Unofficial Translation

Kingdom of Cambodia
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Royal Government of Cambodia

The Medium-Term Fiscal Framework 2026-2028

"To Maintain Livelihoods of the People and the Macroeconomic Stability through Strengthening Fiscal Effectiveness and Ensuring Fiscal Sustainability, Aimed at Promoting Social Equity, Supporting Economic Growth, and Enhancing Development towards the Cambodia Vision 2050."

April 2025

Preamble

Although Cambodia has successfully overcome the COVID-19 crisis, the scarring effects left by the pandemic continue to impact Cambodia's development. At the same time, the world and the region, including Cambodia, are in the midst of a multi-crisis transition, especially with the increasing protectionism and trade wars, heightened geopolitical, economic and political tensions, and the worsening impacts of climate change and natural disasters. Recently, the United States' global reciprocal tariffs policy has negatively affected both global and regional economic trends, including Cambodia as well.

Following the country's reopening in late 2021, Cambodia's economy has gradually recovered across all sectors. Cambodia's economy grew at 5% in 2023 and at 6% in 2024, while the volume of international trade, both exports and imports, increased significantly. On the public finance side, the total revenue in 2024 grew by approximately 2.4% compared to the turnout in 2023, while the total expenditures were cautiously rationalized and managed, allowing the Royal Government of Cambodia (RGC) to support all necessary operations and maintain the momentum of key reform programs.

Prior to the introduction of the reciprocal tariffs policy on April 2nd, Cambodia's economic growth was projected to expand at around 6.3% for both 2025 and 2026, and 6.5% for the medium-term. However, this growth forecast has been revised slightly downward and remains highly sensitive to the evolving unpredictable developments.

Against this backdrop of elevated uncertainty, the outlook for Cambodia's economic growth has been revised down to **5.2% and 5.0% for 2025 and 2026, respectively, and to approximately 5.6%** for the medium-term. It is also worth noting that this reassessment of growth aligns with major international institutions, which have revised Cambodia's economic outlook from the baseline forecast released in early 2025 while still maintaining the rate of growth at a reasonable level. For example, the International Monetary Fund (IMF) revised Cambodia's economic growth from 5.8% and 6.2% to 4% and 3.4%, the World Bank from 5.4% and 5.4% to 4% and 4.5%, and the ASEAN Macroeconomic Research Office (AMRO) from 5.8% and 6.0% to 4.9% and 4.7% for 2025 and 2026, respectively.

Regarding the medium-term budget, revenue is expected to grow slowly due to the declines in tax revenues from potential sectors, along with the ongoing implementation of existing tax incentive measures. Moreover, the revenue base—both tax and non-tax—remains narrow and concentrated. Meanwhile, spending demands are increasing in the post-COVID-19 context to address ongoing issues, to manage the current challenges, as well as to stimulate economic growth and to build resilience socio-economic foundation withstanding the crises, even as budget space tightens. Under these circumstances, the fiscal framework requires consideration of both current and medium-term conditions to ensure stable economic growth and fiscal sustainability, and to sustain the livelihoods of people.

Similar to the previous year, the "**Medium-Term Fiscal Framework 2026-2028**" or "**MTFF 2026-2028**" for short, has been prepared as a key document to set the outlook and guidance for macroeconomic and fiscal management in line with the policy directions of the RGC, in which the priority is to manage the impacts of ongoing external factors, to maintain livelihoods of people and macroeconomic stability, along with the continued efforts to promote sustainable, diversified and resilient economic growth. Overall, the preparation of **the MTFF 2026-2028** has three main objectives: **(1).** Support the budget-policy linkages according to the priorities of the RGC, **(2).** Strengthen the effectiveness of revenue collection and efficiency of the budget allocation, and **(3).** Ensure macroeconomic stability and fiscal sustainability. In addition, **the MTFF 2026-2028** also plays a key role in increasing the transparency of fiscal policies and serving as the basis for the preparation of **the Medium-Term Budget Framework 2026-2028** and **the Draft Law on Financial Management for 2026**. **The MTFF 2026-2028** is prepared in a rolling three-year format to support the priority policies of the RGC, taking into account the resources that could be mobilized, the flexible changes of the contexts in aligning with the macroeconomic framework and the medium-term fiscal policy framework, the defining fiscal rules to ensure the fiscal sustainability, and the analysis of fiscal risks.

In this spirit, **the MTFF 2026-2028** sets out the outlook for Cambodia's economic growth at the rates mentioned above, based on the notion of cautiously optimistic and not overly pessimistic basis, and requires all stakeholders, both the government and the private sector, to continue their efforts to diversify, enhance competitiveness and build resilience, as well as, to maintain favorable conditions for exports. On the fiscal front, the RGC will continue to adopt a "**Gradual Fiscal Consolidation Stance**" to ensure medium-term fiscal sustainability and begin rebuilding the fiscal buffers, when conditions allow, by continuing to strengthen mobilization and broadening of the revenue base, alongside assessing and reviewing tax expenditures under existing tax incentive schemes, while exercising increased caution on any new tax exemptions. Public expenditure will be planned with flexibility and a high level of prudence, focusing on continual strengthening of budget efficiency, both at the allocative and operational levels, by prioritizing and targeting spendings, especially in uncertainty-impacted sectors, with the aim of ensuring the stability of people's livelihoods and promoting social equity, as well as ensuring the ability to sustain the process of socio-economic development, continuity of government operations, momentum of reform, and the implementation of the RGC's priority programs.

The MTFF 2026-2028 projects the current revenue collection to grow by an average of 7.0% for 2026-2028, of which 5.9% for 2026, equivalent to 14.13% of GDP. The total public expenditure is planned to increase by an average of 4.6% annually, of which current expenditure for 2026 is planned to grow by 2.5%, equivalent to 12.05% of GDP. As a result, the budget deficit is expected to narrow to around -2.20% of GDP on average for 2026-2028, of which for 2026 it is estimated at -2.19% of GDP. Overall, the medium-term budget framework for 2026-2028 ensures sustainability in accordance with the key indicators set under the fiscal anchor and the operational rules.

On behalf of the RGC, I have decided to put forward the **"Medium-Term Fiscal Framework 2026-2028"** which will serve as an essential instrument for the RGC to implement policy measures with ownership, aiming to safeguard the livelihoods of people and ensure macroeconomic and fiscal sustainability, while also fostering economic growth by strengthening and expanding the pillars of the national economy to become more dynamic, diversified, robust, and resilient. I would like to highlight that this marks the second official introduction of the medium-term fiscal framework, following its official launch in 2024, even though Cambodia is facing heightened uncertainty, which poses significant challenges to the medium-term outlook. The RGC will continue to closely monitor developments and re-evaluate the situation before preparing the draft Law on Financial Management for 2026, ensuring that the framework is adjusted as necessary to reflect actual conditions, particularly in the event of adverse circumstances.

Phnom Penh, 30 April 2025

Prime Minister

(signed and stamped)

Samdech Moha Borvor Thipadei HUN MANET

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1. Introduction

Full peace, political stability and social security over the past two decades have formed the necessary foundation to guarantee a stable macroeconomic and financial framework, sustainable growth, and a more diversified economic structure, which contribute to promoting development in all sectors, strengthening social-economic resilience, and improving the livelihoods and wellbeing of people, especially through the implementation of a better coverage and inclusive social protection system. More efforts in **economic integration and regional and global supply chain connection, improvement of the investment climate and trade facilitation to attract new investors, development of key infrastructure to increase connectivity, continued development of human resources, and institutional reform and governance** have allowed Cambodia to achieve a series of milestones, which include graduation from low-income to lower-middle-income status in 2015 and preparation to graduate from **the Least Developed Country (LDC)** in 2029. Over the past two decades, Cambodia has proudly established five key forms of resilience, namely: resilience of the public institution, resilience of the economy, resilience of the society and people, resilience of the financial system, and resilience of the environment and climate. These five resiliencies allowed Cambodia to overcome the COVID-19 crisis, not only winning the battle of public health, but also achieving victory in the areas of education, social protection, finance as well as the economy. As a result, Cambodia was able to fully reopen by the end of 2021, enabling socio-economic activities to gradually return to normalcy until the Royal Government of the 7th Legislature of the National Assembly began in August 2023.

