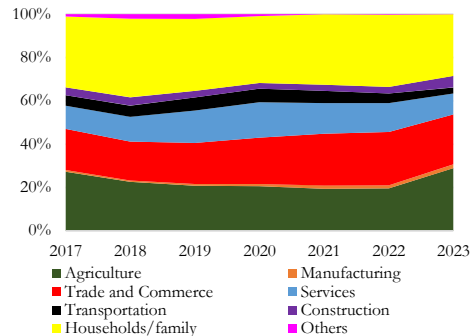
A. Credit Performance

Microfinance sector provided financing mainly to small and family businesses and households, especially in the rural areas. Credit to agriculture accounted for 29 percent of total MDIs' loans, followed by household accounting for 28.3 percent, trade and commerce for 23.1 percent, services for 9.7 percent, construction for 5.4 percent and others for the rest. The share of credit to agriculture expanded significantly from 19.6 percent in 2022 to 29 percent in 2023 whereas household loan share declined from 33.2 percent. Credit to other sectors, besides construction and manufacturing, also had their shares decreased compared to 2022 (Figure 2.29).

For MFIs that are non-deposit-taking, households remained the major recipients taking up 37.9 percent of total MFI loans, expanding from 33.1 percent in 2022, followed by services, trade and commerce, construction, agriculture and manufacturing with lending shares of 15.4, 13.9, 10.5, 6.3 and 5.8 percent, respectively. Compared to 2022, credit to households, services and manufacturing gained some shares of the portfolios while shares of the other sectors narrowed (Figure 2.30).

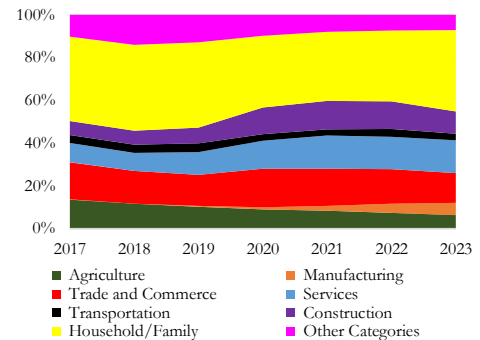
Breakdown of sectoral contribution to growth reveals that the decline in MDIs' loans was driven by lending to households, trade and services. Credit in the microfinance sector declined by 46 percent in 2023 compared to an increase of 22.7 percent in 2022. The decline in credit was essentially due to the base effect resulting from the exit of Prasac from the sector, and the growth is expected to bounce back next year. Unsurprisingly, MDIs' credit recorded negative growth of -56 percent, which was mainly contributed by household loans at -20.8 percent of total credit growth, trade at -14.4 percent and services at -9 percent (Figure 2.31).

2.29 Share of MDI's Credit by Sector (2017 - 2023)



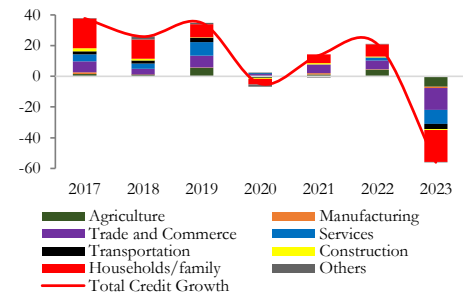
Source: National Bank of Cambodia

2.30 Share of MFI's Credit by Sector (2017 - 2023)



Source: National Bank of Cambodia

2.31 MDI's Credit Contribution by Sector (Percent, 2017 - 2023)



Source: National Bank of Cambodia

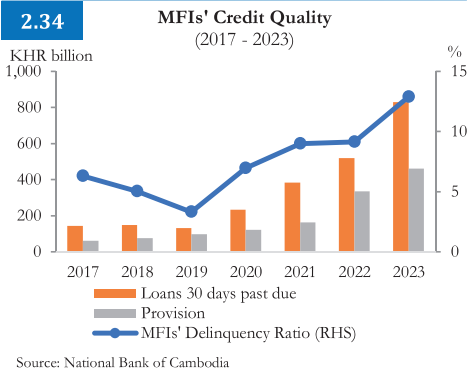
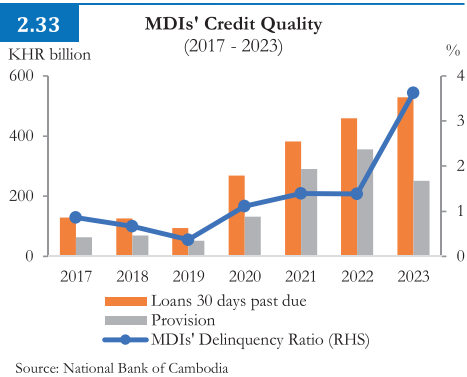
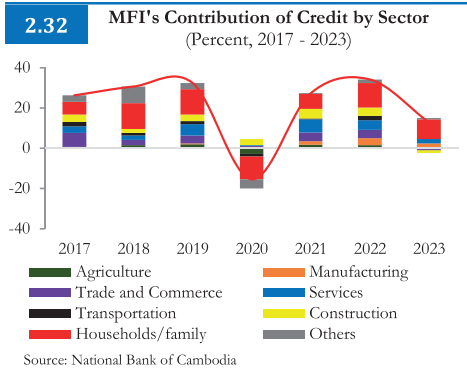
Growth of MFIs' credit was supported by lending to households, manufacturing and services.

The MFIs' credit exhibited a growth rate of 12.9 percent, slower compared to 34.2 percent in 2022. The growth was mainly contributed by lending to households at 9.7 percent of total credit growth, manufacturing at 2.4 percent, and services at 2.2 percent. Meanwhile, credit to construction, trade, agriculture and transportation all posted negative contributions to growth at -1.1, -0.42, -0.37 and -0.3 percent, respectively (Figure 2.32). The decrease in lending to these sectors was possibly due to the higher cost of borrowing coupled with the slow recovery of economic activities. Overall, the microfinance sector continued to play an important role in providing financing to MSMEs, and households and families in the rural areas, in line with the government's policy to promote financial inclusion and MSME activities.

B. Credit Quality

The quality of microfinance institutions' loans further deteriorated but remained manageable with adequate provisioning. The 30-day past due loans for MDIs increased from KHR 460 billion in 2022 to KHR 529 billion in 2023, with a growth rate of 15 percent. As a result, the delinquency ratio increased from 1.4 percent to 3.6 percent in the same period, which is still at a low and manageable level. Moreover, MDIs continued to maintain adequate provisioning against the decline in credit quality as the specific provisioning coverage ratio was recorded at 48 percent in 2023 (Figure 2.33).

Meanwhile, MFIs' 30-day past due loans grew by 59.3 percent to KHR 829 billion, with the growth rate accelerating from 35.6 percent in 2022. This made the delinquency ratio go up to 12.9 percent from 9.1 percent. Although the ratio increased by 3.8 percent, MFIs also set aside the necessary provision to cover the expected losses from those past-due loans with the specific provisioning coverage ratio at 55.6 percent (Figure 2.34). The further deterioration of credit quality of MFIs warrants close monitoring. The NBC will continue to ensure that MFIs are prudent with their



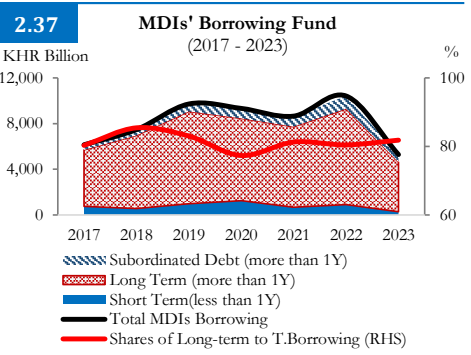
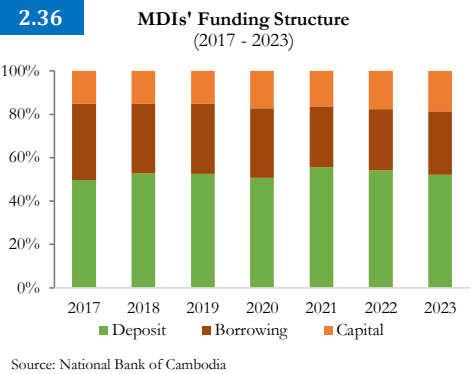
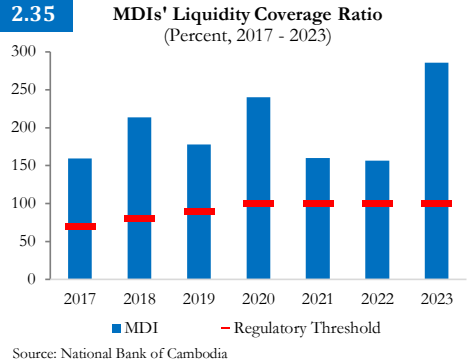
lending, make adequate provisions and comply with the applicable laws and regulations.

C. Liquidity and Funding Position

MDIs' liquidity position remained healthy and resilient against potential liquidity shocks amid the ongoing economic recovery. The liquidity of MDIs, as measured by the Basel III's liquidity coverage ratio (LCR), went up from 157 percent in 2022 to 286 percent in 2023, which is well above the statutory minimum requirement of 100 percent (Figure 2.35). Although high level of liquid assets against expected cash outflows during a given month is favourable for MDIs to protect themselves from liquidity risks, this also means that the MDIs are holding excessive liquidity that could in turn be used to provide financing to support the economy. Therefore, MDIs may need to strike a balance between maintaining liquidity buffers against shocks and utilizing liquidity for lending to contribute to sustainable economic development.

Deposits remained the main funding source for MDIs. Customer deposits accounted for 52 percent of the total funding, declining from 54.1 percent in 2022. The other two major funding sources were borrowing fund accounting for 29.3 percent and capital accounting for 18.7 percent (Figure 2.36). Customer deposits as of 2023 amounted to KHR 9.4 trillion (USD 2.3 billion), a 52.8 percent decrease from 2022 following Prasac becoming a bank. Of the total deposits, term deposits accounted for 84.6 percent, indicating a stable funding source.

MDIs' borrowing funds were mostly long-term and stable, which further helped MDIs to manage their liquidity risks. As of 2023, the overall borrowing funds of MDIs amounted to KHR 5.3 trillion (USD 1.3 billion), a 49.2 percent decrease compared to 2022. MDIs' borrowing funds were mostly long-term, which accounted for 81.8 percent of the total, while the share of short-term borrowings narrowed from 8.8 percent of total borrowing fund in 2022 to 5.4 percent in 2023 (Figure 2.37).

