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Cambodia's New Growth Strategy

An Assessment of Medium and Long-term Growth for  
Resilient, Inclusive, and Sustainable Development

Background Paper **4**

# A Macroeconomic Review: Cambodia's Current State and Future Outlook

MUTH SUMONTHEANY  
FEBRUARY 2025





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**Current State and Future Outlook**

Muth Sumontheany



**CDRI – Cambodia Development Resource Institute**  
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## List of acronyms and abbreviations

ADB	Asian Development Bank
AMRO	ASEAN+3 Macroeconomic Research Office
CAPRED	Cambodia Australia Partnership for Resilient Economic Development
CDRI	Cambodia Development Resource Institute
DFAT	Department of Foreign Affairs and Trade
EU	European Union
FDI	Foreign Direct Investment
FED	Federal Reserve
GDCE	General Department of Customs and Excise of Cambodia
GDP	Gross Domestic Product
GFT	Garment Footwear and Travel
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
MFIs	Microfinance Institutions
MLMUC	Ministry of Land Management, Urban Planning and Construction
NBC	National Bank of Cambodia
NIS	National Institute of Statistics
NPLs	Nonperforming Loan
SNEC	Supreme National Economic Council
UNCTAD	United Nations Conference on Trade and Development
US	United States



**ឯកសារសារការទី៤**  
**ការពិនិត្យម៉ាត្រូសេដ្ឋកិច្ចកម្ពុជា៖ ស្ថានភាពបច្ចុប្បន្ន**  
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មុត សុមន្តធានី

**សេចក្តីសង្ខេប**

**• សមិទ្ធផលសេដ្ឋកិច្ច និងទស្សនវិស័យ៖**

- សេដ្ឋកិច្ចជាក់ស្តែងរបស់កម្ពុជាបានកើនឡើង ៥,១% នៅឆ្នាំ២០២២ ដែលបានជំរុញដោយសមិទ្ធផលខ្ពស់ក្នុងវិស័យកាត់ដេរ និងឧស្សាហកម្មមិនមែនកាត់ដេរដែលកំពុងរីកចម្រើន ទន្ទឹមនឹងការស្ទុះងើបឡើងវិញដោយសន្សំមួយនៃវិស័យទេសចរណ៍។ ម៉្យាងវិញទៀត វិស័យសំខាន់ៗ ដូចជាវិស័យសំណង់នៅមិនទាន់អាចងើបឡើងវិញទេ។
- អតិផរណាឈានដល់កម្រិត ៥,៤% នៅឆ្នាំ២០២២ ដោយសារការកើនឡើងថ្លៃម្ហូបអាហារ អតិផរណាស្នូល និងតម្លៃប្រេង។
- វិស័យធនាគារនៅរក្សាភាពរឹងមាំ និងភាពធន់ ប៉ុន្តែធនាគារស្រមោលនៅតែជាការព្រួយបារម្ភជាពិសេសនៅក្នុងវិស័យអចលនទ្រព្យ។
- ឱនភាពសារពើពន្ធបានថយចុះមកត្រឹម ១% នៃផលិតផលក្នុងស្រុកសរុបនៅឆ្នាំ២០២២ ដែលគាំទ្រដោយការបង្កើនការកៀរគរប្រាក់ចំណូល និងកាត់បន្ថយចំណាយរបស់រដ្ឋាភិបាល។ លើសពីនេះ បំណុលសាធារណៈបានថយចុះបន្តិចមកត្រឹម ៣៤,៨% នៃផលិតផលក្នុងស្រុកសរុបនៅឆ្នាំ២០២២ បន្ទាប់ពីបានកើនឡើងកាលពីឆ្នាំមុនៗ។
- សម្លឹងឆ្ពោះទៅមុខ ផលិតផលក្នុងស្រុកសរុបរបស់កម្ពុជាត្រូវបានព្យាករ ថានឹងកើនឡើងប្រមាណ ៥,៣% នៅឆ្នាំ២០២៣ និងប្រហែល ៦% ចាប់ពីឆ្នាំ២០២៤ តទៅ។

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• **អនុសាសន៍៖**

- **លើកកម្ពស់ការធ្វើពិពិធកម្មការនាំចេញ៖** ពង្រឹងតម្លាភាពបរិយាកាសធុរកិច្ច សិទ្ធិកម្មសិទ្ធិបញ្ញា និងសមត្ថភាពក្នុងការធ្វើវិញ្ញាបនប័ត្រថ្នាក់ជាតិ ទន្ទឹមនឹងការកែលម្អហេដ្ឋារចនាសម្ព័ន្ធ កាត់បន្ថយ ថ្លៃអគ្គិសនី និងកាត់បន្ថយរបាំងពាណិជ្ជកម្ម ដើម្បីបង្កើនផលិតកម្ម និងទីផ្សារ។ វិនិយោគលើ មូលធនមនុស្ស ដើម្បីបង្កើនជំនាញកម្លាំងពលកម្ម និងពង្រីកទីផ្សារនាំចេញ តាមរយៈកិច្ចព្រមព្រៀង ពាណិជ្ជកម្មសេរី ដើម្បីកាត់បន្ថយការពឹងផ្អែកលើទីផ្សារប្រមូលផ្តុំមួយចំនួន។
- **ការស្តារវិស័យទេសចរណ៍៖** ធ្វើពិពិធកម្មទៅលើទេសចរណ៍ លើសពីប្រាសាទអង្គរវត្ត ដោយ លើកកម្ពស់ទេសចរណ៍ធម្មជាតិ និងដោះស្រាយបញ្ហាប្រឈមផ្នែកហេដ្ឋារចនាសម្ព័ន្ធ។ ធ្វើពិពិធកម្មទីផ្សារទេសចរណ៍ ដោយផ្ដោតលើយុទ្ធនាការផ្សព្វផ្សាយ ដើម្បីបង្កើន និងពង្រីកមុខងាររបស់ ប្រទេសកម្ពុជាលើសកលលោក។
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- **ការពារស្ថិរភាពហិរញ្ញវត្ថុ៖** ពង្រឹងការត្រួតពិនិត្យលើធនាគារ តាមរយៈការវិភាគសមត្ថភាពឆ្លើយតប នឹងវិបត្តិ (stress tests) អធិការកិច្ចនៅទីតាំងផ្ទាល់ និងការធ្វើឱ្យស្របគ្នារវាងក្របខ័ណ្ឌ បទប្បញ្ញត្តិនិងបទដ្ឋានអន្តរជាតិ។ ត្រៀមខ្លួនសម្រាប់ការកើនឡើងតណាទានមិនដំណើរការ ដោយ បង្កើនជម្រើសដំណោះស្រាយ ពង្រឹងបទដ្ឋានគតិយុត្តិស្តីពីភាពក្ស័យធន និងបង្កើតច្បាប់ស្តីពី ការធានារ៉ាប់រងប្រាក់បញ្ញើ និងដំណោះស្រាយធនាគារ។

# A Macroeconomic Review: Cambodia's Current State and Future Outlook

## Summary

- **Economic Performance and Outlook:**

- Cambodia's real economy grew by 5.1% in 2022, driven by strong performance in garment and emerging non-garment industries, alongside a gradual tourism recovery. On the other hand, key sectors such as construction are yet to recover.
- Inflation reached 5.4% in 2022, driven by rising food prices, core inflation, and oil prices.
- The banking sector remains sound and resilient, but concerns persist over shadow banking, particularly in real estate.
- The fiscal deficit decreased to 1% of GDP in 2022, supported by enhanced revenue mobilisation and reduced government spending. In addition, public debt slightly decreased to 34.8% of GDP in 2022, after increases in previous years.
- Looking ahead, Cambodia's GDP is projected to grow by around 5.3 percent in 2023 and approximately 6 percent from 2024 onwards.