For nearly two years, the Royal Government of the seventh Legislature of the National Assembly, under the wise and energic leadership of **Samdech Moha Borvor Thipadei Hun Manet,** Prime Minister of the Kingdom of Cambodia, has continued to fulfil the national missions with wisdom and strong commitment to continue serving and protecting the interest of the nation and the people in all circumstances, in accordance with the will and aspirations of the people, as well as promoting the national prestige both regionally and internationally. Following the launch and implementation of the **"Pentagon Strategy - Phase 1",** along with strengthening foundations for major reforms, the Royal Government of Cambodia (RGC) has intensified efforts to address challenges and promote key reforms in adapting to the regional and global development with proactive spirit, especially by seizing opportunities arising from the rapid transformation of the global socio-economic architecture. In this situation, the RGC has continued to maintain macroeconomic and fiscal stability, as well as striving to gradually restore and promote growth after the COVID-19 crisis by achieving an economic growth rate of 5% in 2023 and around 6% in 2024.

While the scars from the COVID-19 crisis continue to hamper economic recovery and growth, new crises continue to emerge. The recent escalation of reciprocal tariffs imposed by the United States of America and the uncertainty surrounding the trade policies of key trade partners have further complicated Cambodia's efforts to adapt economic and diplomatic policies to avoid any impacts, both directly and indirectly, on the economy and society. Consequently, Cambodia's economic growth, which was projected to achieve 6.3% in 2025, is now estimated to lower to 5.2%, reflecting increased risks and uncertainties in global trade policies, in line with the downward revision of the global economic outlook as well as other risks which are becoming increasingly apparent.

In 2026, the global, regional and Cambodia's economies will encounter even higher risks and uncertainties as the economic outlook continues to be in the transition of multiple crises including the escalation of geopolitical issues, increasing protectionist policies, especially trade wars related to tariff increases and declining Official Development Assistance (ODA), as well as the intense competition in information technology and Artificial Intelligence, all of which have further complicated the situation. Yet, in the context of high uncertainties, Cambodia can still seize opportunities by remaining flexible and adaptable to the regional and global circumstances and is prepared to turn any challenges into opportunities and leverage any favourable conditions that may arise from this evolving situation to enhance competitiveness, increase diversification, and strengthen the resilience of the socio-economy. Over the medium term (2027-2028), Cambodia's economy is expected to gradually improve. Socio-economic activities are expected to gradually recover, and inflation will return to normal as the global financial situations improves, coupled with the maintenance of socio-economic stability, the continued restoration of existing growth driving sectors, promotion of new potential sectors as well as improving business climate and trade facilitation to promote economic diversification and strengthen Cambodia's competitiveness. Under these assumptions, Cambodia's economic growth is projected to slightly slow down to **5.0% in 2026 and recover to an average of 5.6% during 2027-2028**. It should be noted that, based on the economic assessment before the reciprocal tariff situation, Cambodia's economic growth could achieve 6.3% in 2026 and 6.5% in the medium term. It is also worth noting that such reassessment is in line with major international institutions, which have revised Cambodia's growth from the baseline forecast, but maintained it at an appropriate level. For example, the International Monetary Fund (IMF) has revised Cambodia's economic growth from 5.8% and 6.2% to 4% and 3.4%, the World Bank from 5.4% and 5.4% to 4% and

4.5%, and the ASEAN Macroeconomic Research Office (AMRO) from 5.8% and 6.0% to 4.9% and 4.7%, for 2025 and 2026, respectively. Nevertheless, the RGC acknowledges that Cambodia will continue to encounter high risks and uncertainties both in the global, regional, and domestic frameworks, and more severely than before, which makes the above assumptions unrealistic and may require further revisions to the growth forecasts.

Based on the above growth outlook, the medium-term fiscal policy continues to adopt a "**Gradual Fiscal Consolidation Stance**". This aims, **on the one hand**, to address the immediate needs of managing and responding to the impact of external factors, stabilizing the livelihoods of affected people, and to maintain overall macroeconomic stability, ensuring the continuity of the government's operation and implementation of priority programs. **On the other hand**, it seeks to rebuild the fiscal buffer, when circumstances allow, to ensure that the country has sufficient resources to address future unfavorable developments and crises.

Indeed, the global and regional situation is evolving rapidly with high uncertainty, much of which lies beyond Cambodia's control. Cambodia, a small and open country that is heavily dependent on international trade, is simply unable to prepare for every possible scenario. In this sense, what Cambodia can do is to continue to manage the situation carefully by monitoring the pulse of the economy and society, while introducing the necessary, proactive and timely interventions in response to any changes, by continuing to strengthen the reform platform, and by daring to act surgically and introducing specific, sharp and targeted measures to address any obstacles and avert risks as much as possible. In this situation, a constantly vigilant, highly flexible, and targetedly responsive fiscal policy is an indispensable factor to ensure the sustainability of Cambodia's public finance.

In this regard, the RGC puts forward the **"Medium-Term Fiscal Framework 2026-2028**" or "**MTFF 2026-2028**" for short, which presents a medium-term economic and fiscal outlook, defines fiscal strategy, and sets a **fiscal policy stance** based on certain **fiscal rules** and **fiscal risks**.

In short, the official launch of the **MTFF 2026-2028** is in accordance with the **Law on the Public Financial System** and is part of the implementation of the Public Finance Management Reform Program in support of: **(1)-** linking budgets to priority policies of the RGC, **(2)-** strengthening the efficiency of revenue collection and budget allocation, and **(3)-** ensuring macroeconomic stability and public financial sustainability. The launch of this framework is also in line with the "**Budget System Reform Strategy (BSRS) 2018-2025 and Updated 2025-2028**", which aims to reinforce budget discipline from planning to budget allocation and implementation, by linking budgets to priority policies and allocating budgets based on performance information. The **MTFF 2026-2028** is a three-year rolling plan, in which the specific budget ceiling for 2026 (the first year) will be part of the preparation of the Budget Law 2026, while the budgets for 2027 (the second year) and 2028 (the third year) could be adjusted in subsequent years to reflect changes in the domestic socio-economic situation and the external environment. This framework will also serve as the basis for the preparation of the "**Medium-Term Budget Framework (MTBF) 2026-2028**" and the "**Drafted Law on the Financial Management for 2026**". This framework will be divided into six main sections, including: (1). Introduction (this section); (2). Macroeconomic Policy Framework; (3). Fiscal Strategy; (4). Fiscal Policy Framework; (5). Fiscal Risks; and (6). Conclusion.

2. Macroeconomic Policy Framework

2.1. Global Economy

Prior to the announcement of reciprocal tariffs, according to the International Monetary Fund's (IMF) assessment released in January 2025, the global economy was estimated to grow at 3.3% in both 2025 and 2026, with a potential growth trajectory. This growth momentum was projected to be driven by improving economic trends in both developed and emerging economies, including China, along with the gradual easing of monetary policies as inflation gradually approached target rates. Although the global economic forecast and outlook at that time were surrounded by high risks and uncertainties, the overall situation was not expected to deteriorate significantly or derail the outlook.