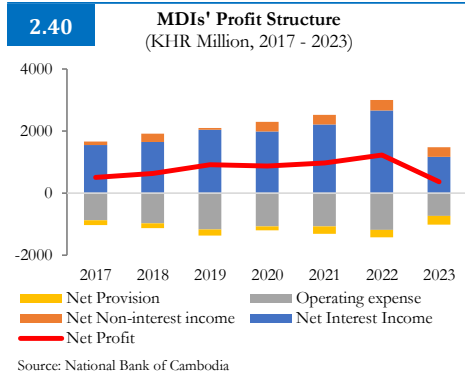
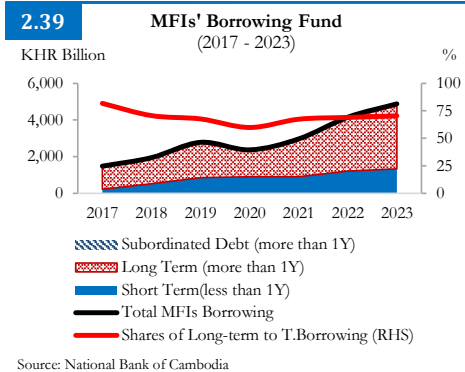
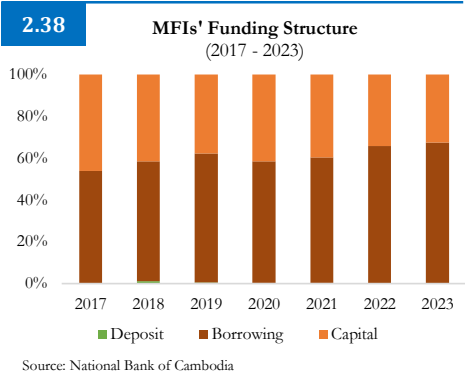


MFIs' funding structure consisted mainly of borrowing and their own capital. Initially, the primary funding sources of MFIs came from domestic and foreign NGOs, donors, multilateral development banks and government subsidies. The dependence on these traditional sources of financing constituted an obstacle to growth, which in turn encouraged MFIs to turn to other sources of fund, such as equity and borrowing, for further development and network expansion. As of 2023, MFIs' borrowing funds accounted for 67.6 percent of the total fund, followed by capital at 32.4 percent (Figure 2.39).

Breakdown of MFIs' borrowing fund shows more reliance on borrowing with longer-term maturity. MFIs' borrowing funds increased by 17.5 percent to KHR 4.9 trillion (USD 1.2 billion). Long-term borrowing funds, which accounted for 70.5 percent of total borrowings, reached KHR 3.4 trillion (USD 844 million), up by 20 percent compared to 2022. Short-term borrowing funds, on the other hand, increased by just 10.8 percent to KHR 1.3 trillion (USD 330 million) with its share of total borrowing further narrowing from 29.3 percent in 2022 to 27.6 percent in 2023 (Figure 2.39). Overall, MFIs are increasing their funding with longer tenors to better manage their liquidity and maturity transformation.

D. Profitability and Solvency

The profitability of microfinance sector took a hit amid high cost of funding and an increase in provisions. MDIs recorded a net profit of KHR 366 billion (USD 89.6 million) in 2023, a decline of 70 percent compared to 2022, mainly due to the effect of Prasac together with higher provision and cost of funding. Net interest income decreased by 56 percent due to the base effect and higher pass-through of high interest rate from tight monetary policy in advanced economies to MDIs' funding sources than to MDI's lending. Meanwhile, net provisions increased by 17.4 percent, which showed the institutions' continuous efforts in setting aside funds in anticipation of future losses from non-performing loans (Figure 2.40).



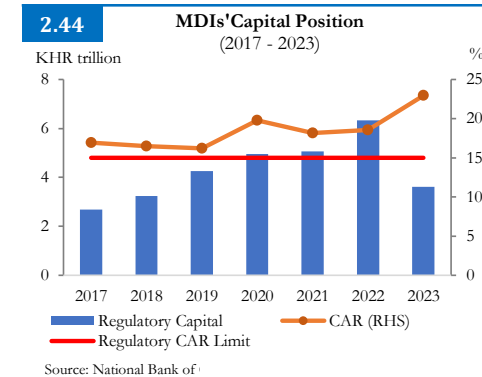
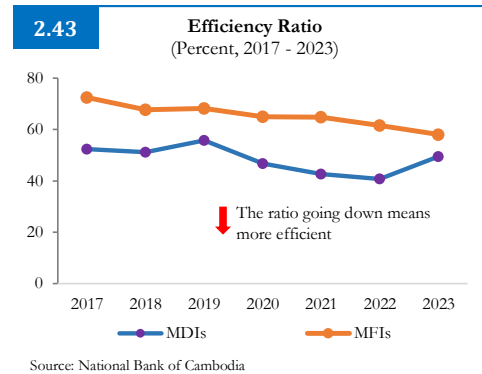
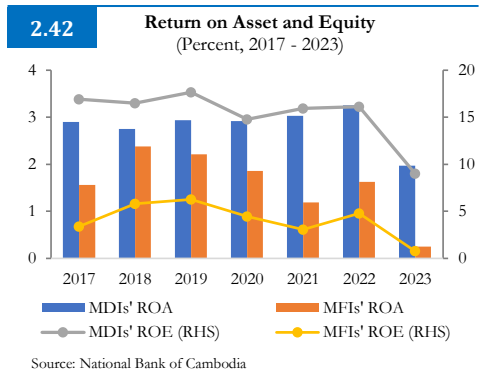
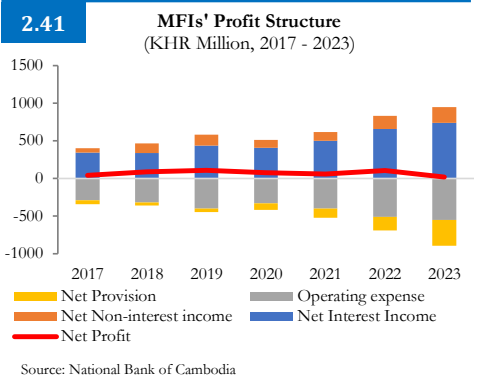
High provisions led to a decline in MFIs’ profits.

Net profits declined by 82 percent to KHR 18.9 billion (USD 4.6 million) after strong recovery in 2022, mainly due to a significant increase in provision by 90 percent and higher operating expense growing by 7.7 percent. Nevertheless, net interest income and non-interest income both increased by 12.4 and 21.3 percent, respectively (Figure 2.41). Although increasing provision put pressure on MFIs’ profitability, it is desirable for them in the long run as they would have adequate cushion to cover the expected losses resulting from any loan defaults. As the economy continues to recover, MFIs’ profitability should revert back to the sustainable path given the healthy growth of interest and non-interest incomes.

Common indicators that are used to assess profitability are annualised ROA and ROE. The ROA for MDIs and MFIs went down from 3.3 and 1.6 percent in the 2022 to 2 percent and 0.3 percent, respectively. Meanwhile, the ROE for MDIs and MFIs decreased from 16.2 percent and 4.8 percent in 2022 to 9 percent and 0.8 percent in 2023, respectively. (Figure 2.42). The lower ratios were the result of declining net profits as discussed earlier.

In terms of operating efficiency, MDIs were less efficient as reflected by the increasing ratio of operating expenses compared to operating profits from 40.7 percent in 2022 to 49.4 percent in 2023. In contrast, MFIs’ operating efficiency improved from 61.6 percent in 2022 to 58.1 percent in 2023, indicating better use of their resources to generate profits with less cost. Despite the decline, the overall efficiency level of MDIs was better when compared to MFIs (Figure 2.43).

The microfinance sector’s capital position remained strong, reflecting its resilience against potential shocks. MDIs’ regulatory capital almost halved in 2023 to KHR 3.6 trillion (USD 883 million), mainly due to the one-off effect of the merger. However, the CAR remained sound at 22.9 percent, which was well above the regulatory threshold of 15 percent (Figure 2.44). The regulatory capital is



composed of mainly the high-quality tier-1 capital with the tier-1 ratio at 18.7 percent of the risk-weighted assets. This buffer coupled with the adequate provisions discussed in the profitability section make MDIs resilient and capable of absorbing both expected and unexpected losses.

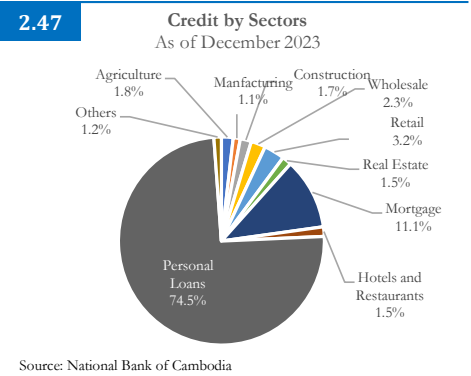
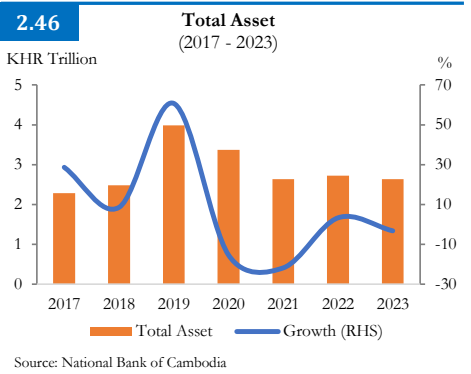
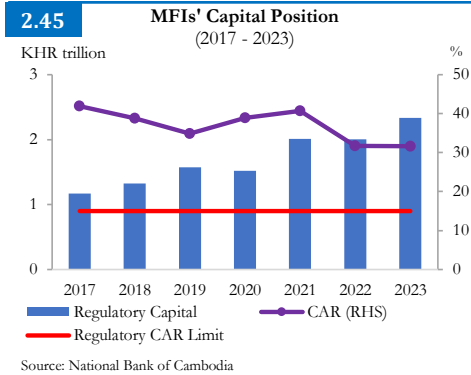
For MFIs, regulatory capital increased by 16.5 percent to KHR 2.3 trillion (USD 572 million), while risk-weighted assets rose at slightly faster pace by 16.7 percent to KHR 7.4 trillion (USD 1.8 billion). This has led to a stable CAR of 31.6 percent, much higher than the regulatory requirement of 15 percent (Figure 2.45). Similar to MDIs, MFIs maintained strong capital positions and made the necessary provisions to withstand the potential shocks arising from uncertainties in the domestic and external economic environment.