- **External and Internal Risks:**

- Cambodia's growth faces external risks from slowdowns in key partners like China and the US, and internal risks related to the weak real estate sector and shadow banking practices, which threaten financial stability.

- **Recommendations:**

- **Promote Export Diversification:** Strengthen business environment transparency, intellectual property rights, and national certification capacities, while improving infrastructure, reducing electricity costs, and lowering trade barriers to enhance production and market access. Invest in human capital to upgrade workforce skills and expand export markets through free trade agreements to reduce reliance on a few concentrated markets.
- **Revitalise Tourism:** Diversify tourism offerings beyond Angkor Wat by promoting ecotourism and addressing infrastructure challenges. Diversify tourist markets with a focus on promotional campaigns to enhance and expand Cambodia's image globally.
- **Restore Fiscal Space:** Increase revenue mobilisation through tax reforms while ensuring efficient spending. Improve capital expenditure disbursement and performance-based budgeting.
- **Safeguard Financial Stability:** Strengthen bank supervision through stress tests, onsite inspections, and aligning regulatory frameworks with international standards. Prepare for rising amount of non-performing loans by enhancing resolution options and strengthening insolvency regimes, while developing legislation on deposit insurance and bank resolution.

## 1. Introduction

After two decades of rapid economic progress, Cambodia was able to transform itself from low-income economic status to lower-middle-income status. This success has inspired a more ambitious growth for the future. However, emerging challenges such as the COVID-19 pandemic, geopolitical tension, and persistent internal structural weaknesses—including low competitiveness, lack of diversification, infrastructure deficiencies, and limited human capital development—potentially pose threats to achieving the medium and long-term growth vision.

Given these challenges, it is crucial to analyse the current macroeconomic performance and explore Cambodia's short-term macroeconomic outlook

and strategies. This paper draws on a comprehensive review of existing literature, including the Cambodian government's strategic frameworks, policies, and major macroeconomic monitoring reports from international and national institutions.

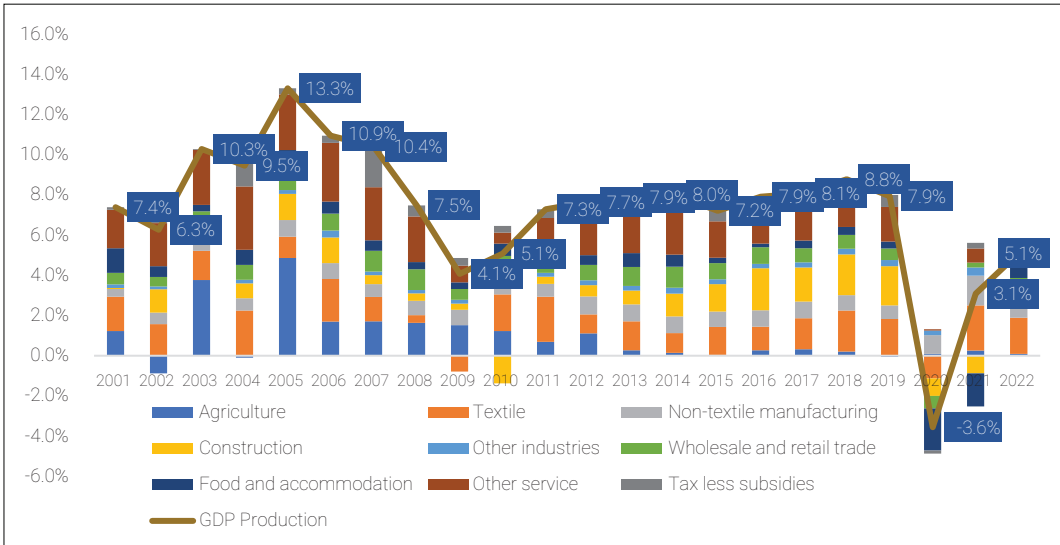
The paper examines the current macroeconomic situation, including sectoral performance, government finance and debt performance, and monetary and financial performance. Additionally, challenges within these sectors are identified, the short-term macroeconomic outlook is explored, the risks that may threaten Cambodia in the short term are assessed, and policy recommendations to address these issues are offered.

## 2. GDP Performance

**The Cambodian economy is recovering but has not yet reached the levels seen before the COVID-19 pandemic.** The real Gross Domestic Product (GDP) growth rate in 2019 was 7.9 percent. After the spread of Coronavirus, Cambodia's GDP fell to 5.1 percent in 2022, but this was a moderate increase from the 3.1 percent growth in 2021. Despite the recent recovery, the current growth rate, as of 2022, remains below the pre-pandemic level of 7 percent (Figure 1).

**Growth is not even across sectors.** Growth is driven mainly by strong performance in both the garment and non-garment industries and the return of tourism activities given that the travel restrictions have been lifted and the pandemic has subdued. In comparison, the construction sector, the growth driver before the pandemic, has not yet recovered. The agriculture sector's contribution to growth remains the same. The following section will discuss in detail the growth rates and performance of each sector.

Figure 1: Different sectors contributions to real GDP growth in Cambodia



Source: Rebased national accounts (base year 2014), National Institute of Statistics (NIS)

### 3. Sectoral Performance

This section provides a detailed analysis of the performance of Cambodia's key industries, their challenges, and future prospects. Notably, it focuses on the garment, footwear, and travel (GFT) industry, the construction sector, the tourism industry, and the emerging non-garment manufacturing sector.

#### a. GFT industry

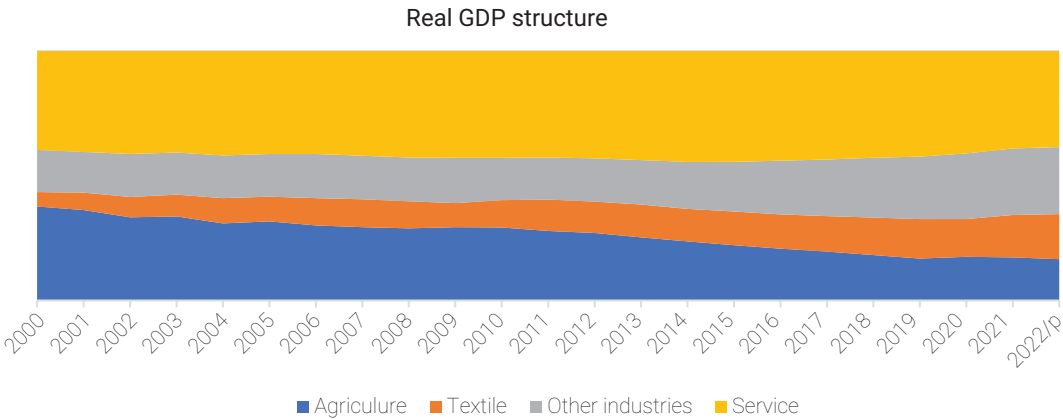
**The GFT industry has been the backbone of Cambodia's economy for the past two decades.** This industry, which began as "Cut, Make, and Trim" in the mid-1990s, has attracted significant foreign direct investment (FDI) from East Asian countries. The industry's growth can be attributed to a young and abundant workforce, low labour costs, and favourable investment

conditions such as generous investment incentives and trade privileges.

**Over the past twenty years, the industrial sector, particularly the GFT industry, has played a crucial role in driving economic development in Cambodia.** The industry's contribution to the real GDP has increased from 6 percent in 2000 to 18 percent in 2022 (Figure 2). The number of factories surged from 64 to 1218 between 1997 and 2020, resulting in a tenfold increase in employment from 82,000 to 808,223. Additionally, it is estimated that this industry creates approximately 80,000 jobs indirectly, providing a significant source of employment in the country (SNEC 2022).