However, the faster-than-expected developments in protectionist policies, particularly through broad-based tariff hikes and reciprocal tariffs, has made the assumptions underlying the global economic forecast at that time misaligned with the reality that has since unfolded. In this regard, according to the IMF's recent assessment published in April 2025, the global economy has been revised downward to growth rates of approximately 2.8% and 3.0% for 2025 and 2026, down by approximately 0.5 and 0.3 percentage points, respectively, from the January 2025 forecast due to the impact and consequences of protectionist policies, particularly through tariff hikes and, more recently, the reciprocal tariffs. For the US economy, although the domestic consumption was strong last year, this trend began to slow down even before the announcement of the tariffs, while the new tariffs may also accelerate the resurgence of inflationary pressures in the country. In this sense, the implementation of the reciprocal tariffs will have a more negative impact on domestic consumption and investment activity. The Eurozone economy also continues to grow slowly due to a decrease in manufacturing activity, especially in Germany and Italy, while consumption growth remains stagnant. The growth of the Chinese economy is also projected to be weaker than expected due to slower growth in exports and domestic consumption, while investment conditions, particularly in the real estate sector, continue to stagnate, and the economy will also suffer from the negative impact of protectionist policies, particularly the tariff hikes.

Indeed, the rapid escalation of protectionist policies has pushed the global growth gap further away from its potential path and driven greater divergence in growth trends. To date, the global economic outlook has been surrounded by high uncertainty and is more exposed to elevated risks than opportunities, in the sense that protectionist policies, especially tariff hikes, have created a new critical juncture, escalating tensions in global cooperation. Overall, protectionist policies are seen to have more negative consequences than positive ones, such as increasing supply-side inflationary pressure, disruptions to production chains and transportation, adverse effects on overall trade flows, and the potential to trigger full-scale trade wars, tech wars, and further fragmentation of economic and trade cooperation.

The expected negative consequences arising from the elevated risks, particularly the tariff hike policy, have also triggered a reassessment of policy directions. In fact, the easing of monetary policy is seen as a positive sign for the global economic outlook, however, the pace of easing and the calibration of policy measures have been slower than expected and carried out with a high degree of caution, as they require careful consideration, especially given the risk of a rebound in inflationary pressures. In addition, although China has announced an intervention package to support economic growth, specific measures have yet been implemented. China is very cautious, as the implementation of measures related to fiscal policy may pose bi-directional risks and affect the fiscal sustainability, while the fiscal space is limited.

Table 1: Global and Regional Economic Growth

	Global Economy	Advanced Economy	Emerging Markets and Developing Economies	United States	Euro Area	United Kingdom	Japan	China	ASEAN-5
2023	3.3	1.7	4.4	2.9	0.4	0.3	1.5	5.2	4.0
2024	3.3	1.8	4.3	2.8	0.9	1.1	0.1	5.0	4.6
2025	**2.8**	**1.4**	**3.7**	**1.8**	**0.8**	**1.1**	**0.6**	**4.0**	**4.0**
2026	**3.0**	**1.5**	**3.9**	**1.7**	**1.2**	**1.4**	**0.6**	**4.0**	**3.9**
2027	**3.2**	**1.7**	**4.2**	**2.0**	**1.3**	**1.5**	**0.6**	**4.2**	**4.2**
2028	**3.2**	**1.7**	**4.1**	**2.1**	**1.3**	**1.5**	**0.6**	**4.1**	**4.3**

Source: IMF's World Economic Outlook, April 2025

In the short and medium term, the global economic outlook is tilted more towards downside risks than opportunities such as: **(1).** The consequences of the continued rise in US protectionism, which could result in trade wars, technology wars, and a rebound in global commodity prices; **(2).** Geopolitical tensions, particularly in the Middle East; **(3).** Continued increase in public debt pressures; **(4).** Continued slowdown in China's real estate sector; and **(5).** Climate change and natural disasters. However, the continued easing of monetary policy, the implementation of China's intervention package, and the possibility of deeper trade integration among countries other than the US could still be opportunities for the global and regional economic outlook.

2.2. Cambodia's Macroeconomic Outlook

Although the global economy is surrounded by high uncertainties, Cambodia's economy was estimated to maintain a strong growth momentum of 6.0% in 2024 compared to 5.0% in 2023. Before the US's reciprocal tariff policy entered into force, Cambodia's economic growth was projected to continue the momentum at a rate of 6.3% in 2025, driven by stronger global demands for the export-oriented sectors, both garment and non-garment. Meanwhile, domestic economic activities remained stable, supported by improved performance in income-generating sectors such as industry and tourism sectors, and construction and real estate sectors are also expected to gradually recover, along with the increase of income and overall economic activities. Growth in 2026 was expected to remain at 6.3%, continuing along this positive trend.

Nevertheless, similar to the global economic growth update, Cambodia's economic growth has been reassessed to slow down slightly to 5.2% in 2025 and 5.0% in 2026 amid ongoing uncertainty, following the announcement of the US reciprocal tariff policy. If external conditions deteriorate further and negotiations between Cambodia and the US do not yield fruitful results, the growth rate may slow down even more **(low-case scenario is detailed in the Risk part below)**.

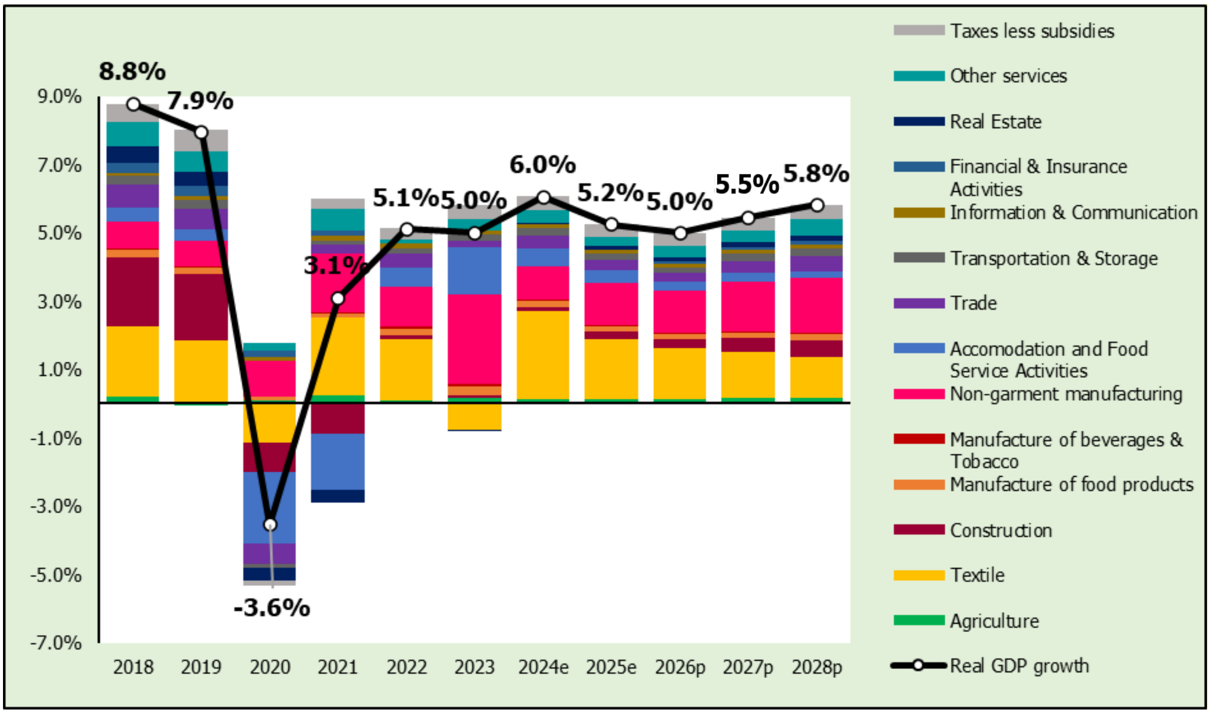
A. Economic Performance in 2024 and Outlook for 2025