2.4 Specialised Bank

Specialized banks’ assets declined slightly because of the slowdown in credit growth. At the end of 2023, there were 9 specialised banks in the banking system with a total asset of 2.6 trillion (USD 645.2 million) accounting for 0.8 percent of the banking system assets. Compared to 2022, specialized bank assets decreased marginally by 3.2 percent. (Figure 2.46).

Specialised banks provided credit mainly in the form of personal lending. The share of personal loans in the total credit portfolio was recorded at 74.5 percent, followed by mortgage loan accounting for 11.1 percent, retail trade for 3.2 percent and wholesale trade for 2.3 percent and others for 8.9 percent (Figure 2.47). Compared to 2022, share of personal loans decreased from 82.7 percent whereas mortgage share increased from 3.2 percent. However, shares of the other sectors remained small as personal loans continued to dominate.

Specialised banks’ credit slowed down significantly in 2023. Credit growth decreased from 15.2 percent in 2022 to 1.6 percent in 2023 with a recorded loan amount of KHR 2.3 trillion (USD 556 million). The growth was mainly supported by mortgage loans and lending to

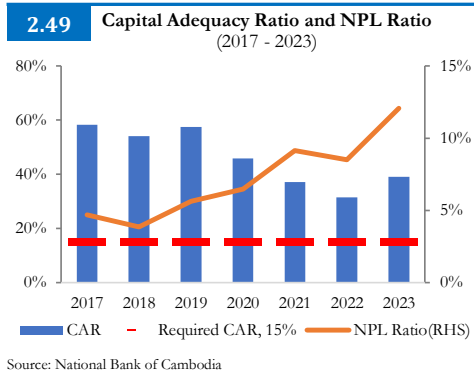
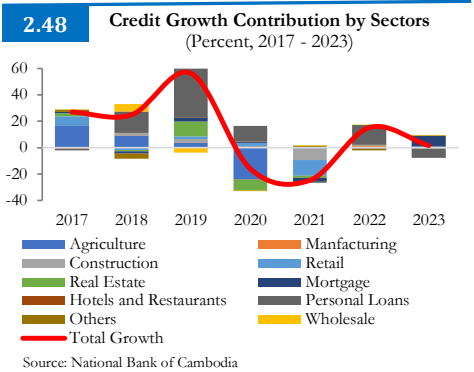


agriculture with contributions of 8.1 and 0.8 percent to growth while credit to some other sectors recorded negative contributions, especially personal loans at -7 percent (Figure 2.48).

Specialised banks’ capital position remained strong, providing a solid buffer amid increasing non-performing loans. The NPLR increased from 8.5 percent in 2022 to 12.1 percent in 2023, reaching the highest level in the last decade. However, it should be noted that specialized banks’ loans are smaller in size compared to commercial banks, and thus the current level of NPL is still manageable. Furthermore, at the end of 2023, specialised banks also have high level of capital with the CAR recorded at 39 percent, an increase from 31.4 percent in 2022, which is well above the 15 percent regulatory requirement (Figure 2.49). These capital buffers will enable specialized banks to cope with the possible losses incurred from the non-performing loans.

2.5 Conclusion

The analysis based on data as of December 2023 reveals that the overall banking system has remained resilient and has continued to provide necessary financing to support post-pandemic recovery. However, credit growth has sharply slowed down in 2023, though the data for banks masks this deceleration as merger of the largest MDI with a bank has given the trends a one-time uplift. Slowdown in credit demand could be observed across sectors and is attributable to high interest rates, elevated debt levels, and slower than expected recovery in some sectors. Banks have also been more cautious in lending amid the deterioration in their asset quality, which in turn, has required additional specific provisions. Along with greater interest expenses, higher provisions have dented banks’ profitability. However, liquidity has generally improved, and capital adequacy has inched up further. As the internal stress testing exercise reveals, banks are generally able to withstand further deterioration in asset quality under various stress scenarios. While non-performing loan ratios are



relatively higher in MFIs/specialized banks when compared to commercial banks, these institutions also have much higher capital adequacy levels in general.

In addition to the banking sector that NBC has continued to closely monitor, risks could also stem from shadow banking institutions such as real estate developers or pawn shops. These institutions are lightly regulated and are outside the regulatory mandate of the NBC. As a result, little information is available about their operations, financial performance or the debt servicing capacity of their customers. Therefore, relevant regulatory authorities would need to strengthen their data collection and improve their regulatory oversight in order to proactively contain any risk from the shadow banks to the broader financial system.

The securities market continued to expand with the addition of new companies being listed in both the equity and debt markets. While the Cambodia Securities Exchange (CSX) index dropped slightly, the market capitalization increased markedly after the listing of two new companies. Meanwhile, trading activities experienced a big decline, both in terms of average daily trading value and volume, despite the steady increase in the number of trading accounts. The bond market continued to attract new listings with issuers seeking sources of funds in KHR. At the end of 2023, the total corporate bonds outstanding was recorded at KHR 518.2 billion (USD 126.9 million), where telecommunication firms accounting for almost 40 percent of the total corporate bond market. The insurance sector continued to expand, but at a slower pace, with a total amount of premium reaching KHR 1.4 trillion (USD 339.6 million) in 2023.

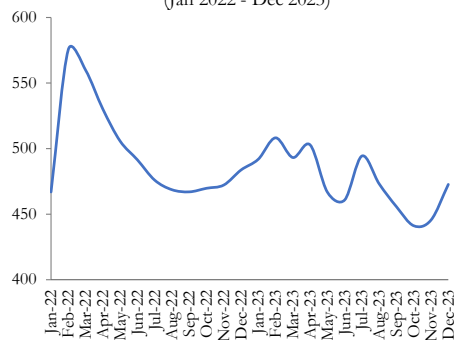
3.1 Asset Market

A. Equity Market

The CSX index dipped slightly whereas its market capitalisation jumped notably compared to the year before. At the end of 2023, the CSX index was 472.7, recording a decrease of 2.3 percent when compared to in 2022, at 483.7. (Figure 3.1). On the other hand, the market capitalisation, including both main and growth boards, surged by 71.2 percent from KHR 7.5 trillion (1.9 billion) in 2022 to KHR 12.8 trillion (3.2 billion), largely due to the new listings of CAMGSM PLC. (CGSM) and Mengly J. Quach Education PLC. (MJQE), both of which issued around KHR 5.4 trillion (USD 1.2 billion) of stocks in June 2023.

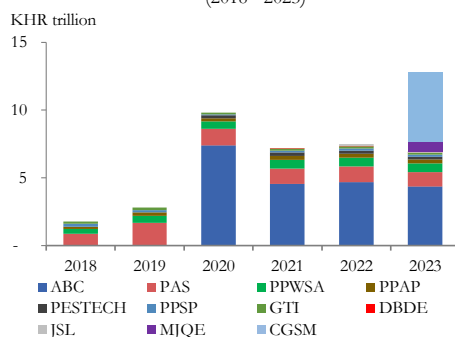
CGSM accounted for the largest proportion in the stock market (40.2 percent share of the total market capitalization), followed by ACLEDA Bank (34 percent), Sihanoukville Autonomous Port (8.4 percent), MJQE (5.4 percent) and Phnom Penh Water Supply Authority (4.9 percent) (Figure 3.2).

3.1 Cambodia Securities Exchange Index
(Jan 2022 - Dec 2023)



Source: Cambodia Securities Exchange

3.2 Market Capitalization
(2018 - 2023)



Source: Cambodia Securities Exchange

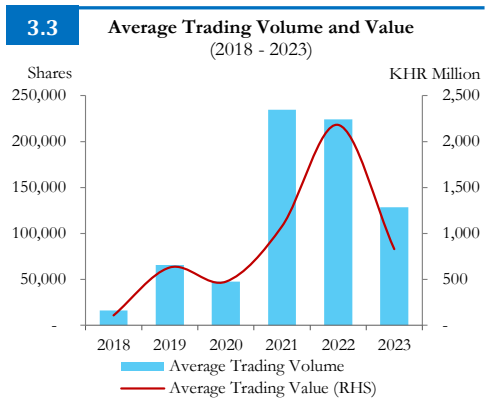
Trading activities experienced a big decline in 2023, both in terms of average daily trading value and volume. For instance, the daily average trading value saw negative growth rate of -62 percent, from KHR 2,180.2 million (USD 0.5 million) in 2022 to KHR 828.2 million (USD 0.2 million), and an average daily trading volume of 128,156 shares per day, posting a decrease of 42.8 percent (Figure 3.3). This decline could be partly due to less transactions using negotiated trading method (NTM) and low expectation on dividend distributions.

The number of valid trading accounts – both Cambodian and foreigners – reached 48,016 accounts by the end of 2023, an increase of 32.8 percent, of which Cambodian investors accounted for almost 90 percent (Figure 3.4). The number of trading accounts is expected to rise with the stability of the economy and its potential for growth. Following the trend of digitalisation in payment systems, the introduction of CSX Trade mobile application together with updates to the trading platform, have provided a conducive trading environment that would further increase public confidence and interest in the CSX.