**Given the export-oriented nature of the textile industry, it has been highly**

Figure 2: Real GDP structure for Cambodia



Source: NIS, Rebased National Accounts, Base Year 2014

**vulnerable to external shocks and has experienced significant declines twice - in 2009 and 2020.** In 2009, the industry's performance caused a 0.8 percent drop in the real GDP growth rate, driven by reduced demand in the EU and US markets following the global financial crisis. Similarly, in 2020, the industry's downturn had even more severe effects, causing a 1.1 percent drag on growth (Figure 1). This was due to two primary factors: first, in early 2020 there was a complete lockdown in China, Cambodia's major garment material supplier, which led to disruptions in the global garment supply; second, decreased demand from key export markets like the EU and US, as a result of the COVID-19 crisis (Sean 2023). As a result, the export value of the GFT decreased from about USD 10.8 billion in 2019 to about USD 9.8 billion in 2020, a decline of 10 percent (Table 1).

**After the COVID-19 pandemic, the industry quickly recovered.** Due to an increased demand from the US and other countries, Cambodia was able to compensate for the decline in demand from the EU market.

As a result, the export of GFT grew by approximately 15 percent in 2021, reaching a total export value of USD 11.2 billion and surpassing the pre-pandemic levels (Table 1). This recovery played a significant role in driving economic recovery that year, accounting for about two-thirds of the growth. Other major forces behind this quick recovery include the shift in orders from Myanmar due to rising political instability and the resumption of logistics regarding the supply of raw materials from China.

**Despite the long existence of the garment industry in Cambodia, there are still significant weaknesses that need to be addressed.** First, the industry primarily focuses on low-value activities such as cutting, trimming, and making, which limits technology transfer and skill development for Cambodian workers. In addition, although Cambodian labour costs are low compared to other GFT producer countries, the productivity level of its workers is relatively low, which could erode its competitiveness (SNEC 2022). Secondly, only about 5 percent of investors

**Table 1: Export of GFT goods from Cambodia**

	Export value (million USD)					Share					Contribution to growth				
	2012	2016	2019	2020	2021	2012	2016	2019	2020	2021	2012	2016	2019	2020	2021
Total GFT Export	4,582	7,636	10,840	9,768	11,191	100%	100%	100%	100%	100%		67%	42%	-10%	15%
To US	1,960	1,914	3,462	3,585	4,827	43%	25%	32%	37%	43%		-1%	20%	1%	13%
To EU	1,565	3,425	4,257	3,410	2,726	34%	45%	39%	35%	24%		41%	11%	-8%	-7%
To Rest of the World (ROW)	1,057	2,298	3,121	2,773	3,638	23%	30%	29%	28%	33%		27%	11%	-3%	9%

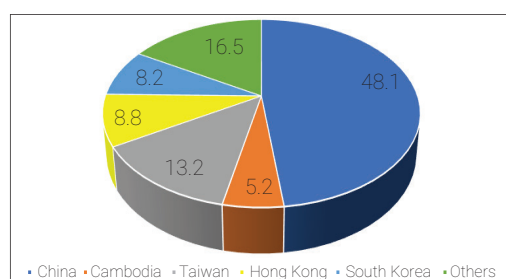
Source: United Nations Conference on Trade and Development (UNCTAD) database and General Department of Customs and Excise of Cambodia (GDCE)/ NIS as cited in Eurocham 2022

in this industry are Cambodian, leading to a high reliance on foreign investor sentiment, geopolitical tensions, and competition from other countries (Figure 3). Additionally, the industry's heavy reliance on imported materials, mainly from China, contributes to high production costs. Finally, although there is some diversification in export markets, the US and EU still account for 67 percent of the total Cambodian GFT goods products. This heavy dependence on limited markets has become a concern, especially with the partial withdrawal of duty-free and quota-free access to the EU market under the Everything But Arms initiative, affecting a significant portion of Cambodia's exports.<sup>1</sup>

**There are some promising outlooks for the future of the GFT industry.** Cambodia can potentially expand its share of the global GFT market as there is still significant room for growth. Despite ranking 6th among the top 15 GFT exporting countries in 2021, Cambodia accounted for just 1.6 percent

of the global GFT market, while China and Vietnam captured 37.2 percent and 5.2 percent of the market share, respectively (Table 2). With rising labour costs in these countries, there is an opportunity for production to transition away from them, potentially benefiting Cambodia. Additionally, the Kingdom has been increasingly entering trade agreements with various economies, which could help eliminate trade barriers and attract investors to establish production facilities. Yet, how much Cambodia can capitalise on these opportunities will depend on how fast and competitive it will be able to address the challenges mentioned above.

**Figure 3: Share of GFT investor nationalities in Cambodia**



Source: Ministry of Commerce (MoC) and Garment Manufacture Association in Cambodia (GMAC), as cited in SNEC 2022

<sup>1</sup> The partial withdrawal concerned approximately 20 percent of Cambodia's exports to the EU market, affecting 64 tariff lines. Of the 64 affected tariff lines, 5 relate to travel goods, footwear products and 46 to garment products. The remaining 80 percent of Cambodia's exports still have preferential (duty-free, quota-free) access to the EU market.

**Table 2: Top 15 travel goods exporters as a share of the world's travel goods markets (%)**

	1995	2005	2015	2018	2019	2020	2021
1. China	19.2	31.1	46.6	40.1	37.6	35.2	37.2
2. Vietnam	0.7	1.3	4.2	4.3	4.5	4.4	5.2
3. Hong Kong, SAR, China	31	20.3	7.8	6	5.5	5.6	4.5
4. India	2.1	2.2	2	2.1	2	1.8	1.8
5. Singapore	0.4	0.7	0.9	1.4	1.4	1.5	1.7
6. Cambodia	0	0	0.2	0.8	1.3	1.8	1.6
7. Indonesia	0.6	0.3	0.4	0.7	0.9	1	0.9
8. Philippines	0.7	0.3	0.7	0.8	1	0.7	0.9
9. Thailand	3	0.9	0.5	0.5	0.6	0.4	0.5
10. U.A.E	0.1	0.3	0.3	0.4	0.4	0.4	0.4
11. Myanmar	0	0	0	0.2	0.5	0.6	0.4
12. Turkey	0.2	0.3	0.3	0.3	0.3	0.3	0.3
13 Mexico	0.6	0.3	0.3	0.2	0.3	0.3	0.3
14. Bangladesh	0	0	0.3	0.3	0.3	0.2	0.3
15. Taiwan, China	3	0.2	0.2	0.2	0.2	0.2	0.2
Others	36.1	40.1	34.4	40.8	42.3	44.7	43.1
World	100	100	100	100	100	100	100

Source: UNCTAD database, as cited in Eurocham 2022

## b. Construction

**In recent years, the construction and real estate sectors have been the main drivers of economic growth, particularly before the 2020 pandemic.** This expansion has been fuelled by the development of buildings related to commercial, industrial, and tourism activities, as well as various types of residential buildings such as condominiums, serviced apartments, and landed property. From 2008 to 2018, Cambodia's Ministry of Land Management, Urban Planning and Construction (MLMUC) reportedly approved 43,136 projects, totalling more than \$43.3 billion in investment capital. In terms of financing, the construction industry has experienced a significant increase in

funding from FDI inflows, with an estimated 40 percent of Cambodia's total FDI coming from mainland China (Sean 2023).

**The construction industry experienced a significant downturn during the COVID-19 pandemic and has yet to recover.** The number of approved projects declined from 4,919 in 2019 to 4,841 in 2020, especially in the tourism and commercial segments (Sean 2023). The impact on the economy was profound, with the construction sector contributing a negative 0.9 percent to the real GDP growth rate in 2020. Unlike the textile industry, which rebounded quickly, the construction industry continued to face challenges, maintaining a negative 0.9 percent contribution to real GDP growth in



2021. It was only in 2022 that the sector showed signs of recovery, albeit modestly, contributing approximately 0.1 percent to GDP growth (Figure 1).