Cambodia's economy was estimated to achieve 6.0% growth in 2024, driven primarily by a faster-than-expected recovery in the garment sector and a continued positive trend in the agriculture, accommodation, and food services sectors (tourism), which have positive spillover effects on related sectors such as transportation and storage sector. Although the non-garment sector experienced a slight slowdown in pace, the sector overall continues to be significantly supported by key export-oriented industries (electronic components, tires, and furniture) and domestic industries such as the vehicle assembly industry. Moreover, the extension of socio-economic interventions aimed at sustaining livelihoods of people and supporting business activities (for instance, construction, real estate, and tourism sectors) has significantly contributed to supporting economic growth in 2024.

Nonetheless, the reciprocal tariff policy negatively affects Cambodia's exports directly, especially in the garment and non-garment sectors, and indirectly affects other sectors such as transportation and storage, wholesale and retail (domestic consumption), and other services sectors. It also has negative effects on investment flows, which are linked to the construction and real estate sectors. Other sectors also experience slight declines due to the shock dynamics of exports on various sectors of the economy. However, the reciprocal tariff policy remains highly uncertain, and the assessment of its impacts is based on several factors, such as the result of the negotiations between Cambodia and the US, and the timeline for implementing the reciprocal tariff policy. Meanwhile, given the delay of the implementation of 49% rate for 90 days and the expected fruitful result from the negotiations, the economic outlook in 2025 and medium-term outlook are prepared with perspective that is cautiously optimistic but not overly pessimistic. As the situation is evolving very fast and is difficult to anticipate, it requires continuous monitoring.

Based on such foundation, Cambodia's economy is estimated to achieve a growth rate of 5.2% in 2025, which is down from 6.0% in 2024, due to anticipated negative effects of the reciprocal tariff policy on key growth sectors, such as export-oriented sectors including garment and non-garment sectors, as well as other supporting sectors such as transportation and storage, wholesale and retail, and supporting services sector. Nevertheless, these sectors are expected to be directly and indirectly affected by the impact would still continue to maintain positive growth trends, which would sustain overall growth momentum, although at a slower pace.

Figure 1: GDP Growth in 2018-2028



Source: National Institute of Statistics (2018-2023) and Economy and Finance (MEF) Projection (2024-2028)

Industry Sector

The industry sector is estimated to recover faster than expected from 5.4% in 2023 to 9.2% in 2024 due to a strong growth in the garment sector, which largely offsets the slower growth in the non-garment manufacturing, manufacture food products, manufacture of beverage and tobacco sub-sectors, while the construction sub-sector continues at a low growth rate. For 2025, the industry sector is estimated to grow at a slower pace but maintain a positive growth of 7.8%, supported by the garment and non-garment manufacturing sectors, despite being directly affected by the reciprocal tariff policy, while the construction sub- sector continues to grow slowly.

The garment sub-sector is estimated to grow strongly at 16.9% in 2024, driven by a faster-than-expected recovery in global demand, especially in Cambodia's major trading partners such as the US and the EU, coupled with shifting orders from competitors facing internal crises. In particular, in 2024, garment exports increased by 23.5%, while imports of garment raw materials increased by 22.1%, and investment inflows to the garment sector increased by 76.6%, reflecting the strength of manufacturing and export activity in the coming year. In 2025, the sector is estimated to grow at a slower rate of 10.4% due to the direct impact of the implementation of reciprocal tariffs on garment exports to the US, which will result in lower-than-expected orders from the US market. However, the growth of this sub-sector will remain positive, which is driven by the export activities to other important markets, such as the EU.

The non-garment manufacturing sub-sector is estimated to grow by around 7.1% in 2024 due to a decline in solar panel exports, which was a result of the US investigation, resulting in the immediate suspension of orders and the temporary suspension of some solar manufacturing factories in Cambodia. Overall, the export of non-garment manufacturing products grew by 5.7%, but continued strong exports of other potential products, such as electronic components, tires, and furniture, and the improvement of the domestic market-serving industry, namely the automobile assembly industry, which contributed to the growth of this sub-sector as a whole. In 2025, the sub-sector is estimated to recover, but at a lower growth rate of around 8.7%, driven mainly by exports of other key industries (tires, electronic components, and furniture, etc.) to key regional markets, while exports to the US market are expected to trend lower due to the impact of the reciprocal tariff. However, the sub-sector as a whole continues to maintain a positive growth trend, albeit at a slower pace than the normal trend. Based on consultations with the Council for the Development of Cambodia (CDC) and the private sector, namely the key Special Economic Zones (RGPPSEZ and SHVSEZ), approximately 414 investment projects were approved in 2024, a large part of which were investments in non-garment manufacturing sectors (furniture, packaging, electrical equipment, animal feed, agro-industrial processing and wood processing), etc, where some of which will become actual investment projects in 2025, contributing to higher value add of this sector. In fact, based on the two Special Economic Zones, new production in key industrial sectors mentioned above will start their production activities in the second half of 2025.

The construction sub-sector is estimated to grow at a slower growth rate of 1.1% in 2024, as this sector is in a market correcting phase, meaning that construction activity, particularly affordable housing (under USD 100,000), continues to operate on a small scale just to supply for domestic demand. For 2024, residential segment, i.e., borey housing, continued to play a significant role in supporting the growth of this sector, while the extension of the RGC's interventions, such as the **8-point measures**, continued to help stabilize the business of housing developers, ensuring continued construction activity amid the market correction and responding to domestic demand. At the same time, industrial construction, such as factories and warehouses, has also seen a significant increase, reflecting the strong positive trend of the manufacturing sector. In 2025, the construction sub-sector is estimated to continue to grow at a moderate rate of 2.4%, supported by affordable housing construction, while industrial construction is expected to continue to grow and is seen as a potential growth driver supporting the overall sector, while investment in the high-end segment has yet to recover amid the high economic uncertainty and low investor confidence. It is worth noting that the extension of the RGC's interventions to stabilize the business of housing developers and stimulate transactions through stamp duty exemptions and other measures will also play a significant role in supporting this sector.

The manufacture of food product sub-sector and manufacture of beverage and tobacco sub-sectors are estimated to achieve growths of 6.1% and 3.3%, respectively in 2024, which reflects the continued stability of domestic consumption and spending activities, coupled with the continued increase in tourists and other tourism events that also helped to stimulate buying and selling activities and enhance production. For 2025, the manufacture of food product sub-sector and manufacture of beverage and tobacco sub-sectors are estimated to achieve growth at slower but positive rates of 5.4% and 4.0%, respectively, which are supported by the continued good trend in production activities serving domestic demand, although the overall economic situation, along with domestic consumption and related activities, may still experience indirect negative consequences from the reciprocal tariff policy. In addition, the RGC has put forward strategies and policies to support the SMEs particularly through the continued implementation of the **"National Strategy for Informal Economy Development 2023-2028"** and the continued improvement of the ecosystem of SMEs, which will further contribute to building the foundation and strengthening growth of SMEs within this sub-sector. At the same time, the provision of financing on preferential terms and low interest rates to enterprises in priority sectors through the SMEs Bank will also help promote additional investment in agro-industrial processing, especially in the food sector, while the **“Skills Development Fund”** and the **“Entrepreneurship Fund”** will also play an important role in continuing to strengthen skills training and addressing issues related to skills gaps and labor market needs.