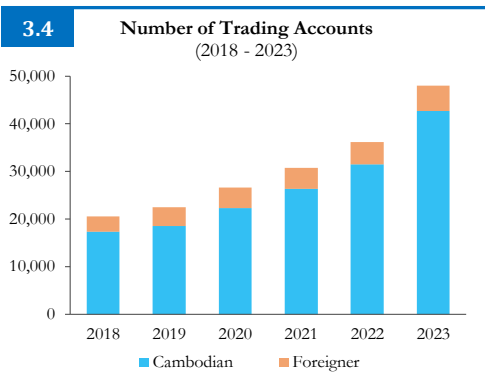
B. Bond Markets

B.1 Government Bond

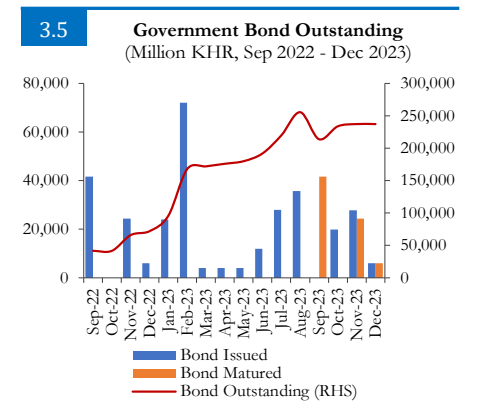
The amount of government bonds issued were valued at KHR 237.2 billion (57.5 million USD) in 2023 (Figure 3.5), with various duration of 1 year and up to 5 years. Coupon rates of government bonds ranged from 3.48 percent to 4.5 percent, paid semi-annually. Meanwhile, a total of KHR 72 billion (USD 17.5 million) of government bonds reached maturity in 2023. The issuance of government bonds is an important step in contributing towards the development of Cambodia’s financial markets and to utilise an alternative source of financing to promote the KHR. This would also help to facilitate market-



Source: Cambodia Securities Exchange



Source: Cambodia Securities Exchange



Source: Cambodia Securities Exchange

based monetary policy operations and promote the use of the local currency.

B.2 Corporate Bond

The bond market continued to attract new listings into the market to seek various sources of financing in the local currency. At the end of 2023, there were a total of 6 companies in the bond market with the total outstanding corporate bond of KHR 518.2 billion (USD 126.9 million), an increase of 0.6 percent over the previous year. Two telecommunication companies (Telcotech and CAMGSM) accounted for 39.7 percent of the total corporate bond market, followed by a transportation firm (Royal Railway, 27.1 percent), an import-export company (RMA, 16.1 percent), an education company (CIA First International School, 16 percent), and a real estate company (Golden Tree, 1.2 percent) (Figure 3.6). This further reflects the role of the bond market in providing additional long-term financing to various business firms in different sectors.

In terms of maturities, corporate bonds in the market offered either a 5-year or a 10-year maturity bonds (Table 3.1). Coupon rates for 5-year bonds varied from 4.5 percent to SOFR + 3.5 percent. Meanwhile, coupon rates for 10-year bonds ranged from 7 percent to SOFR + 3.75 percent.

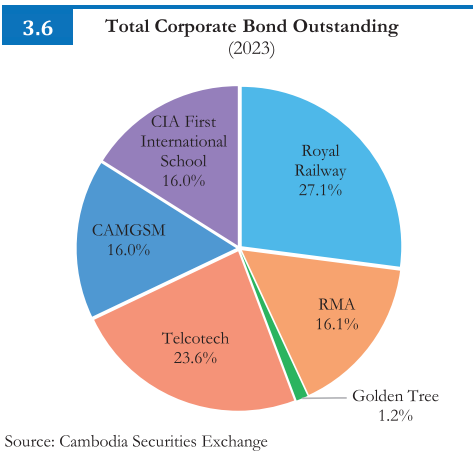


Table 3.1: Coupon Rates of Corporate Bonds

Issuer	Bond Name	Coupon Rate	
		5-Year	10-Year
RMA (Cambodia)	RMAC Bond	5.5%	
	Telcotech	4.5%	
Telcotech	Telcotech Public Bond	SOFR* + 2.5%	
	Royal Railway Bond		7%
	Royal Railway Guarantee Bond 1	SOFR + 3.5% or 5% per annum**	
Royal Railway	Royal Railway Guarantee Bond 2		SOFR + 3.5% or 5% per annum and year 6 to year 10: SOFR + 3.75% or 5% per annum
	Golden Tree Green Bond	7%	
CIA First International School	CIA First Guaranteed Bond 1	6.3%	
CAMGSM	CAMGSM Sustainability Bond		SOFR + 3% or 5.5% per annum

Source: Cambodia Securities Exchange
 Note: * SOFR refers to Secured Overnight Financing Rate
 ** The higher one is applicable

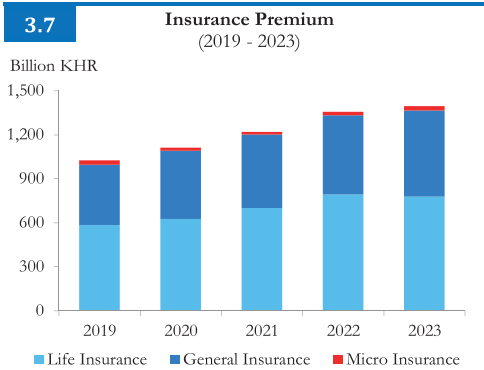
Source: Cambodia Securities Exchange

3.2 Insurance Sector

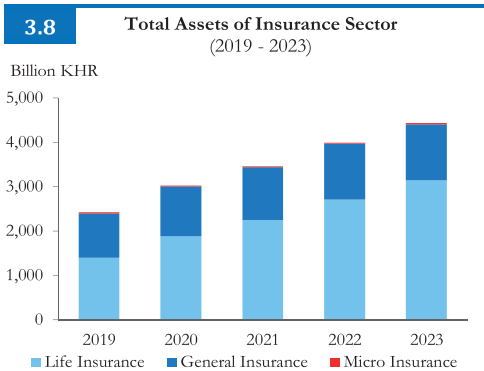
Total assets of the insurance sector posted a healthy growth though growth in premiums slowed down. The total assets of the insurance sector grew by 10.6 percent to more than KHR 4.4 trillion (USD 1.1 billion) (Figure 3.7). In addition, the number of policies marginally increased by 2.9 percent to 1.3 million. Meanwhile, the claim ratio edged down slightly from 14 percent in 2022 to 13.6 percent.

The insurance premiums experienced slow growth as the life insurance premiums posted a marginal decline. The total gross premium slowed from 10.7 percent in 2022 to 2.3 percent in 2023, with the total amount of almost KHR 1.4 trillion (339.6 million) (Figure 3.8). This slowdown was driven by the negative growth of life insurance premium while that of general and micro insurance continued to expand. The breakdown of the insurance premium revealed that life insurance accounted for 55.9 percent, followed by general insurance at 42 percent and micro insurance at 2.1 percent.

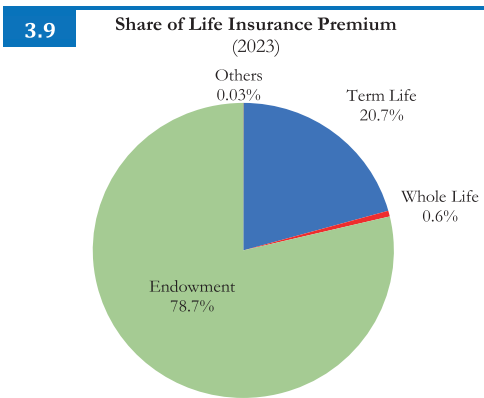
The premium of life insurance slightly decreased by 2.1 percent to KHR 779.8 billion (USD 189.7 million), mainly driven by the endowment policies (-2.8 percent contribution to total decline) and other insurance (-0.3 percent). Endowment policies accounted for the biggest share of the gross premium for life insurance at 78.7 percent, followed by term life insurance at 20.7 percent (Figure 3.9). Meanwhile, the number of new policies gained momentum from 535,871 to 575,653 policies, an increase of 7.4 percent. The claim ratio slightly decreased from 7.3 percent in 2022 to 7 percent as the total claim paid in life insurance decreased by 5.8 percent to KHR 55 billion (USD 13.4 million).



Source: Insurance Regulator of Cambodia

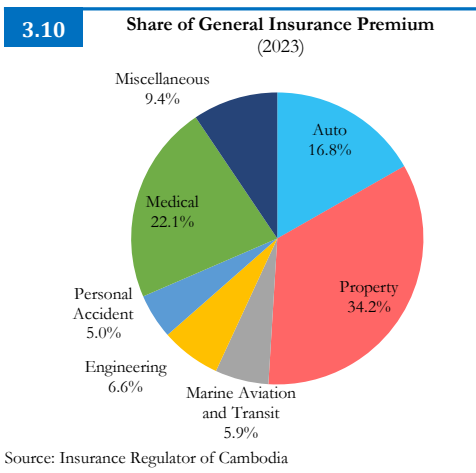


Source: Insurance Regulator of Cambodia

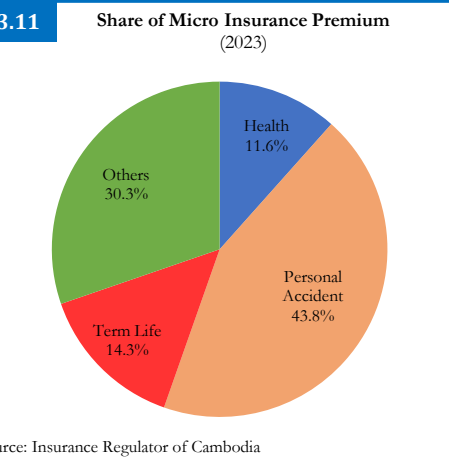


Source: Insurance Regulator of Cambodia

The gross premium of general insurance increased by 7.9 percent to KHR 586.7 billion (USD 142.8 million), which was mainly driven by property (2.7 percent contribution to the total growth) and engineering insurance (2.6 percent). Property insurance has the largest share of gross premium for general insurance at 34.2 percent, followed by medical insurance at 22.1 percent and auto insurance at 16.8 percent (Figure 3.10). The claim ratio slightly decelerated from 23.8 percent in 2022 to 22.3 percent, with the total claim paid in general insurance edging up by 0.9 percent to KHR 130.6 billion (USD 31.8 million).



Gross premium of micro insurance continued to record robust growth at 24.7 percent to KHR 29.3 billion (USD 7.1 million), contributed mainly by personal accident insurance. The main products of micro insurance include personal accident (43.8 percent share), term life (14.3 percent), health (11.6 percent) and other insurance (30.3 percent) (Figure 3.11). The gross claim ratio was registered at 15.5 percent, with the total claim paid in micro insurance increasing by 21.1 percent to KHR 4.5 billion (USD 1.1 million).



3.3 Conclusion

The non-bank financial sector continued to expand gradually, contributing towards a more diversified and broad-based financial sector development. Both equity and bond markets have attracted more listings from companies in various sectors to seek alternative sources of financing besides bank loans. In addition, total assets of the insurance sector posted a healthy growth, though growth in premiums slowed. In the meantime, more efforts to enhance data collection and sharing are needed to improve regulatory oversight for actively containing any risks that could spill over to the broader financial system. In this regard,

further strengthen collaboration with the relevant authorities will continue ensuring the stability and resilience of the financial system development in Cambodia.