**Looking ahead, it's doubtful that Cambodia can rely on construction as a driver of economic growth in the future.** The construction boom of the past years was driven by external demand and speculation of high returns especially in the coastal province of Preah Sihanouk, rather than by domestic demand. As a result, this led to an excessive construction supply, which will take time to correct (World Bank 2023).

### c. Tourism

**In 2019, Cambodia's tourism sector demonstrated significant growth, directly employing approximately 630,000 individuals.** Tourism revenue peaked at USD 4.9 billion, contributing 18.2 percent to the nation's GDP and representing about 78 percent of the country's total service exports.<sup>2</sup>

**The tourism sector was severely impacted by the COVID-19 pandemic as a result of lockdowns and global travel restrictions.** The number of international tourists dropped from 6.6 million in 2019 to 1.3 million in 2020 and further down to only 0.2 million in 2021, indicating a decline of 80.2 percent and 97.0 percent compared to the 2019 figures. Similarly, the number of domestic tourists decreased from 11.3 million in 2019 to 7.2 million in 2020 and further to 4.7 million in 2021, representing

decreases of 36.1 percent and 58 percent, respectively (Figure 4, Figure 5).

**In 2022, the tourism industry had bounced back and contributed about 0.5 percent to the overall 5.1 percent real GDP growth.**

This is evident in the significant increase in domestic tourists, which reached 13.9 million in 2022, surpassing the 2019 levels. At the same time, the number of international tourists also saw a sharp increase in 2022, reaching 2.3 million, up from 0.2 million in 2021. However, international tourist arrivals are still at only 35 percent of the 2019 level, indicating there is still room for improvement needed in this sector (Figure 4, Figure 5).

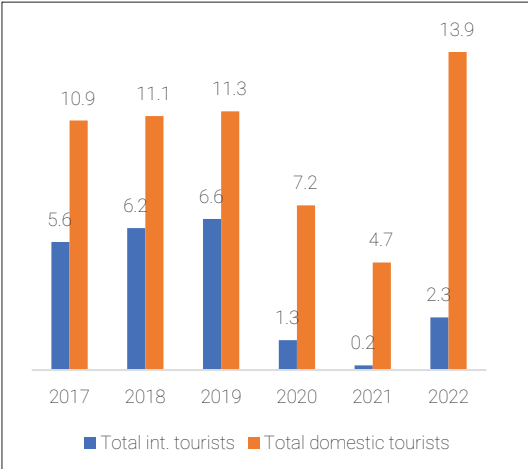
**The majority of international tourists come from neighbouring countries, with about 57.9 percent of visitors in 2022 originating from Thailand and Vietnam (Figure 6).**

This type of tourist tends to spend less and have shorter lengths of stay than further nations. Another issue is the limited number of tourist attractions in the country. To increase the average length of stay for tourists, Cambodia needs to diversify its industry beyond temple visits and offer more entertainment options. Furthermore, there are significant infrastructure and transportation challenges, particularly in areas outside popular destinations. Many remote tourist areas exhibit inadequate roads, limited electricity, and underdeveloped water and sanitation facilities, which may not meet tourists' expectations (AMRO 2023). Additionally, reputational issues related to tourist safety need to be carefully monitored, as these can influence tourists' destination choices.

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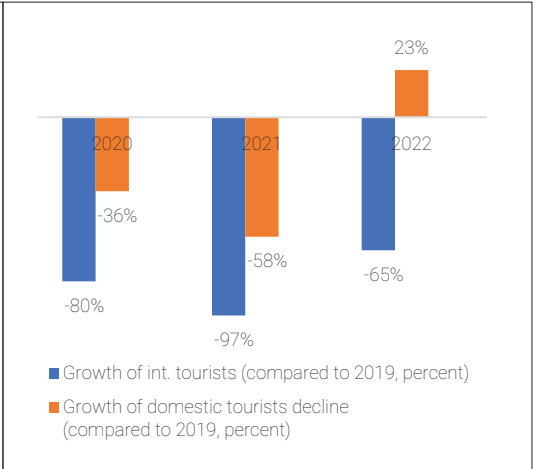
<sup>2</sup> Personal travel export and business travel export amounts, respectively, USD 3.42 billion and USD 1.35 billion. The total service export is USD 6.08 billion (OEC 2019).

Figure 4: Number of tourists (millions)



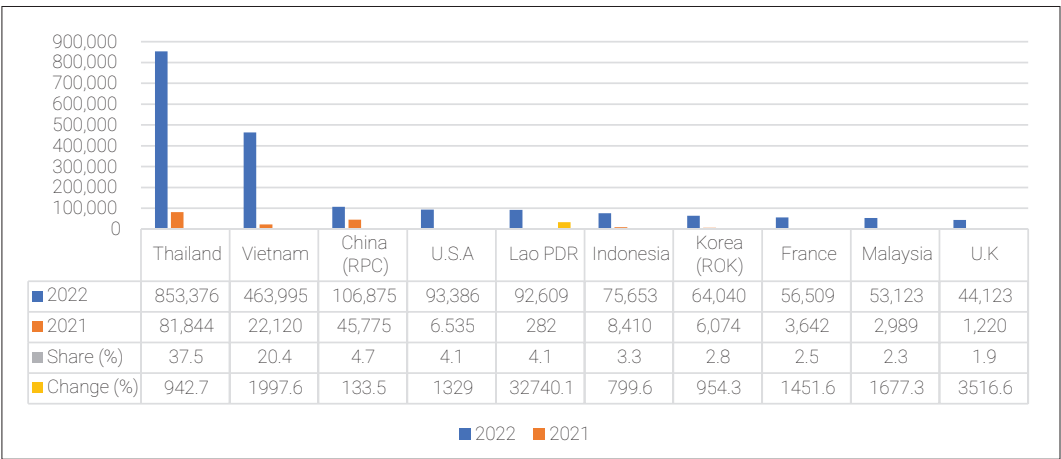
Source: Ministry of Tourism (MoT)

Figure 5: Growths of tourists (compared to 2019)



Source: Ministry of Tourism (MoT)

Figure 6: Share of tourist origin visiting Cambodia in 2021 vs 2022



Source: Ministry of Tourism (MoT)

#### d. Non-garment manufacturing sector

**The non-garment manufacturing sector emerged as a new growth driver after the pandemic.** Garment product shares in the export basket decreased from 78.4 percent in 2016 to 57.6 percent in 2022, replaced by agriculture products and

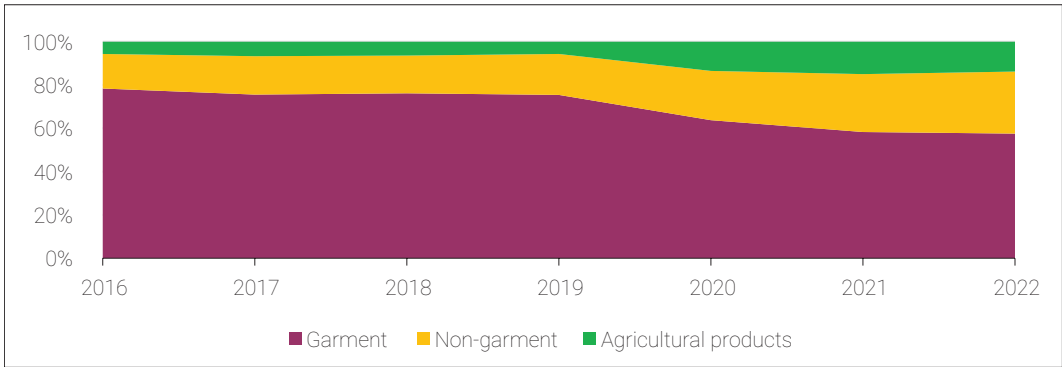
non-garment products. Over the same period, the share of non-garment products increased significantly from 16 percent to 28.7 percent, indicating emerging export diversification (Figure 7). These products include the automotive industry, bicycles, solar panels, electronic gadgets, tyre production, furniture, fur skin, and other non-garment manufacturing products.