Service Sector

The service sector is estimated to grow by approximately 4.5% in 2024, supported by accommodation and food services, wholesale-retail, and the gradual recovery of the real estate sub-sector, while the transportation and storage sub-sector has shown significant growth; however, the finance and insurance sub-sector continues its downward trend. In 2025, the service sector is estimated to decelerate to 3.8%, due to a lower-than-expected decline in the wholesale-retail subsector, i.e. domestic spending and consumption activities, under the expected indirect impact of the reciprocal tariff policy on people's income. Meanwhile, the transportation and storage sub-sector is also expected to slow down due to slower-than-expected growth in supporting sub-sectors such as the garment and non-garment manufacturing.

The accommodation and food service sub-sector is estimated to continue recovering from a low base, achieving a growth rate of approximately 12.9% in 2024, supported by a continued increase in international and domestic tourist arrivals. In 2024, the number of international tourists surpassed the pre-COVID-19 level (approximately 6.7 million), while domestic tourists also experienced a substantial increase (approximately 22.5 million). Nevertheless, the huge influx of tourists has not yet yielded significant value-added potential for this sector, as the majority of visitors are regional tourists with shorter stays and lower spending, reflecting a shift toward individual travel, in contrast to the pre-COVID-19 trend of group tours. In 2025, this sector is estimated to grow at a rate of 8.6%, supported by the sustained increase in international tourist arrivals which are anticipated to reach approximately 7 million, alongside a continued upward trend in domestic tourism. Policy measures aimed at enhancing the supply side will significantly contribute to attracting tourists and stimulating growth. These measures include continuing to promote direct flights, further promoting Cambodian tourist destinations, continuing to publicize tourism potential, launching the **"Techo Takhmao International Airport"**, reducing various service fees and strengthening the tourism value chain to boost competitiveness, including eliminating security fees at Siem Reap Angkor International Airport and reducing visa fees, as well as implementing the tourism development master plans in key provinces and organizing major national events domestically.

The real estate sub-sector is estimated to grow by 1.2% in 2024, supported by an increase in residential estate activity, namely condominiums and Borey developments, while warehouse and land rentals, especially in SEZs serving the industrial sector, also saw significant growth in 2024. In 2025, the sector is estimated to grow by 2.7%, driven primarily by residential estate activity coming from strong domestic demand, while industrial estate activity has maintained strong momentum, contributing further to overall sector growth. The continuation of the RGC's intervention measures to support demand, especially the stamp duty exemption for houses priced under $70,000 and for first-time home buyers for houses priced under $210,000, will further boost real estate activities in 2025.

The wholesale and retail sub-sector is estimated to grow at 3.9% in 2024, supported significantly by sustained domestic consumption activities on essential goods, especially on food products, while non-food and luxury goods, such as electronic items and cars, have slightly decreased. In 2025, this sub-sector is estimated to grow slowly at 3.4% due to the indirect impact of the reciprocal tariff policy on domestic spending and consumption activities, resulting from the decline in income-generating sectors such as garment and non-garment. However, the overall consumption activity continues to follow a positive trend, supported by the consumption of essential goods. Additionally, the shift in business behavior from traditional to online platforms, such as E-commerce, coupled with the modernization and simplification of the payment system, will provide greater convenience for buying and selling transactions.

The transportation and storage sub-sector is estimated to grow at a rate of 7.2% in 2024, driven by strong growth in supporting sectors such as the garment and tourism sectors, and the continued strong trend of express services. Particularly in 2024, port transportation was very busy, with container throughput passing through the Sihanoukville Autonomous Port increasing significantly, reaching 1 million TEU. In 2025, the sub-sector is estimated to grow at a slightly lower rate of around 5.4% due to a decline in supporting sectors such as the garment and non-garment industries, etc. Nevertheless, this sub-sector continues to maintain positive growth, supported by the expansion of express services and transportation activities in the tourism sector, coupled with continued investment in supporting infrastructure, such as the commissioning of a new airport, and the ongoing expansion of the two ports' capacity, as well as the continued implementation of the "Comprehensive Master Plan on the Cambodian Intermodal Transport System 2022-2030".

The Information and Communication sub-sector is estimated to maintain strong momentum, growing at around 7.0% in 2024, supported by the growth of internet usage, both internet users and internet bandwidth, coupled with the continued investment in supporting infrastructure, such as telephone service towers, etc. In 2025, this sub-sector is estimated to continue the momentum of 7.1%, driven by the continued upward trend of internet usage in almost all sectors and businesses, coupled with continued growth of investment in supporting infrastructure, as outlined in key policies such as **"Cambodia Financial Technology Development Policy 2023-2028", "Cambodia Digital Government Policy 2022-2035",** and **"Cambodia Digital Economy and Society Policy Framework 2021-2035".**

The finance and insurance sub-sector is estimated to contract at the rate of -0.6% in 2024, due to persistently elevated interest and operating expenses that have diminished net income, coupled with sluggish growth in new loans, while the Federal Reserve's interest rate remains high despite ongoing monetary policy easing. However, the insurance sector continues to show an upward trend, propelled by growth in general and health insurance. In 2025, the sector is estimated to recover at a modest rate of approximately 0.9%, influenced by the anticipated effects of the Federal Reserve's interest rate reduction, which has alleviated interest expenditure burdens, alongside a sustained improvement in new credit availability. Nonetheless, concerns in the external environment that result in a sluggish pace of monetary policy easing, or re-tightening, would impede the recovery of the sub-sector.

Agriculture Sector

The agriculture sector in 2024 is estimated to maintain a stable growth rate of 0.9%, supported by good performance in crop and fishery sub-sectors, while the livestock and poultry sub-sector is estimated to experience a decline. In 2025, the agriculture sector is estimated to sustain growth at approximately 0.9%, supported by the crop and fishery sub-sectors, while the livestock and poultry sector is expected to recover progressively.

The crop sub-sector is estimated to grow significantly at 1.6% in 2024, driven by sustained growth in paddy production, and subsidiary and industrial crops such as cashew, cassava, and rubber, supported by favorable prices, while there is minimal impact from natural disasters and pests on production. In 2025, the crop sub-sector is estimated to continue growing steadily, albeit at a slower pace, with a projected rate of 1.4%, due to the anticipated decline in paddy production, driven by price volatility in the international market, India's resumption of exports, and expected decline in demand from the EU due to stricter technical standards on chemical usage. However, the continued strength of subsidiary crops and other major industries is expected to support overall growth in the crop sub-sector. At the same time, this sub-sector is also substantially enhanced by the RGC's intervention measures, including the introduction and implementation of the **"Agricultural Price Stabilization Program"**, the **"Financing Program under the Rural and Agricultural Development Bank"**, and the **"Deployment of Agricultural Officers in Communes and Sangkats across all provinces"**, etc.

The livestock and Poultry sub-sector is estimated to experience negative growth of -1.9% in 2024, due to a cut-down in domestic production in response to declining market prices, particularly for pork. In 2025, this sub-sector is estimated to gradually recover, with a projected growth rate of 0.2% due to the anticipated improvements in investment confidence, while the RGC continues to remain vigilant in implementing intervention measures and enforcing regulations on frozen meat imports to bolster domestic production.

The fisheries sub-sector is estimated to grow at the rate of 0.9% in 2024, driven by good performance in inland fisheries, resulting from the restoration of natural habitats under the efforts to combat illegal fishing in recent years. In 2025, the fisheries sub-sector is estimated to maintain positive growth of approximately 0.2%, bolstered by favorable trends in inland fisheries, although aquaculture production encounters supply challenges.