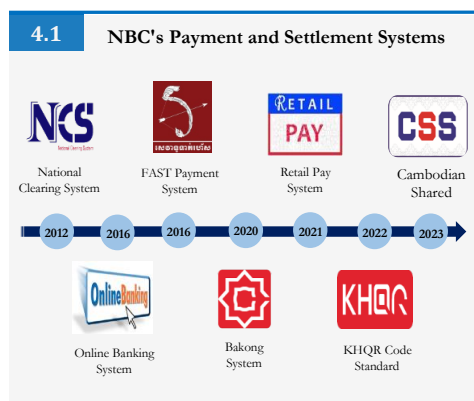
IV

Digital Payment System Development

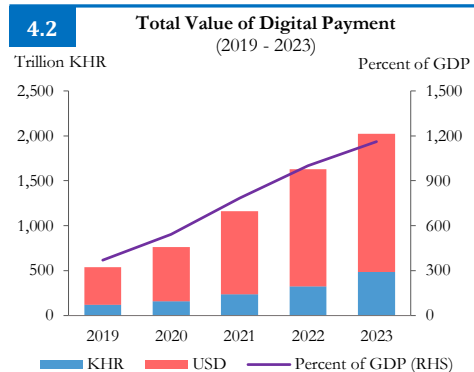
The NBC has been seizing opportunities from the advancement of financial technology to develop and modernize payment systems in line with the government's Pentagon Strategy. The use of electronic payment systems has increased remarkably in recent years, reflecting stronger adoption and confidence among the public. The number of e-wallet accounts was recorded at 19.7 million, and the value of digital payments reached almost 12 times the GDP. Moreover, payment transactions through the Bakong system and QR code have increased markedly while also contributing to promoting the use of Khmer riel. The NBC has actively developed cross-border payment connectivity with other countries and international payment gateways in the region, aimed to further deepen economic and financial cooperation and promote the use of local currencies in the region.

In line with rapid developments in financial technology and digital economy, the NBC has promoted innovation in digital financial services to reduce costs, improve interoperability and enhance financial inclusion. Payment and settlement systems have continuously developed over the last decade, for both retail and wholesale payment, to support Cambodia's rapidly expanding digital financial services, including the National Clearing System (NCS), Online Banking System (OBS)²³, FAST Payment System, Retail Pay, Bakong, KHQR standard and Cambodian Shared Switch (CSS) (Figure 4.1). Furthermore, Bakong Large Value Payment System (Bakong LVPS) is being developed to facilitate large value transactions for the interbank and financial markets and net balance settlements of retail payment systems.

The use of digital payment systems has substantially accelerated in the past several years and become a new normal in the economy, indicating stronger adoption and confidence among the public. Large number of young people coupled with a rapid growth in smartphones and internet penetration have remarkably transformed Cambodia from being



Source: National Bank of Cambodia



Source: National Bank of Cambodia

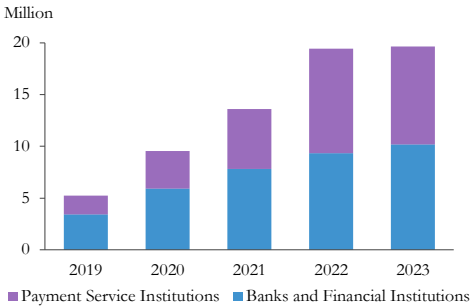
²³ Online Banking System (OBS) is a wholesale digital payment for banks and financial institutions and the government that open accounts at the NBC.

heavily reliant on cash-based transactions towards a cashless economy. For instance, the total number of digital payment transactions jumped by 59.8 percent to 1.8 billion transactions in 2023. In terms of value, the total amount of digital payments was recorded at KHR 2,021.3 trillion (USD 491.8 billion), an increase of 24.2 percent, equivalent to almost 12 times the GDP (Figure 4.2).

Banks, financial institutions, and payment services institutions have also modernized their digital payment platforms to support the growing demand and allow the unbanked population to gain access to formal financial services. More and more customers, including people in rural areas, have conducted various financial transactions via their smartphones such as fund transfers, bill payments and phone top-ups, among others, due to their convenience, accessibility, and security. In 2023, the number of registered e-wallet accounts reached 19.7 million, of which 10.2 million were registered with banks and financial institutions and another 9.5 million were registered at payment service institutions (Figure 4.3). The total value of e-wallet payments increased by 76.4 percent to KHR 458.9 trillion (USD 111.7 billion) and the number of transactions also jumped 73.5 percent to 811 million transactions (Figure 4.4).

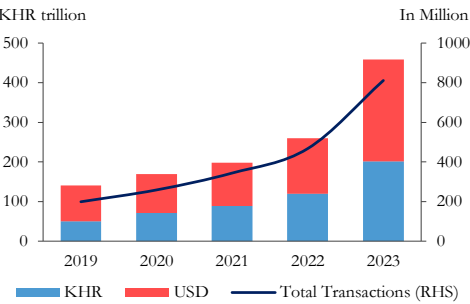
While the use of internet banking services has slightly decreased, the use of mobile banking services has steadily accelerated. The growing mobile phone and internet penetration rates coupled with the availability of user-friendly digital financial services has enabled more customers to conduct a wide range of digital banking operations, including loan repayments, fund transfers, bill payments, phone top-ups, payrolls, balance inquiries, etc. Although the value of internet banking declined by 7 percent to KHR 74.5 trillion (USD 18.1 billion), the total number of

4.3 Number of Registered E-wallet Accounts (2019 - 2023)



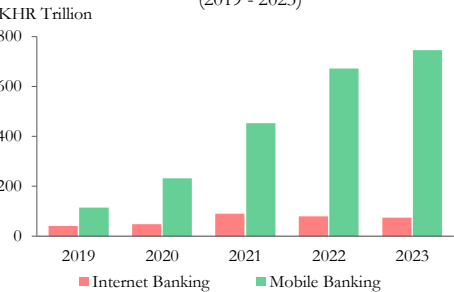
Source: National Bank of Cambodia

4.4 Value and Volume of E-wallet Transactions (2019 - 2023)



Source: National Bank of Cambodia

4.5 Value of Internet and Mobile Banking Transactions (2019 - 2023)



Source: National Bank of Cambodia

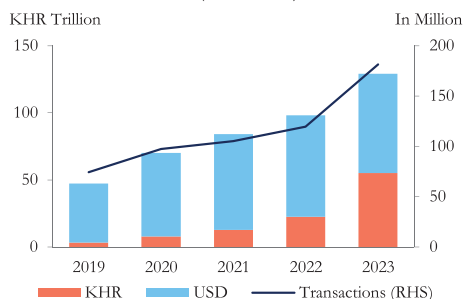
transactions increased to 4.7 million transactions. Meanwhile, the amount of mobile banking payment increased by 11 percent to KHR 746.7 trillion (USD 181.7 billion) and the volume of transactions reached 779.4 million transactions (Figure 4.5).

The use of card payments has steadily increased, as reflected through the growing trend in the value of transactions and number of cards issued. For instance, the total number of card payments issued reached 13.1 million, an increase of 6 percent, including prepaid cards (7.1 million), proprietary cards (3.2 million), debit cards (2.5 million) and credit cards (0.2 million). Moreover, the total number of card payment transactions jumped by 51.5 percent to 181.5 million transactions with a total amount of KHR 129.2 trillion (USD 31.4 billion), of which KHR accounted for 42.7 percent (Figure 4.6).

QR payments have notably gained popularity since the introduction of KHQR standard in July 2022, that has facilitated interoperability among banks and financial institutions as well as enhanced cross-border payment connectivity within the region. The total amount of QR code payments continued to skyrocket by 7 times to KHR 95.8 trillion (USD 23.3 billion), of which the use of KHR accounted for about one-third (Figure 4.7). The number of QR payment transactions also jumped by 7.6 folds to 178 million transactions and the KHR accounted for 48.4 percent, indicating contribution of QR payments to promoting the use of the national currency.

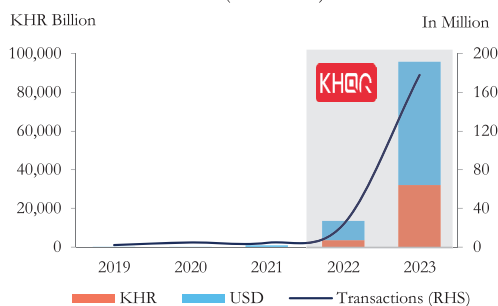
The Bakong system has enhanced efficiency in the payment system, facilitated interoperability among banks and financial institutions and promoted financial inclusion. 74 banks and financial institutions have become members of this backbone

4.6 Value and Volume of Card Payments
(2019 - 2023)



Source: National Bank of Cambodia

4.7 Value and Transactions of QR Payments
(2019 - 2023)

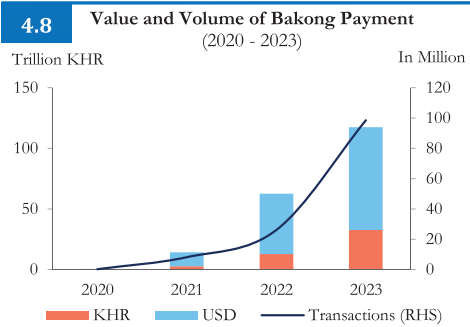


Source: National Bank of Cambodia

payment system, of which 58 members have successfully launched their systems and another 16 members are integrating the system. Moreover, the number of registered accounts increased to 600,636 accounts, and many customers can use this system indirectly through members’ applications. In 2023, the total amount of payment transactions through the Bakong system increased by 2.7 times to KHR 302.0 trillion (USD 78.5 billion), of which KHR accounted for 26.8 percent (Figure 4.8). At the same time, the number of Bakong transactions jumped by 5 times to 200.9 million transactions, and the share of KHR reached 34.2 percent.

Cross-border payment connectivity with other countries and international payment gateways in the region has been actively promoted, aimed at contributing to the promotion of trade, investment, tourism, and remittances as well as to further deepen economic and financial cooperation and promote the use of the local currencies. For instance, the NBC has successfully linked cross-border payment systems with several regional countries and international payment gateways, including Thailand, Laos, Vietnam and UnionPay International, and is expanding cross-border payment connectivity with partner countries such as India, China, Japan, Singapore, Malaysia, Indonesia, and institutions like Alipay.