**During the pandemic crisis, the non-garment manufacturing industry showed strong resilience, serving as a critical source of growth and export despite the downturn in traditional economic drivers.** In 2020, non-garment manufacturing stood out as one of the few sectors that experienced expansion. This is in contrast to traditional sectors such as textiles, construction, wholesale and retail trade, and tourism, which all faced sharp declines. Similarly, the export of non-garment products, along with agricultural products, contributed to a 14 percent growth rate

of export, while garment product exports experienced a decline (Figure 8).

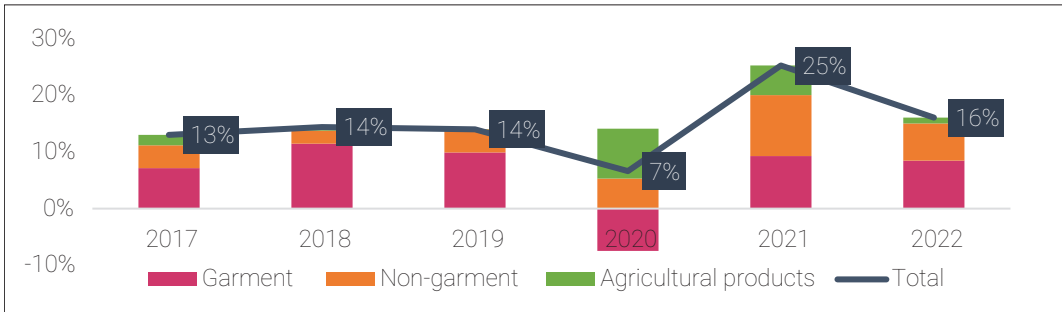
**In 2022, there was a significant increase in FDI in the non-garment industry.** The total FDI value reached USD 1.15 billion, marking a 75.4 percent increase compared to 2021. The non-garment sector received the largest share of investment, which accounted for 68.6 percent of the overall FDI value. The garment industry followed with 22.8 percent, while agriculture and food processing received 5.1 percent, and wholesale and retail trade obtained 2.5

**Figure 7: Share of exports for garment, non-garment and agricultural products from 2016-2022**



Source: General Department of Customs and Excise of Cambodia (GDCE)

**Figure 8: Contribution of garment, non-garment and agricultural sectors to export growth from 2017-2022**



Source: General Department of Customs and Excise of Cambodia (GDCE), Eurocham 2022

percent. The source of the FDI originates mainly from the East Asian Pacific region. The top five countries - China (including Hong Kong SAR), South Korea, Singapore, Japan and Taiwan - accounted for more than two-thirds of the total FDI investment in 2022 (USD 44.5 billion) (World Bank 2023).

**The non-garment sector, notably the electronics industry in Cambodia, has been influenced by some external factors.**

Firstly, the industry has benefited from the “plus-one” strategy adopted by neighbouring countries. For instance, major electronics component manufacturers and assemblers such as Minebea, SVI, and Sumitronics have successfully established operations in Cambodia, particularly in Phnom Penh or along the Cambodia-Thailand border. They have expanded their production into Cambodia as part of the country’s broader supply chain diversification, leveraging the abundant and low-cost labour force (Royal Government of Cambodia 2022). Secondly, the US-China trade tensions have also driven investment in this industry. From January 2022 to January 2023, Cambodia exported USD 1,174.38 million worth of solar panels, modules, and accessories to various countries. Additionally, on June 6, 2022, president at the time, Joe Biden, announced a two-year waiver, allowing cells and modules from Southeast Asia to enter the US duty-free until the exemption ends on June 6, 2024. This waiver has significantly boosted Cambodia’s exports and attracted further investment into the sector (Van 2023).

**Despite significant opportunities, the industry faces several challenges.**

First, the majority of production is concentrated on mostly simple, labour-intensive components. While this creates numerous jobs, it limits the industry’s potential to move up the value chain. Second, there is a significant lack of local content in production. For instance, although locally assembled vehicles account for over 80 percent of the two-wheeler demand in Cambodia, most of the component parts for these vehicles are currently imported. In fact, local content makes up only about a quarter of the total value of two-wheelers assembled in Cambodia, compared to over 80 percent in other countries in the region. This gap presents an opportunity for Cambodia to increase its manufacturing of local content and strengthen its role in the two-wheeler assembly value chain by improving the local supplier base. Lastly, the potential return of tariffs on solar panels poses a risk to the competitiveness of Cambodian products. The uncertainty around this tariff reintroduction could make Cambodian products less attractive in the global market. Therefore, building the necessary infrastructure is crucial to improving competitiveness such as by lowering production costs in Cambodia.

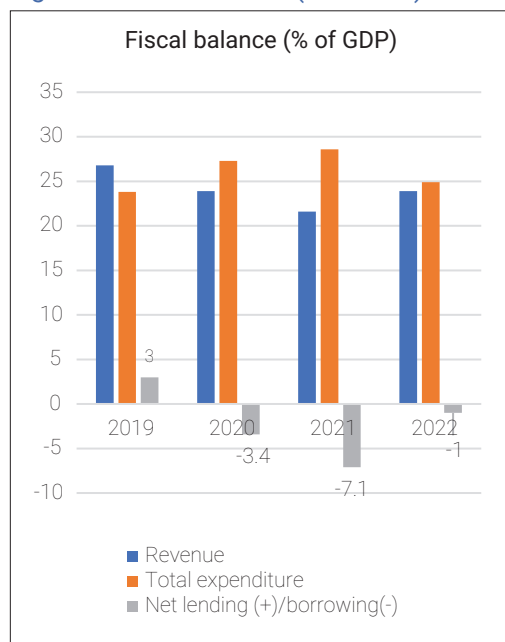
## 4. Government finance and debt

**In 2022, the fiscal stance of Cambodia was evaluated as broadly neutral.** The estimated fiscal deficit for the year is projected to be approximately 1 percent of GDP, marking a substantial decrease from the 7.1 percent deficit recorded in 2021 (Figure 9). This reduction was predominantly driven by a notable upturn in revenue mobilisation across all channels, particularly through taxes on goods and services, as well as income, profits, and capital gain (Figure 10). This increase reflects the resurgence of economic activities following the pandemic-induced downturn experienced in 2021. On the other hand, government expenditure decreased across several categories, including purchases of goods and services, social spending, and wages (Figure 11). This decline occurred as targeted fiscal measures aimed at supporting households and businesses affected by the pandemic were gradually phased out. Additionally, measures to constrain government spending, such as the suspension of hiring new government officials, also contributed to this decrease.

**Cambodia's public debt has fluctuated in recent years.** Before the onset of the pandemic, the public external debt as a percentage of GDP was recorded at 28.2 percent in 2019. Subsequently, it rose steadily to 34.4 percent and 35.9 percent in 2020 and 2021, respectively. This was due to expansive fiscal interventions aimed at safeguarding vulnerable households and stimulating economic recovery, although well below the 40 percent threshold.