Inflation and Exchange Rate

Inflation rate (annual average) continues to decline to 0.8% in 2024, due to a continued drop in oil prices on the international market, while food price growth remained stable, but recovered slightly in the fourth quarter due to increased domestic spending and consumption activities. In 2024, the official exchange rate (riel/US dollar) continues to return to normalcy of around 4,070 riel/US dollar due to the gradual easing of the US's tightening monetary policy, coupled with the NBC's continued interventions in ensuring exchange rate stability. In 2025, inflation rate growth is estimated to bounce back to 3.0%, reflecting a low base effect from the previous year and a continued recovery in consumption in line with the economic recovery, while international commodity prices remain stable. The exchange rate is expected to remain stable at around 4,054 Riels/dollar due to the easing of the US tightening monetary policy and the NBC's continued interventions in ensuring exchange rate stability.

External Sector

The current account surplus (including transfers) in 2024 was maintained at around 0.5% of GDP, compared to 1.3% of GDP in 2023, as the revenue from tourism sector remains significant, while trade deficit slightly widened. Imports continue to increase, driven by the import of raw materials for production, construction materials, vehicles, and other consumer goods, while exports maintained robust momentum, supported by the export of manufacturing and agricultural products. At the same time, revenue from tourism activities also continues to rise, reflecting the positive trend in international tourist flows as well as the continued recovery of the tourism sector as a whole. In 2024, FDI inflow grew by 11.0%, equivalent to 9.3% of GDP, due to a significant increase in the manufacturing industries such as garment, tyres, food packaging, and metal, while there is the slowdown of FDI inflow in financial, construction and real estate sectors. Consequently, the international reserve reached $22,511 million or 9.6 months of imports.

In 2025, the current account balance (including transfers) is expected to reach a deficit of -1.0% of GDP, due to a widening trade deficit, while the revenue from tourism sector continues on an upward trend. Although exports may experience slower growth compared to 2024, overall exports continue to have a positive trend, supported by exports of garment products, non-garment products, and agricultural products. At the same time, the overall imports continue to be supported by imports of raw materials for production and consumer goods, though at a slower pace than previously projected. Meanwhile, the revenues from tourism sector remain significant due to the anticipated growth of tourist arrivals, along with the introduction of policy measures by the RGC to improve this sector. Additionally, the FDI is expected to remain strong, growing at 8.6% or around 9.4% of GDP, supported by the investment inflows into the garment and non-garment manufacturing sectors. In this sense, the international reserve is projected to reach $24,450 million or around 7.6 months of imports.

B. The Medium-Term Economic Outlook 2026-2028

In 2026, Cambodia's economy is projected to continue growing at a rate of **5.0%** due to the full expected negative effects of the reciprocal tariff policy on export-oriented sectors such as the garment and non-garment sectors, and effects on other growth-supporting sectors, including transportation and storage, and wholesale and retail sectors. Over the medium term (2027-2028), Cambodia's economy is projected to gradually recover, with an average growth rate of **5.6%,** due to gradual rebound in export-oriented sectors, along with market adjustments to Cambodia's garment and non-garment exports, particularly through the expansion into new external markets beyond the US, and the broader adaptation of businesses and economic sectors to the ongoing challenges. It is worth noting that Cambodia's projected growth pace in the medium term (under the context of reciprocal tariff implementation) is slower compared to the pre-tariff period (which saw an average of 6.5%), which reflects precisely the size of the effects and deep scars left on exports and key national economic growth sectors. In the short-term, Cambodia's ability to diversify and shift export markets remains limited. In this regard, accelerating the implementation of measures and policies to boost competitiveness, promote diversification, and strengthen socio-economic resilience becomes even more critical, especially strengthening implementation of the **"Pentagon Strategy – Phase I"** and adoption of the **"Program on Promoting Competitiveness, Increasing Diversification, and Enhancing Resilience for Economic Growth in the Highly Uncertain Global Context 2025-2028",** along with other relevant policies, which will serve as an even more important driver in promoting and supporting growth in the medium and long term.

The industry sector is projected to grow by an average of 7.4% over the medium term 2026-2028. **In 2026, the sector is projected to grow by 7.1%,** slightly slower than in 2025, due to the continued slowdown in the garment and non-garment sectors as a direct impact of the reciprocal tariff policy on Cambodia's exports, while the food and beverage manufacturing sector continues to maintain momentum. In the meantime, the construction sector continues to recover, albeit at a slower pace. Yet, supporting sectors continue to maintain positive trends, boosting the overall industry sector in the medium term, albeit at a slower pace than expected. Specifically, the garment sector continues to grow, yet at a lower level than before COVID-19. It is supported by an increase in demand from Cambodia's export markets (demand side), such as the European Union and ASEAN, although exports to the US market may not be as good as expected. In addition, the strengthening of the implementation of the **"Cambodia Garment, Footwear and Travel Goods Sector Development Strategy 2022-2027"** will continue to improve the investment climate and increase competitiveness (supply side), as well as contribute to increasing value added in this sector as a whole. For future policy direction, the development of a **"Smooth Transition Strategy"** to prepare for Cambodia's graduation from the Least Developed Countries (LDC) status, particularly in response to the double transformation conditions, will also be an important policy strategy for strengthening the value added in the garment sector. However, this sector also faces market challenges and intense regional competition. Despite a slowdown in 2026, the non-garment manufacturing sector is expected to continue growing steadily in the coming years, supported by exports of key strategic industrial products and the ongoing trend of shifting global production chains. Meanwhile, industries serving the domestic market are also showing signs of improvement. Additionally, the food and beverage manufacturing sector is also on an upward trend, driven by continued investment and production activities to meet rising domestic demand. It is worth noting that the incentive framework through the Investment Law and the continued implementation of the **"National Strategy on Informal Economic Development 2023-2028"** and other policy measures and support mechanisms for SMEs will play a significant role in attracting foreign investment and promoting the development of the SMEs ecosystem, which are key drivers for the growth of this sector in the medium and long term. At the same time, the preparation and implementation of the **"Framework for the Development of Agro-Industrial Parks in Cambodia"** and the **"Special Program to Promote Investment in the Four Provinces in the Northeast of the Kingdom of Cambodia 2025-2028"** will also serve as strategic policy measures to further strengthen the foundation of the industrial sector, including promoting diversification and increasing the value addition across the non-garment manufacturing sector as a whole. The construction sub-sector continues to recover, but remains at a slower pace, and is still growing below the pre-COVID-19 level. The sub-sector will continue to be supported by housing construction activities aligned with real domestic demand, along with a continued increase in construction activities serving the industrial sector, such as factories and warehouses. This shift is expected to become a new growth trend for the sector in the short and medium term. In addition, the RGC's interventions in the past will also help sustain the real estate business and promote buying and selling transactions and construction activities in general.