To conclude, the use of digital payments has increased rapidly and contributed substantially to digital economic development in line with the Pentagon Strategy. In this regard, improving financial and digital literacy is crucial to facilitate the adoption of digital financial services. Various campaigns and events have been conducted in the capital city and provinces as well as through social media to raise public awareness on safeguarding the use of digital financial products – particularly among the young



Source: National Bank of Cambodia

population who are keen to embrace digital financial services. In addition, the NBC has continuously paid attention in enhancing cyber security, managing operational risk, and promoting consumer protection to maintain public confidence and safeguard financial stability.

Appendix 1

Table 1: Balance of Payment
(Percent of GDP, 2018-2023)

	2018	2019	2020	2021	2022	2023
Overall Balance	4.4	7.3	1.8	0.2	0.9	-0.4
Financial Account	12.2	14.3	3.6	29.3	19.4	2.0
Current and Capital Account	-7.8	-7.0	-1.8	-29.0	-18.5	1.6

Source: National Bank of Cambodia

Table 2: FDI Inflows by Sectors
(2018-2023)

	2018	2019	2020	2021	2022	2023
FDI (USD billion)	3.2	3.7	3.6	3.5	3.6	4.0
Agriculture	0.2	0.2	0.2	0.1	0.1	0.1
Mining and Quarrying	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.4	0.6	0.6	0.7	0.8	1.4
Financial Activities	1.1	1.2	1.4	1.3	1.1	0.9
Accommodation	0.4	0.5	0.4	0.2	0.2	0.2
Telecom	0.0	0.0	0.0	0.0	0.0	0.0
Construction & Real Estate	0.6	0.7	0.6	0.6	0.8	0.9
Other	0.4	0.4	0.4	0.4	0.5	0.4
Total Growth (percent)	15.2	14.0	-1.0	-3.9	2.7	10.6

Source: Council for the Development of Cambodia and NBC's staff calculations

Table 3: KHR Exchange Rates
(2018-2023)

	2018	2019	2020	2021	2022	2023
NEER Index	99.4	98.3	99.6	101.8	98.5	95.57
REER Index	96.1	97.0	96.7	97.7	94.4	92.7
KHR/USD	4,051	4,061	4,093	4,099	4,102	4,111

Source: National Bank of Cambodia

Table 4: International Reserves
(2018-2023)

	2018	2019	2020	2021	2022	2023
International Reserves (USD billion)	14.6	18.8	21.3	20.3	17.8	20.0
Months of Imports of Goods and Services	6.9	9.8	7.8	7.0	7.3	7.1

Source: National Bank of Cambodia

Table 5: GDP Growth by Sector
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023e
Agriculture	1.1	-0.4	0.6	1.5	0.6	1.0
Manufacturing	12.2	10.5	-0.8	14.9	10.6	7.2
Construction and Real Estate	18.3	15.7	-7.8	-8.2	0.8	0.8
Trade, Accommodation and Food Service	6.4	5.6	-16.9	-10.2	8.0	10.8
Transportation and Communication	7.6	8.7	0.9	6.1	5.9	10.2
Finance and Insurance	8.0	7.9	4.3	3.2	-1.0	0.3
Other sectors	7.7	7.9	1.5	6.5	3.5	4.0
Real GDP Growth	8.8	7.9	-3.6	3.1	5.1	5.0

Source: National Institute of Statistics, NBC's staff estimation

Table 6: Contribution to Growth by Sector
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023e
Agriculture	0.2	-0.1	0.1	0.3	0.1	0.1
Manufacturing	2.8	2.5	-0.2	3.7	3.0	2.1
Construction and Real Estate	2.5	2.3	-1.2	-1.2	0.1	0.1
Trade, Accommodation and Food Service	1.1	0.9	-2.7	-1.4	1.0	1.3
Transportation and Communication	0.3	0.4	0.0	0.3	0.3	0.5
Finance and Insurance	0.3	0.3	0.2	0.1	0.0	0.0
Other sectors	1.5	1.5	0.3	1.3	0.7	0.8
Real GDP Growth	8.8	7.9	-3.6	3.1	5.1	5.0

Source: National Institute of Statistics, NBC's staff estimation

Table 7: Number of International Tourist Arrivals by Purpose of Visits
(Million tourists, 2018-2023)

	2018	2019	2020	2021	2022	2023
Holiday	5.3	5.0	1.0	0.1	1.8	4.3
Business and Professional	0.7	1.4	0.3	0.1	0.4	1.0
Others	0.2	0.2	0.1	0.0	0.1	0.1
Total International Tourist Arrivals	6.2	6.6	1.3	0.2	2.3	5.5
Growth of International Tourists Arrival (percent, Y-o-Y)	10.7	6.6	-80.2	-85.0	1,058.6	139.5

Source: Ministry of Tourism

Table 8: Domestic Tourists
(Million tourists, 2018-2023)

	2018	2019	2020	2021	2022	2023
Phnom Penh	2.4	2.4	1.8	1.2	2.4	6.6
Siem Reap	3.2	2.1	0.7	0.4	2.4	1.7
Coastal Zone	3.3	3.2	2.9	2.1	7.1	8.3
Eco-Tourism Zone	0.6	0.7	0.6	0.4	0.7	0.5
Total Domestic Tourists	11.1	11.3	7.2	4.7	13.9	18.7
Growth of Domestic Tourists (percent, Y-o-Y)	1.8	2.3	-36.1	-35.5	198.8	34.5

Source: Ministry of Tourism

Table 9: Residential Property Price Index
(2022 – 2023)

2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cambodia	113.8	111.9	111.2	109.4	108.6	109.0	111.9	113.5	114.6	115.1	114.7	114.8
Phnom Penh	114.8	113.9	113.3	111.1	109.8	110.4	113.6	115.4	116.5	116.8	116.0	116.0
Rest of the Provinces	108.2	99.5	97.9	98.9	100.4	100.3	101.1	102.1	102.4	104.0	107.0	107.6
2023	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cambodia	113.8	113.1	113.0	114.1	115.6	116.1	115.0	114.8	114.1	113.1	111.9	111.5
Phnom Penh	114.8	114.6	114.7	116.2	117.5	117.5	115.9	115.9	115.2	113.8	112.2	111.4
Rest of the Provinces	108.2	104.9	104.1	103.1	105.7	109.3	110.4	108.9	108.4	109.7	110.4	111.5

Source: National Bank of Cambodia

Table 10: Contribution to Headline Inflation
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
Inflation	2.5	1.9	2.9	2.9	5.4	2.1
Food	1.3	1.1	2.5	1.5	2.7	1.8
Oil Related Items	0.4	-0.1	-0.3	0.8	1.1	-0.3
Core Inflation	0.7	0.9	0.7	0.6	1.5	0.7

Source: National Bank of Cambodia

Table 11: Financial Dollarization
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
Foreign Currency to Broad Money (FCD/M2)	85.7	84.1	83.9	83.0	83.0	83.4
Foreign Currency to Total Deposits (FCD/TD)	94.1	93.5	93.1	91.4	90.4	90.3

Source: National Bank of Cambodia

Appendix 2

Table 12: Banking Indicators Compared to GDP
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
Assets to GDP	124	140	167	187	193	195
Loans to GDP	77	88	107	125	137	133
Deposits to GDP	74	80	95	106	106	112

Source: National Bank of Cambodia

Table 13: Commercial Banks' Credits and Deposits by Type of Currency
(2018-2023)

Credits	2018	2019	2020	2021	2022	2023
Credit in KHR (KHR trillion)	3.5	10.8	15.0	18.3	20.7	24.6
Credit in USD (KHR trillion)	78.4	92.8	112.6	142.5	168.1	188.3
Share of KHR Credit (percent)	4.3	10.4	11.8	11.4	11.0	11.5
Deposits	2018	2019	2020	2021	2022	2023
LC Deposits (KHR trillion)	5.4	7.5	9.5	13.7	17.3	21.4
FC Deposits (KHR trillion)	83.2	96.0	111.8	129.2	137.7	166.6
Share of LC Deposits (percent)	6.1	7.3	7.9	9.6	11.2	11.4

Source: National Bank of Cambodia

Table 14: Commercial Banks' Credit by Sector – Value & Share
(2018-2023)

Value (KHR trillion)	2018	2019	2020	2021	2022	2023
Agriculture, Forestry and Fishing	6.8	7.1	9.8	12.8	15.5	19.2
Mining and Quarrying	0.2	0.3	0.5	0.7	0.9	1.1
Manufacturing	4.5	4.7	5.2	6.4	8.2	9.3
Utilities	0.6	1.0	1.6	2.1	1.9	2.4
Construction	7.6	10.0	12.5	15.3	18.2	20.8
Wholesale Trade	9.5	11.8	12.7	15.4	18.6	19.2
Retail Trade	13.4	16.2	19.8	25.9	30.8	37.1
Hotels and Restaurants	4.0	4.7	5.1	7.3	8.4	8.4
Transport and Storage	1.7	2.1	3.5	4.4	5.0	6.1
Information Media and Telecommunications	0.7	0.9	1.1	1.2	1.0	1.1

Rental and Operational Leasing Activities	2.7	3.8	3.6	2.7	2.8	2.8
Real Estate Activities	6.1	8.7	10.9	14.1	18.1	22.1
Other Non-Financial Services	5.7	6.3	6.8	8.4	10.0	11.0
Personal Loans	6.7	8.4	11.5	14.0	14.2	19.6
Mortgages	8.5	12.1	17.1	22.3	27.5	28.2
Other Lending	1.0	1.3	1.1	2.2	2.6	2.8
Total	79.8	99.4	122.9	155.4	183.7	211.1
Share (percent)	2018	2019	2020	2021	2022	2023
Agriculture, Forestry and Fishing	8.6	7.2	8.0	8.3	8.5	9.1
Mining and Quarrying	0.3	0.3	0.4	0.4	0.5	0.5
Manufacturing	5.7	4.7	4.3	4.1	4.5	4.4
Utilities	0.7	1.0	1.3	1.3	1.1	1.1
Construction	9.5	10.0	10.2	9.9	9.9	9.8
Wholesale Trade	12.0	11.9	10.3	9.9	10.1	9.1
Retail Trade	16.8	16.3	16.1	16.7	16.8	17.6
Hotels and Restaurants	5.0	4.7	4.2	4.7	4.6	4.0
Transport and Storage	2.1	2.1	2.8	2.8	2.7	2.9
Information Media and Telecommunications	0.9	0.9	0.9	0.8	0.6	0.5
Rental and Operational Leasing Activities	3.3	3.9	2.9	1.7	1.5	1.3
Real Estate Activities	7.7	8.7	8.8	9.1	9.9	10.5
Other Non-Financial Services	7.2	6.4	5.6	5.4	5.5	5.2
Personal Loans	8.4	8.5	9.3	9.0	7.7	9.3
Mortgages	10.6	12.2	13.9	14.4	15.0	13.4
Other Lending	1.3	1.3	0.9	1.4	1.4	1.3