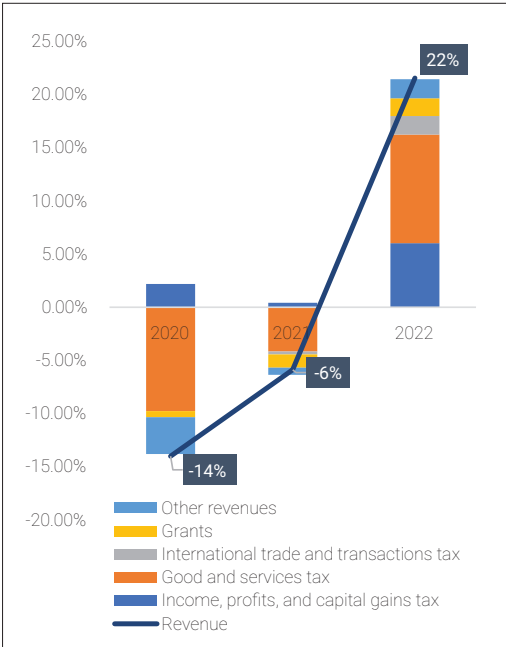
However, in 2022, the figure decreased slightly to 34.8 percent due to robust revenue generation and reduced health expenditures as the pandemic improved (Figure 12). The total public external debt stock in 2022 reached USD 9,971 million; the top five sources included - China (40 percent), followed by multilateral sources from the ADB (21 percent), Japan (11 percent), World Bank (9 percent), Republic of Korea (5 percent) and France (5 percent) (MEF 2023).

Figure 9: Fiscal balance (% of GDP)



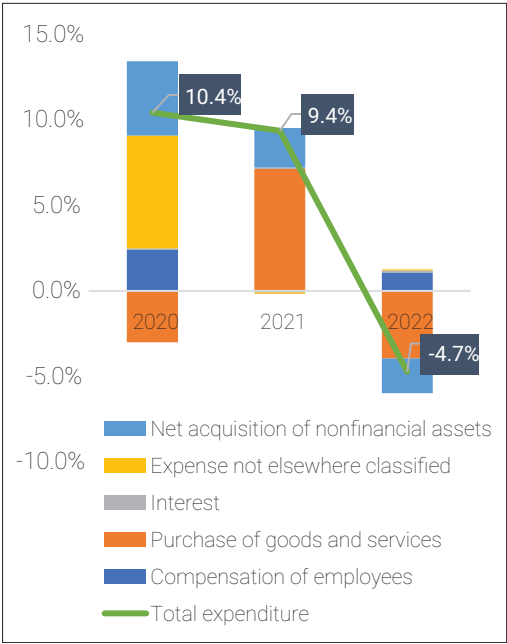
Source: IMF 2024

Figure 10: Contribution to the change in revenue



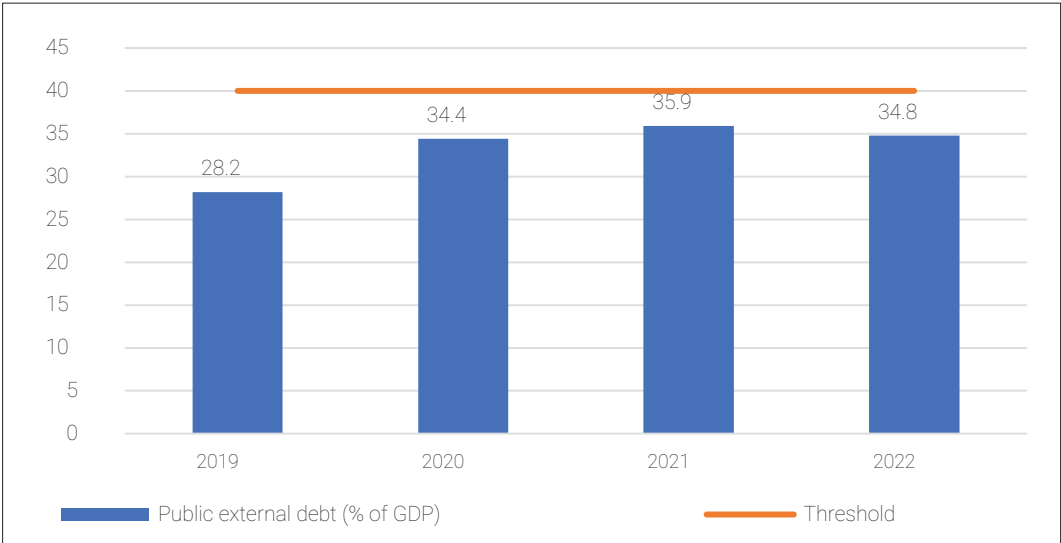
Source: IMF 2024

Figure 11: Contribution to change of expenditure



Source: IMF 2024

Figure 12: Public external debt (% of GDP)



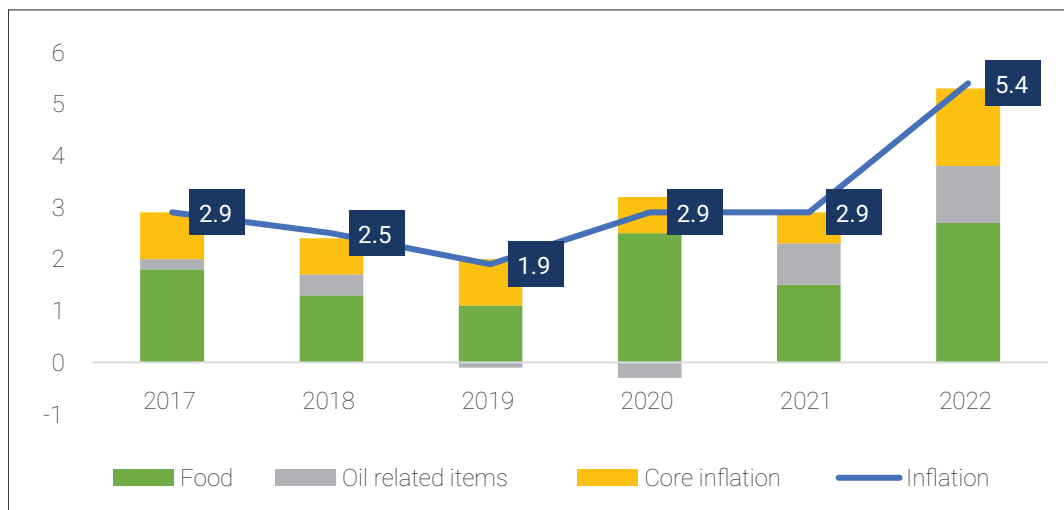
Source: IMF 2024

## 5. Monetary and financial sector

In 2022, inflation surged to its highest level in the past five years, reaching 5.4 percent. This increase was driven by inflationary pressures across multiple categories, including food prices, core inflation, and oil prices. Globally, the conflict arising from Russia's invasion of Ukraine caused a significant spike in energy and food prices. Consequently, the price spike in food and oil-related items contributed 50 percent and 20 percent, respectively, to the headline inflation. Moreover, the resumption of economic activities following the pandemic crisis added to inflationary pressures, particularly in core inflation, which contributed about 30 percent. This combination of global and domestic factors contributed to the inflation peak observed in 2022 (Figure 13).

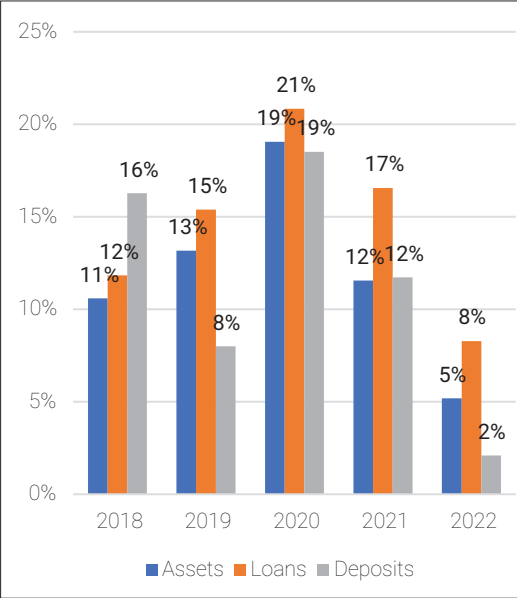
The banking sector remains sound and resilient. The share of assets, loans, and deposits as a percentage of GDP increased by 5 percent, 8 percent, and 2 percent, respectively, although at a slower pace compared to pre-pandemic levels (Figure 14). The overall credit expansion is uneven, with commercial banks expanding their credit more slowly at 18.1 percent, while microfinance institutions (MFIs) are experiencing a faster credit expansion at 23 percent (Figure 15 and 16). Overall asset quality remained high, with strong liquidity and capacity conditions. The average capital adequacy ratio was 22.2 percent and 18.6 percent for commercial banks and MFIs, respectively; this is well above the minimum threshold of 15 percent (Figure 17). In addition, both commercial banks and MFIs still continue to maintain the liquidity coverage ratio above the 100