The service sector is projected to grow at an average of 4.4% over the medium term 2026-2028, **with growth in 2026 projected to remain at 3.8%**, the same as in 2025, supported by sustained growth in accommodation, food services, and other tourism-related support sectors, while the real estate sub-sector continues experiencing subdue growth. The accommodation and food services sub-sector is projected to continue to grow, bolstered by the ongoing surge in international tourist flows and promising domestic tourists. Improved infrastructure and support services, efforts to boost competitiveness by strengthening the tourism value chain, enhancing Cambodia's international reputation, and hosting major events, alongside the continued implementation of tourism development master plans in key provinces, will be essential in sustaining growth in the sector. Meanwhile, the real estate sub-sector, similar to the construction sub-sector, is undergoing a gradual recovery, bolstered by the influx of affordable housing and the rise in transactions involving the purchase, sale, and rental of warehouses, factories serving the industrial segment, and retail market properties. The wholesale and retail sub-sector is projected to experience a slowdown in growth in 2026, due to the indirect effects of reciprocal tariffs on household income and spending, stemming from a deceleration in income-generating sectors such as garment and non-garment manufacturing. However, the sub-sector is expected to maintain a positive growth trajectory over the longer term, supported by consumption patterns that align with broader economic trends. At the same time, the ongoing expansion of e-commerce and digital payment will provide further ease for economic operations. Similarly, although the transportation and storage sub-sector is expected to experience a slight deceleration in growth in 2026, its medium-term growth is projected to maintain an upward trend due to the continued recovery of supporting sectors, such as the garment and tourism sectors, coupled with an increase in express delivery services. The ongoing investment in supporting infrastructure, across air, water, and land, will be crucial in fostering growth within this sector. The finance and insurance sub-sector also continues to recover gradually, with expectations of continued growth in new credit to support investment activities, coupled with continued modernization and simplification of the financial system, especially financial products and services, in line with the **"Cambodia Financial Technology Development Policy 2023-2028"**, which will contribute to further adding value to this sector. The information and communication sub-sector is projected to experience robust expansion, propelled by the ongoing increase in internet usage and the digitalization of products and services across many industries and business types, along with the strengthening of the existing regulatory framework.

The agriculture sector is projected to grow at an average rate of 1.2% per annum over the medium term, in which growth in **2026 is projected at 1.0%**, supported by expected favorable prospects for crop production and the steady growth in the fisheries sub-sector, while the livestock and poultry sub-sector is projected to maintain its gradual upward trajectory. The crop sub-sector is projected to sustain robust growth, driven by continued promotion of investment from both domestic and foreign sources in agro-processing, especially in high-potential commodities such as cashew, cassava, and rubber, which will boost the cultivation of these key crops for processing. Existing support measures such as the **"Agricultural Price Stabilization Program"**, **"Financing Program under the Rural and Agricultural Development Bank"**, **"Deployment of Agricultural Officers in Communes and Sangkats across all provinces"** and **"Modern Agricultural Communities"** will also play an important role in supporting the crop sub-sector, especially by promoting synergy through aggregation, following a **"market-ready-to-grow"** approach. The livestock and poultry sub-sector is projected to recover gradually, driven by the RGC's intervention on the importation of frozen meat and regulatory adjustments aimed at encouraging local farming, along with increasing domestic demand. The fisheries sub-sector is projected to experience sustained growth, fueled by expectations of enhanced inland fisheries resulting from the continued implementation of law enforcement efforts to crack down on fishery offenses. The investment in aquaculture is projected to recover gradually, driven by the implementation of measures by the government and development partners aimed at addressing structural challenges, providing financial support, technical dissemination, and promoting the use of high-quality and efficient fish breeds.

In the medium-term (2026-2028), inflation is projected to grow at **2.4% on average,** in line with the economic performance, while international commodity price remains stable. Meanwhile, the exchange rate is projected to be at **4,050 riels/dollar** on average, with the expectation that the Fed will start easing its policy gradually while the NBC continues to stabilize the exchange rate.

Table 2: Cambodia's economic outlook by sector (2019-2028)

Growth (%)	2019	2020	2021	2022	2023	2024e	2025e	2026p	2027p	2028p
GDP	**7.9**	**-3.6**	**3.1**	**5.1**	**5.0**	**6.0**	**5.2**	**5.0**	**5.5**	**5.8**
Agriculture	**-0.4**	**0.6**	**1.5**	**0.6**	**1.1**	**0.9**	**0.9**	**1.0**	**1.2**	**1.2**
Crop	0.6	0.6	2.2	1.1	1.2	1.6	1.4	1.5	1.6	1.7
Fishery	-1.5	0.7	-1.0	-1.3	1.3	0.9	0.2	0.4	0.6	0.7
Poultry	-2.6	0.9	2.3	1.2	1.1	-1.9	0.2	0.3	0.4	0.5
Industry	**13.0**	**-2.2**	**8.4**	**8.2**	**5.4**	**9.2**	**7.8**	**7.1**	**7.5**	**7.6**
Garment	12.9	-7.7	15.9	11.3	-4.5	16.9	10.4	8.4	7.3	6.5
Construction	18.7	-7.6	-8.0	0.9	0.8	1.1	2.4	3.1	5.0	5.7
Manufacture of food	7.8	3.4	4.2	7.6	9.3	6.1	5.4	5.0	6.1	6.8
Manufacture of beverage and tobacco	7.7	4.4	7.9	5.6	5.8	3.3	4.0	3.9	4.5	6.1
Other manufacturing	8.4	11.9	16.8	10.3	21.7	7.1	8.7	8.3	9.6	10.2
Service	**6.6**	**-6.7**	**-1.8**	**3.6**	**6.0**	**4.5**	**3.8**	**3.8**	**4.3**	**5.0**
Accommodation and food service	5.5	-34.2	-39.5	22.0	49.1	12.9	8.6	6.0	5.8	4.1
Trade	5.7	-6.3	2.5	4.5	2.1	3.9	3.4	2.9	4.0	5.2
Transport and storage	8.4	-2.7	3.8	4.7	4.8	7.2	5.4	5.2	5.9	6.2
Information and communication	9.8	11.5	12.0	9.0	8.6	7.0	7.1	7.1	7.4	7.6
Financial and insurance	7.9	4.3	3.2	-1.0	-0.1	-0.6	0.9	2.0	2.6	3.1
Real estate	8.7	-8.3	-8.5	0.5	-1.6	1.2	2.7	3.1	4.6	5.0
Inflation rate	1.8	2.9	2.9	5.3	**2.1**	**0.8**	**3.0**	**2.1**	**2.5**	**2.5**
Exchange rate	4,052	4,077	4,068	4,087	4,110	4,070	4,054	4,052	4,050	4,050

Source: NIS (2019-2023) and MEF (2024-2028)

The current account deficit (including transfers) is projected to be around -2.8% of GDP, due to the expectations of a continued trade deficit while revenues from tourism sector continue to grow. In the medium term, Cambodia's export is projected to grow, despite a slight slowdown in 2026, supported by manufacturing industries (garment and non-garment manufacturing) and agricultural products. It should be noted that in the medium term, export is projected to be more diversified in both products and markets, especially for strategic and potential industrial products such as electronic components, car tires, furniture, and processed agro-industrial products. Meanwhile, imports are also projected to continue to increase in line with the exports in the medium term, driven by imports of raw materials for production and consumer goods due to the continued strong momentum of manufacturing activity and increased domestic consumption. The FDI is projected to improve, about 9.3% of GDP on average, due to the improvement in investor confidence as a result of the implementation of the Law on Investment and supported policies in strengthening and facilitating the investment environment. In the medium term, Cambodia is projected to attract investment to the high value-added industry in line with the RGC's objective mentioned in the **"Pentagonal Strategy-Phase I"**. Moreover, the international reserve is projected to remain at a good level, roughly about 6.9 months of imports on average.