Source: National Bank of Cambodia

Table 15: Commercial Banks' Liquidity Coverage Ratio
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
LCR Required	80	90	100	100	100	100
LCR Actual	158.8	155.7	162.4	151.6	143.8	166.6

Source: National Bank of Cambodia

Table 16: Share of Commercial Banks' Source of Funds
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
Demand	16.8	17.1	15.2	15.7	13.0	11.2
Saving	25.0	22.0	21.0	19.9	17.9	16.3
Fixed	28.4	28.8	30.1	29.6	32.3	37.7
Others	0.4	0.3	0.2	0.2	0.9	1.2
Borrowings (<1y)	3.2	4.5	4.5	4.4	4.8	4.0
Borrowings (>1y)	5.3	5.2	6.5	7.4	8.2	7.7
Subordinated Debt (>1y)	1.2	1.6	1.6	1.6	1.5	1.3
Capital	19.8	20.4	20.9	21.2	21.4	20.6

Source: National Bank of Cambodia

Table 17: Commercial Banks' Return on Assets & Equity
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
Return on Assets	1.6	1.9	1.6	1.7	1.4	0.6
Return on Equity	8.6	10.2	8.7	8.9	7.1	3.4

Source: National Bank of Cambodia

Table 18: Commercial Banks' Capital Adequacy
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
Regulatory CAR Limit	15	15	15	15	15	15
Tier 1 Ratio	21.2	20.0	20.2	20.0	19.4	19.8
CAR	23.4	23.0	23.2	23.0	22.2	22.5

Source: National Bank of Cambodia

Table 19: Total Assets in Microfinance Sector
(2018-2023)

	2018	2019	2020	2021	2022	2023
Amount (KHR trillion)	26.6	35.9	34.3	37.1	44.4	26.1
Growth (percent)	31.2	34.7	-4.5	8.1	19.8	-41.1

Source: National Bank of Cambodia

Table 20: Microfinance Credit by Sector – Value & Share
(2018-2023)

Value (KHR trillion)	2018	2019	2020	2021	2022	2023
Agriculture	4.6	5.7	5.3	5.7	6.9	4.6
Manufacturing	0.1	0.2	0.3	0.5	0.7	0.6
Trade and Commerce	3.8	5.4	5.8	7.3	9.1	4.3
Services	2.4	4.2	4.4	4.6	5.3	2.4
Transportation	1.1	1.7	1.6	1.6	1.7	0.6
Construction	0.9	1.0	1.1	1.4	1.8	1.5
Households	8.0	10.0	8.6	10.3	12.9	6.6
Others	0.8	1.1	0.5	0.4	0.5	0.5
Total	21.8	29.3	27.5	31.7	38.9	21.0
Share (percent)	2018	2019	2020	2021	2022	2023
Agriculture	21.1	19.4	19.3	17.9	17.8	22.1
Manufacturing	0.7	0.8	1.0	1.6	1.8	3.0
Trade and Commerce	17.6	18.3	20.9	23.0	23.3	20.3
Services	11.0	14.4	16.0	14.4	13.6	11.4
Transportation	5.0	5.7	5.9	5.2	4.4	2.8
Construction	4.2	3.5	3.8	4.3	4.5	7.0
Households	36.7	34.2	31.2	32.4	33.2	31.2
Others	3.8	3.6	1.9	1.1	1.3	2.3

Source: National Bank of Cambodia

Table 21: MDIs' Liquidity Coverage Ratio
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
MDIs' LCR	213.6	178.1	240.4	160.1	156.7	285.8
Regulatory LCR Limit	80	90	100	100	100	100

Source: National Bank of Cambodia

Table 22: Microfinance Credit Quality
(2018-2023)

	2018	2019	2020	2021	2022	2023
Loans 30 Days Past Due (KHR billion)	275.5	224.3	501.9	765.4	979.9	1,357.3
Delinquency Ratio (percent)	1.3	0.8	1.8	2.4	2.5	6.5

Source: National Bank of Cambodia

Table 23: Microfinance Return on Assets and Equity
(Percent, 2018-2023)

	2018	2019	2020	2021	2022	2023
ROA	2.7	2.8	2.8	2.8	3.0	1.5
ROE	13.5	14.8	12.4	12.7	13.6	5.9

Source: National Bank of Cambodia

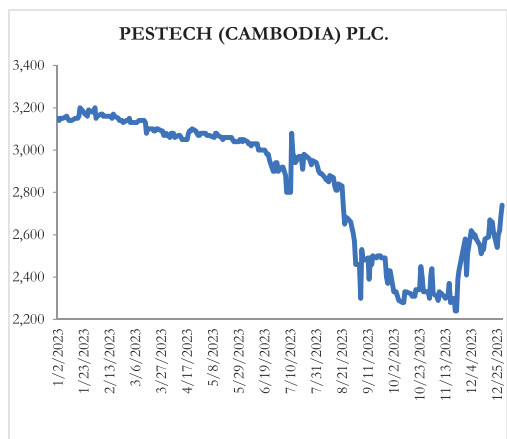
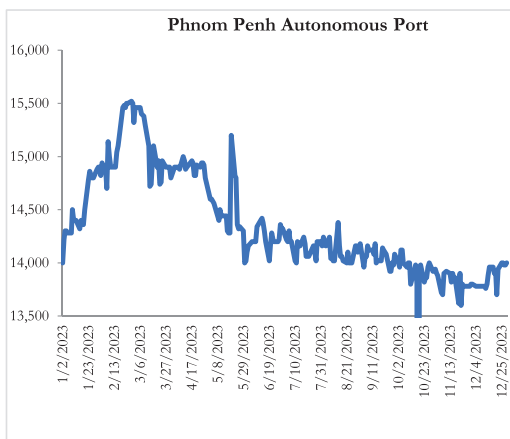
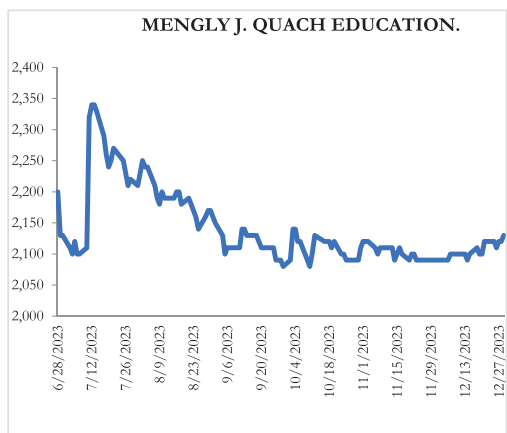
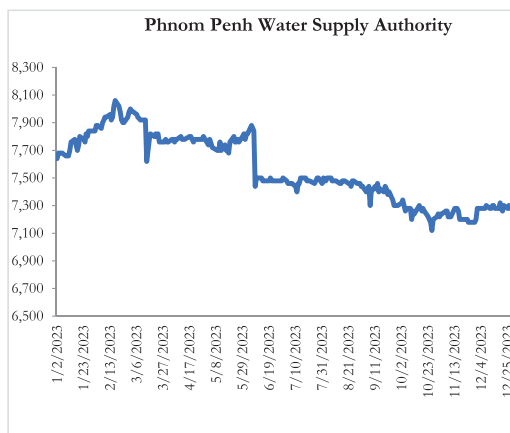
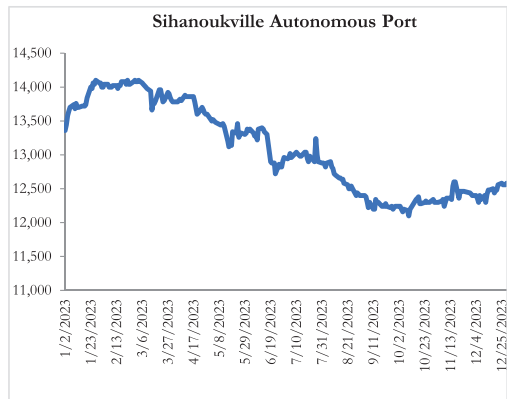
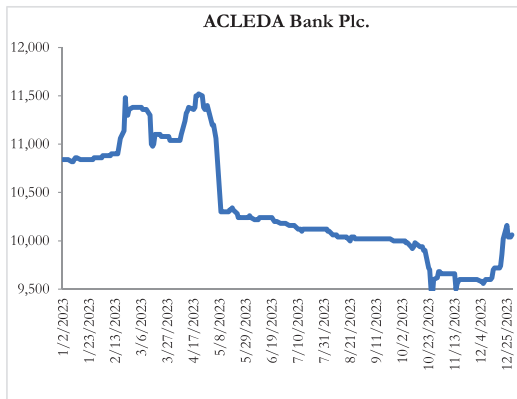
Table 24: Microfinance Capital Position
(Percent, 2017-2023)

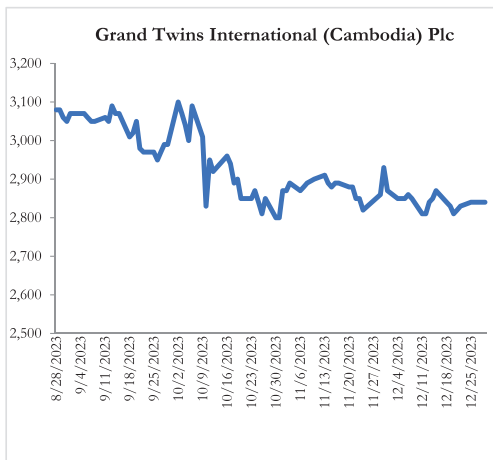
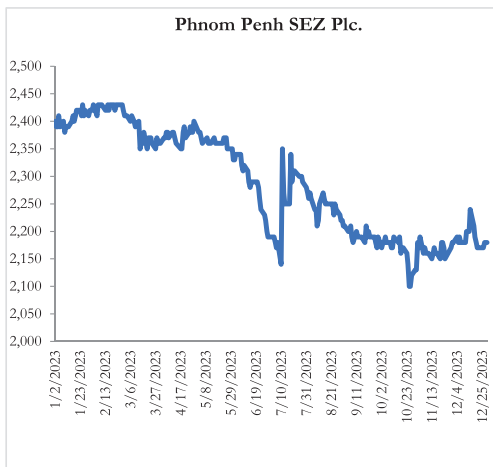
	2018	2019	2020	2021	2022	2023
Regulatory CAR Limit	15	15	15	15	15	15
CAR	19.8	18.9	22.4	21.5	20.6	25.7