Figure 13: Inflation in Cambodia from 2017-2022



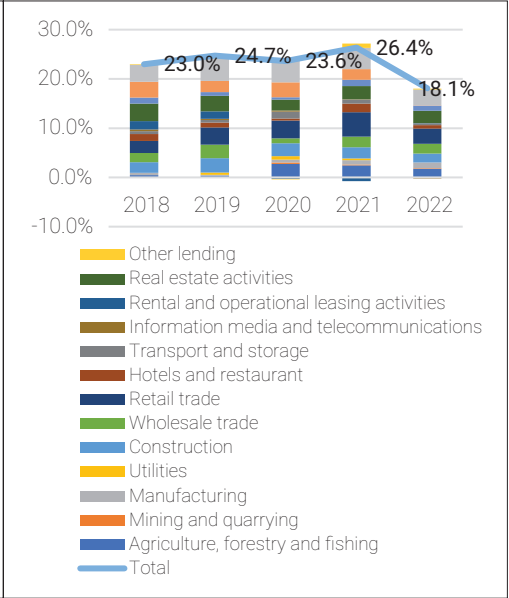
Source: NBC 2023

Figure 14: Growth of Banking indicators (compared to GDP %) from 2018-2022



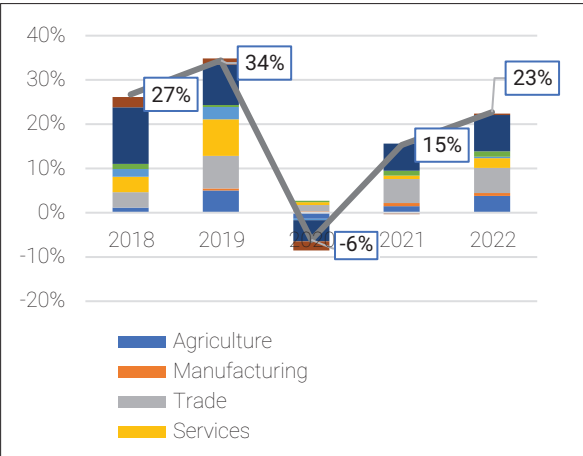
Source: NBC 2023

Figure 15: Contribution to commercial banks' credit expansion from 2018-2022



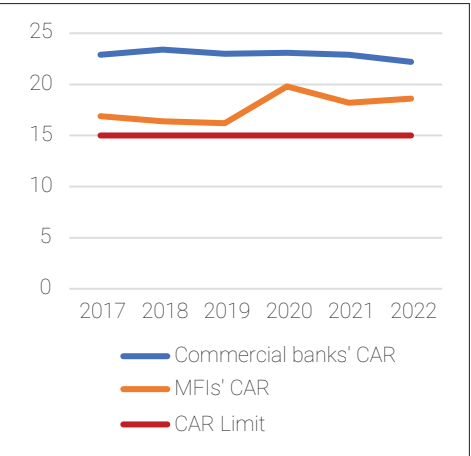
Source: NBC 2023

Figure 16: Contribution of different sectors to MFI's credit expansion from 2018-2022



Source: NBC 2023

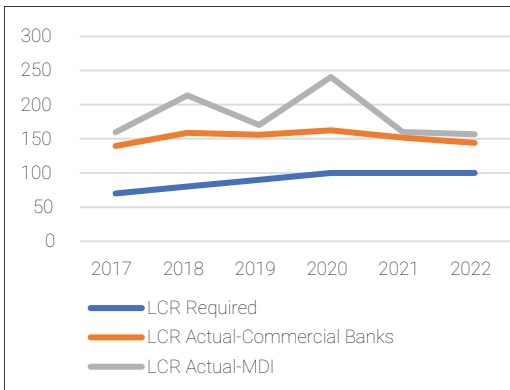
Figure 17: Capital adequacy ratio from 2017-2022



Source: NBC 2023



**Figure 18: Liquidity coverage ratio from 2017-2022**



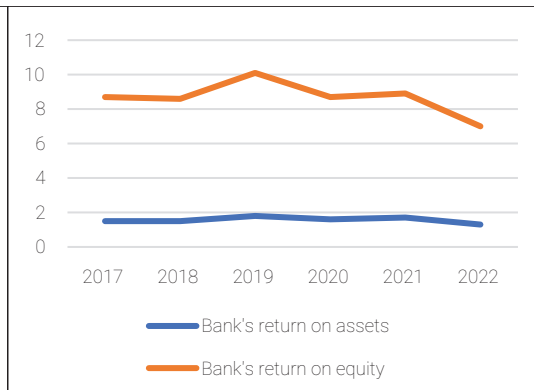
Source: NBC 2023

percent threshold, with commercial banks' LCR at 143.8 percent and 156.6 percent for MFIs (Figure 18). Due to more stringent requirements imposed by the National Bank of Cambodia (NBC), the banking system's provision coverage ratio surged to 144.8 percent in 2022 from below 100 percent in 2021 (AMRO 2023). As a result, these increased provision expenses contributed to a slight reduction in banks' return on assets and return on equity (Figure 19). In terms of loan quality, on the other hand, the share of non-performing loans of total loans increased from 1.8 and 0.8 in 2019 to 3.1 and 2.5 in 2022 for commercial banks and MFI, respectively (NBC 2023). These figures represent a huge increase compared to the pandemic, but are still at a manageable level.

**The shadow banking industry, particularly in real estate, is currently causing concern.**

Credit issued by official financial institutions for real estate activities constitutes only a portion of the actual credit in this sector. This is because most payments between buyers and developers are made through

**Figure 19: Profitability between bank's return of assets vs return on equity between 2017-2022**



Source: NBC 2023

stage payments and instalment plans directly with residential developers. These plans often include higher interest rates than those offered by commercial banks and are not regulated by the NBC. Shadow banking is highly connected to the formal banking sector. According to estimates by the ASEAN+3 Macroeconomic Research Office (AMRO), the size of shadow banking linked to real estate lending is approximately 60 to 70 percent of GDP or up to 112 percent of GDP. This is dependent upon a moderate or total level of interconnectedness assumption between the shadow banking and the formal banking sector (AMRO 2023)

**The shadow banking industry is experiencing an increasing tension.**

Amidst the economic downturn, buyers are increasingly defaulting or making late payments on instalment plans, leading to developers seizing their properties. Developers also face significant financial losses when forced to sell defaulted properties and struggle with completing projects and meeting handover deadlines.

Additionally, land ownership disputes have emerged as some developers initiated projects without securing full land ownership, heavily relying on buyer instalments to fund their projects. This situation has eroded buyer trust. According to the Non-Bank Financial Services Authority, as of Q1 2023, 63 percent of developers reported negative cash flows, indicating potential liquidity shortages and an increased risk of defaults if market conditions do not improve (AMRO 2023). **Given the high level of interconnectedness**

**between shadow banking and the formal banking sector, tensions in the real estate sector pose a significant risk to overall financial stability.** In terms of value, non-performing loans (NPLs) linked to real estate activities are among the highest compared to other sectors, with a value of KHR 573 billion (NBC 2023). Therefore, any increasing default of these developing projects could result in unreported NPLs from shadow banking, which would be transferred to the traditional banking sector.

## 6. Short-Term Economic Outlook and Risk

Cambodia’s economy is expected to recover steadily, largely thanks to the gradual return of tourism and increased domestic activity, which will boost the service sector. However, the garment sector’s growth might decelerate because of the weakening of major export markets such as the US and EU. On the other hand, the non-garment manufacturing sector is set to grow rapidly. The construction and real estate sectors, which used to drive growth, are not expected to regain their previous momentum in the near future. Looking forward, Cambodia’s GDP growth is projected to grow by 5.3 percent in 2023 and around 6 percent from 2024 onwards (Table 3).

Table 3: GDP growth forecast (%)

GDP Growth Forecast (%)	2023	2024	2025
IMF (2024)	5.3	6	6.4
World Bank (2023)	5.5	6.1	6.3
AMRO (2023)	5.3	6.2	-
ADB (2023)	5.3	6	-

Source: Author’s compilation from various reports.

**The slowdown in the growth of Cambodia’s major economic partners is a key contributor to risks that may threaten Cambodia.** First, China is the primary import country and a major source of tourism and FDI in Cambodia, therefore it has a significant impact on the Kingdom’s economy. According to the International Monetary Fund (IMF), a one percentage point increase in China’s GDP is associated with an increase in Cambodia’s GDP of approximately 0.6 percent after one year (IMF 2024). China set its target for economic growth for 2024 at 5 percent, a figure below the usual double-digit growth that has powered the world’s second-largest economy for decades (Xuanmin and Jingjing 2024). In the future, this may affect Cambodia’s growth by reducing the inflow of FDI and tourists. The same study by IMF also analysed the spillover effect from the US and found that the correlation between output shocks in the US and Cambodian GDP is more immediate but smaller in magnitude (about 0.5 percent). As a

result, any economic recession in the US, Cambodia's major export partner, or in the EU, could significantly dampen Cambodia's growth by reducing exports.

**A continued financial tightening may pressure domestic banks' funding costs and undermine export competitiveness in non-US markets.** Although the financial tightening may not affect capital outflows due to Cambodia's high concentration on FDI and concessional loans, rising FED rates could lead to higher funding costs for banks. This may in turn translate to higher interest rates, potentially burdening the already high private debt level in Cambodia. In addition, the relatively stable exchange rate of the riel against the US dollar means that the riel would appreciate in value. This is in tandem with the US dollar, against other currencies, which may adversely affect the competitiveness of Cambodia's goods and service exports (IMF 2024).

**Prolonged weakness in the real estate sector could put pressure on the financial sector and the broader economy.** In addition, the common practice of shadow

banking in the real estate sector could result in a negative spillover effect on the formal financial sector as a whole. People faced with indebtedness or liquidity problems related to this sector may depress their consumption and thus reduce the overall economic activities, primarily affecting the service industry.

**In short, Cambodia's economic growth is vulnerable to several external and internal risks.** The slowdown of key economic partners like China and the US could significantly impact Cambodia's GDP growth through FDI, tourism and export channels. In addition, financial tightening and rising interest rates could strain domestic banks and elevate the existing private debt levels, affecting overall economic stability. The persistent weakness in the real estate sector and prevalent shadow banking practices could also pose a threat to the financial system and economic activity as a whole. Therefore, addressing these challenges through targeted policy measures will be crucial for long-term growth.

## 7. Conclusion and Recommendations

In conclusion, Cambodia's real economy grew by 5.1 percent in 2022 driven by the strong performance in both garment and emerging non-garment industries and the gradual resurgence of tourism activities. However, traditional growth sectors such as construction are yet to recover, and the agricultural sector's contribution to growth remains stagnant. Looking

ahead, Cambodia's GDP is projected to grow by around 5.3 percent in 2023 and approximately 6 percent from 2024 onwards.

On the fiscal front, the deficit decreased to 1 percent of GDP in 2022 due to enhanced revenue mobilisation as economic activities resumed and government expenditures reduced. Despite this improvement,

public debt only marginally decreased to 34.8 percent of GDP in 2022, following continuous increases in the preceding two years.

Inflation in 2022 surged to its highest level in five years, reaching 5.4 percent. This increase was driven by inflationary pressures across multiple categories, including food prices, core inflation, and oil prices. On the other hand, the banking sector remains sound and resilient, although concerns persist regarding the shadow banking industry, particularly in real estate.

In addition, Cambodia's economic growth is vulnerable to several external risks, such as the slowdown of key economic partners such as China and the US, and internal risks, such as persistent weaknesses in the real estate sector and prevalent shadow banking practices, which could pose substantial risks to the financial system and economic activity.

Given the current performance and risks, Cambodia's short-term strategies should focus on leveraging its emerging growth drivers, particularly in the non-garment industry, and reviving past growth drivers such as the tourism sector, which has not yet recovered to pre-pandemic levels. Additionally, it is crucial to address existing risks and challenges, particularly in restoring fiscal space and safeguarding financial stability. Below are detailed short-term recommendations, as extracted from macroeconomic monitoring reports of major institutions:

- **Promote export production diversification and broaden the export market**

Although there are some signs of diversification, more efforts are needed to drive the potential. First, Cambodia should ensure a conducive business environment. This is done by improving the transparency of the law, regulations and its implementation, strengthening protected intellectual property rights, enhancing national certification and testing capacities to ensure adherence to international standards. Second, improving the infrastructure and logistics, lowering electricity costs, and ensuring its stability, especially in the special economic zones, are critical to lowering production costs and making the existing zones more attractive to investors. This is particularly important for higher valued added industries such as agro-processing and electronic assembly industries. Third, reducing trade barriers and improving market connectivity will expand market access for Cambodian products and facilitate access to necessary production inputs. Fourth, ongoing investment in human capital is crucial to continue improving the education and skills of Cambodia's labour force (World Bank 2023). On the other hand, expanding the export market through free trade agreements with broader countries could also help to diversify the export market and thus cut down Cambodia's reliance on a few concentrated markets.

- **Strengthen the revitalisation of the tourism industry**

Cambodia must diversify its tourism offerings beyond Angkor Wat to strengthen the industry. Expanding ecotourism, despite existing challenges

such as limited investment and poor infrastructure, can provide additional income for local communities. Moreover, diversifying tourist markets can protect against external shocks, as the industry heavily relies on visitors from China and ASEAN countries. In this regard, ongoing financial support and investment are needed to address structural issues in the tourism sector, including upgrading transport infrastructure and improving labour skills. Digitisation should also be leveraged to modernise immigration processes and facilitate tourist activities during visitors' stays in Cambodia. In addition, Cambodia should also focus on promotion, primarily through digital marketing, to expand its presence and, therefore, grow its recognition globally (AMRO 2023).

- **Restore fiscal space**

To finance the plan for social protection-related expenses, Cambodia needs to restore its fiscal space even though its debt distress remains low. This could be done by increasing revenue mobilisation and maintaining spending efficacy. While past tax administration reforms have successfully increased tax revenue, further gains necessitate a comprehensive review of the tax system. The new personal income tax framework is a positive step. Still, the planned capital gains tax on real estate needs careful implementation to avoid harming the weak real estate sector. In addition, improved revenue collection should be paired with performance-based budgeting and faster capital expenditure disbursement (AMRO 2023).

- **Safeguarding financial stability**

Ensuring financial stability is essential due to high private debt levels, increasing NPLs, and decreasing returns on banking assets. The recent credit surge has resulted in significant private-sector debt, particularly in real estate, with increasing shadow banking practices. To safeguard financial stability, the immediate priority should be enhancing bank supervision, including stress tests for individual banks, systematic onsite inspections, aligning the regulatory framework with international standards, and conducting comprehensive assessments of loan portfolios. Preparing for rising NPLs involves ensuring that resolution options are ready and strengthening the insolvency regime. In addition, ongoing efforts are needed to develop legislation on deposit insurance and bank resolution (World Bank 2023).

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