Source: National Bank of Cambodia

Appendix 3

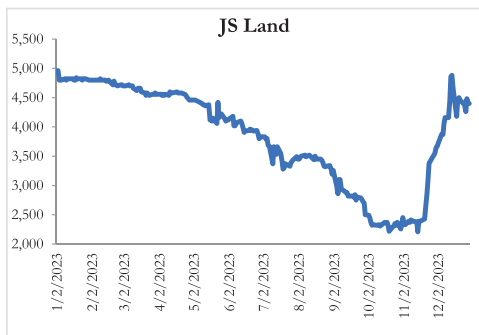
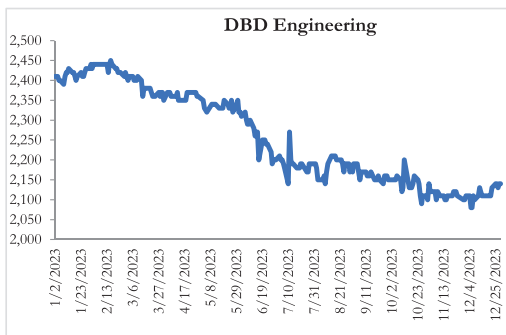
Equity Market (Main Board) (KHR per Share, 2023)





Source: Cambodia Securities Exchange

Equity Market (Growth Board) (KHR per Share, 2023)



Source: Cambodia Securities Exchange

Table 25: Equity Market Capitalization
(KHR billion, 2018-2023)

	2018	2019	2020	2021	2022	2023
ABC	-	-	7,407.1	4,556.9	4,686.8	4,331.6
PAS	866.3	1,664.0	1,218.0	1,142.5	1,142.5	1,089.0
PWSA	365.3	521.8	530.5	622.7	657.5	633.7
PPAP	158.9	258.6	242.0	304.1	289.6	289.6
PESTECH	-	-	217.3	236.1	236.1	205.3
PPSP	208.4	185.4	84.8	148.8	171.8	156.7
GTI	172.8	176.0	128.0	168.8	152.0	113.6
MJQE						690.2
CGSM						5,152.9
DBDE	-	-	-	14.9	15.4	13.8
JSL	-	-	-	-	127.5	113.1
Total	1,771.7	2,805.8	9,827.7	7,194.8	7,479.2	12,678.1

Source: Cambodia Securities Exchange

Table 26: Government Bond
(May 2023 – Dec 2023)

Issued Date	May-23	Jun-23	Jul-23	Aug-23	Oct-23	Nov-23	Dec-23		
Aggregate Amount of the Notes (units)	4,000	4,000	4,000	8,000	28,000	8,000	20,000	28,000	6,000
Face Value (KHR per unit)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Issue Price (KHR per unit)	1,000,000	986,230	1,000,000	998,832	995,255	980,786	996,889	994,309	1,000,000
Maturity Date	2 Years	3 Years	5 Years	1 Year	2 Years	3 Years	1 Year	2 Years	3 Years
Coupon Rate (percent per annum)	4.0 %	4.5%	4%	3.48%	4.0%	4.5%	3.48%	4.0%	4.5%
Yield to Maturity (percent per annum)	4.0%	5.0%	4.0%	3.6% until 4.3%	4.25% until 4.30%	5.20%	3.80% until 3.90%	4.30% until 4.60%	4.50%
Coupon Payment Frequency	2 Times	2 Times	2 Times	2 Times	2 Times	2 Times	2 Times	2 Times	2 Times

Source: Cambodia Securities Exchange

Table 27: Insurance Sector
(2019-2023)

Total Assets

KHR billion	2019	2020	2021	2022	2023
General Insurance	246,994.3	276,316.7	293,632.9	308,976.9	307,400.4
Life Insurance	344,622.4	461,829.6	551,759.0	662,763.4	764,171.8
Micro Insurance	6,048.3	3,257.0	5,250.8	5,246.8	8,630.3
Total	597,665.1	741,403.2	850,642.7	976,987.1	1,080,202.5
Share (percent)	2019	2020	2021	2022	2023
General Insurance	41.3	37.3	34.5	31.6	28.5
Life Insurance	57.7	62.3	64.9	67.8	70.7
Micro Insurance	1.0	0.4	0.6	0.5	0.8

Gross Premium

KHR billion	2019	2020	2021	2022	2023
General Insurance	410.8	466.8	502.7	540.9	587.1
Life Insurance	585.1	625.4	700.1	792.2	779.7
Micro Insurance	28.6	20.5	16.8	23.4	29.3
Total	1,024.6	1,112.7	1,219.6	1,356.4	1,396.0

General Insurance Premium

KHR billion	2019	2020	2021	2022	2023
Auto	76.6	85.8	87.9	96.6	98.3
Property	119.0	152.9	152.9	184.8	200.7
MAT	15.7	11.7	17.3	30.5	34.7
Engineering	41.5	34.8	36.8	24.4	38.9
Personal Accident	24.2	20.8	23.3	28.1	29.2
Medical	74.4	88.1	109.9	125.8	129.4
Miscellaneous	59.4	72.6	74.6	50.9	55.3
Total	410.8	466.8	502.7	540.9	586.6
Share (percent)	2019	2020	2021	2022	2023
Auto	18.7	18.4	17.5	17.8	16.8
Property	29.0	32.8	30.4	34.2	34.2
MAT	3.8	2.5	3.4	5.6	5.9
Engineering	10.1	7.5	7.3	4.5	6.6
Personal Accident	5.9	4.5	4.6	5.2	5.0
Medical	18.1	18.9	21.9	23.3	22.1
Miscellaneous	14.5	15.6	14.8	9.4	9.4

Life Insurance Premium

KHR billion	2019	2020	2021	2022	2023
Term Life	73.1	89.2	124.0	153.7	161.1
Whole Life	2.2	4.5	5.0	3.2	4.9
Endowment	506.2	525.1	560.2	632.6	613.3
Others	3.6	6.5	11.0	2.6	0.3
Total	585.1	625.4	700.1	792.2	779.7
Share (percent)	2019	2020	2021	2022	2023
Term Life	12.5	14.3	17.7	19.4	20.7
Whole Life	0.4	0.7	0.7	0.4	0.6
Endowment	86.5	84.0	80.0	79.9	78.7
Others	0.6	1.0	1.6	0.3	0.03

Micro Insurance Premium

KHR billion	2019	2020	2021	2022	2023
Health	11.2	7.4	4.5	3.9	3.4
Personal Accident	3.4	3.1	2.3	8.2	12.8
Term Life	10.1	7.7	6.7	2.2	4.2
Others	3.9	2.3	3.2	9.0	8.9
Total	28.6	20.5	16.8	23.4	29.3
Share (percent)	2019	2020	2021	2022	2023
Health	39.1	36.1	26.9	16.7	11.6
Personal Accident	12.0	15.2	13.8	35.3	43.8
Term Life	35.2	37.5	40.1	9.3	14.3
Others	13.7	11.2	19.2	38.7	30.3

Source: Insurance Regulator of Cambodia

Appendix 4

Table 28: Value of Retail Electronic Payment
(KHR trillion, 2019-2023)

	2019	2020	2021	2022	2023
Payment in KHR	58.9	89.0	137.3	197.2	264.8
Payment in USD	285.2	429.4	687.9	913.4	993.6
Total	344.1	518.3	825.2	1,110.6	1,258.4

Source: National Bank of Cambodia

Table 29: Number of Registered E-wallet Accounts and Walk-in Customers
(Million, 2019-2023)

	2019	2020	2021	2022	2023
E-wallet Accounts	5.2	9.6	13.6	19.5	19.7
Walk-in Customers	44.7	56.5	106.2	135.6	140.6

Source: National Bank of Cambodia

Table 30: Value and Volume of E-wallet Transactions
(KHR trillion, 2019-2023)

	2019	2020	2021	2022	2023
Transaction in KHR	49.8	70.7	88.5	119.9	201.0
Transaction in USD	91.4	98.1	109.6	140.2	257.9
Total	141.2	168.9	198.1	260.1	458.9
Total Transactions (million)	198.9	258.7	343.8	467.4	811.0

Source: National Bank of Cambodia

Table 31: Internet and Mobile Banking
(KHR trillion, 2019-2023)

	2019	2020	2021	2022	2023
Internet Banking	41.6	47.2	90.1	80.1	74.5
Mobile Banking	114.0	232.1	452.9	672.4	746.7

Source: National Bank of Cambodia

Table 32: Card Payment
(KHR trillion, 2019-2023)

	2019	2020	2021	2022	2023
Payment in KHR	3.2	8.0	12.8	22.4	55.1
Payment in USD	44.1	62.2	71.3	75.7	74.1
Total	47.3	70.2	84.1	98.0	129.2
Total Transactions (million)	74.4	97.3	105.3	119.7	181.5

Source: National Bank of Cambodia

Table 33: Bakong Payment
(KHR trillion, 2020-2023)

	2020	2021	2022	2023
Payment in KHR	0.1	4.2	23.5	81.1
Payment in USD	0.2	19.0	89.8	221.0
Total	0.3	23.2	113.3	302.0
Total Transactions (million)	0.22	8.19	40.37	200.93

Source: National Bank of Cambodia

Table 34: QR Code Payment
(KHR billion, 2019-2023)

	2019	2020	2021	2022	2023
Total Value	83.5	298.1	953.7	13,643.3	95,782.1
Total Transactions (million)	2.1	4.8	4.4	23.3	177.9

Source: National Bank of Cambodia



បោះពុម្ពដោយ ធនាគារជាតិ នៃកម្ពុជា