Table 3: External sector outlook (2019-2028)

Indicators	2019	2020	2021	2022	2023	2024e	2025e	2026p	2027p	2028p
Export (million dollar)	14,986	18,522	19,521	23,179	23,564	26,752	30,024	33,486	37,729	42,889
Import (million dollar)	22,242	21,066	30,726	32,005	26,551	31,247	35,530	39,738	45,323	51,911
Trade balance (million dollar)	-7,255	-2,544	-11,257	-8,826	-2,986	-4,496	-5,506	-6,253	-7,594	-9,021
Current account balance (million dollar)	-2,931	-881	-10,893	-7,582	553	222	-524	-878	-1,683	-2,504
FDI (million dollar)	3,663	3,625	3,486	3,579	3,959	4,395	4,772	5,149	5,529	5,909
International reserve (million dollar)	18,763	21,334	20,265	17,805	19,998	22,511	24,450	26,336	28,299	30,125
Export (% of GDP)	40.8%	53.0%	52.7%	57.7%	54.6%	56.8%	59.0%	61.2%	63.9%	67.1%
Import (% of GDP)	60.5%	60.3%	82.9%	79.7%	-61.5%	-66.3%	-69.8%	-72.6%	-76.7%	-81.2%
Trade balance (% of GDP)	-19.7%	-7.3%	-30.4%	-22.0%	-6.9%	-9.5%	-10.8%	-11.4%	-12.9%	-14.1%
Current account balance (% of GDP)	-8.0%	-2.5%	-29.4%	-18.9%	1.3%	0.5%	-1.0%	-1.6%	-2.8%	-3.9%
FDI (% GDP)	10.0%	10.4%	9.4%	8.9%	9.2%	9.3%	9.4%	9.4%	9.4%	9.2%
International reserve (months of import)	8.8	13.4	7.4	6.1	10.1	9.6	7.6	7.3	6.9	6.4

Source: NBC (2019-2024) and MEF (2025-2028)

C. Macroeconomic Risks and Policy Direction

Uncertainty from external factors may negatively impact Cambodia's economy, both directly and indirectly, as Cambodia is a small, open economy that is increasingly integrated into regional and global production chains. In the medium term, Cambodia's economy may face major risks and uncertainties caused by external and internal factors, including:

- **External factors**
  1) Continued rise in protectionism, especially in major powers, both in economic and trade policies; for example, a continued and unexpectedly sharp increase in tariffs;
  2) Rising geo-economic tensions that could disrupt global supply chains and drive up international commodity prices;
  3) Potential slowdown in the economic growth of key trading partners and investment sources, particularly China;
  4) Increase in public debt pressures;
  5) Geo-economic and trade fragmentations; and
  6) Worsening impacts of climate change and natural disasters.
- **Internal factors**
  1) Trade negotiations with the US may fall short of expectations, potentially causing a sharp decline in exports and possibly factory closures;
  2) Slower-than-expected growth in some sectors, such as construction and real estate, keeping overall growth at a low level;
  3) High private debt and a continued high level of non-performing loans (NPLs) could affect financial stability;
  4) Continued low revenue mobilization and reduced external financing, limiting the ability to intervene in times of crisis; and
  5) Climate risks could weaken the agricultural sector and damage physical infrastructure.

Along with increasing external and internal risks, Cambodia also continues to face a number of internal structural challenges that require strengthening the foundation for in-depth reforms, such as: (1). The slow pace of economic diversification; (2). The high cost of doing business; (3). The limited scope of trade facilitation and the business environment; (4). The supply and skill level of the labor force still fall short of market demands; (5). The limited capacity of health and social protection systems; and (6). The limited knowledge and skills in adopting and utilizing digital technologies.

As strategic and policy priorities, the RGC continues to adhere to two approaches: (1). Policy measures aimed at addressing immediate and short-term challenges, with a focus on maintaining macroeconomic and financial stability and safeguarding people's livelihoods; and (2). Medium-term and long-term policy measures that will focus on tackling structural challenges to promote diversification, enhance competitiveness, and strengthen the resilience of Cambodia's socio-economy. In this regard, Cambodia needs to focus on the following policy instruments:

1) **Policy measures to address immediate challenges**, focusing on closely monitoring global, regional, and domestic developments and trade dynamics. Efforts will include continued negotiations with the US to find appropriate solutions, promoting full use of existing trading markets, and seeking new trading market opportunities through both multilateral and bilateral frameworks. This will involve strengthening regional and extra-regional cooperation to diversify exports and reinforce the economic foundation.
2) **Fiscal policy measures**, focusing on implementing prudent and flexible fiscal policies to effectively respond to the evolving situations and enable timely, well-targeted interventions in the event of a crisis. Interventions through spending and tax expenditure measures will prioritize severely affected sectors and vulnerable groups to ensure socio-economic stability, without compromising fiscal sustainability. At the same time, continuing to strengthen revenue mobilization efforts and strengthen the link between policies and budgets, with continued improvement in spending efficiency, on the one hand, responding to development needs, and on the other, ensuring fiscal sustainability.
3) **Monetary and financial policy measures**, focusing on accommodative monetary policy to support growth by promoting credit growth in productive sectors. This will be accompanied by continuous monitoring and assessment of credit conditions and credit restructuring. Additionally, there will be continuous monitoring and management of price conditions, exchange rates, and overall financial sector well-being, both banking and non-banking, to maintain financial stability and avoid systemic risks.
4) **Structural policy measures** through strengthening all key reform platforms, continuing to strengthen the implementation mechanism and monitoring and evaluation of the **"Pentagonal Strategy - Phase 1"**, along with the launch and implementation of the **"Program to Enhance Competitiveness, Increase Diversification, and Strengthen Resilience to Drive Economic Growth in a Global Environment of High Uncertainty, 2025-2028"** and priority sector policies.

3. Fiscal Strategy

The "Medium-Term Fiscal Framework 2026-2028" or in short **"MTFF 2026-2028"** outlines the RGC's fiscal strategy for the medium-term by defining **Fiscal Policy Stance, Fiscal Rules, and Policy Priorities.**

3.1. Fiscal Policy Stance

Based on macroeconomic policy frameworks and the actual development of public financial condition in the context of heightened uncertainty, **the fiscal policy** for the medium-term is formulated by adopting the **"Gradual Fiscal Consolidation Stance".** This approach ensures fiscal sustainability in the medium-term by continuing to maintain a fiscal balance between government available financial resources and public expenditure pressure and starting to rebuild the fiscal buffer when circumstances permit.

Following this rationale, the RGC will also continue to strengthen revenue mobilization by endeavoring to implement the **"Revenue Mobilization Strategy of the Royal Government of the 7th legislature of the National Assembly,"** which includes in-depth reforms in the administration and modernization of the administrative system for collecting tax and non-tax revenues. In addition, the RGC will continue to prudently expand the revenue base and continue to implement the existing incentive measures. In the medium-term, the RGC will exercise heightened caution in the case of any new tax concessions by trying to avoid further sharp increases in tax expenditures. Along with this tax expenditure restraint, the provision of existing tax incentives that cannot be avoided must be used in a targeted and highly effective manner. The RGC will also prepare an evaluation study of the effectiveness of all incentive measures, and based on this study and evaluation, introduce tax incentive rationalization measures as necessary.

Concurrently, the RGC will continue to focus on further strengthening budget efficiency, on both allocative and operational levels, through continued expenditure prioritization, of which the public expenditure framework will be prepared to direct resources to key immediate priorities; particularly, to ensure the stability of people's livelihoods, promote social equity, continue to support the process of social development, and ensure the sustainability of the government's operations in accordance with the strategic direction set out in the **"Pentagonal Strategy - Phase 1"** of the Royal Government of the 7th legislature of the National Assembly.

Based on the continued implementation of the **"Gradual Fiscal Consolidation Stance"**, the budget deficit in the medium-term will be narrowed compared to 2025, **as the RGC determines not to withdraw from savings to avoid further decline, except in cases of extreme necessity where the situation requires the use of the government's savings, and will begin to rebuild the fiscal buffer when circumstances permit.**

3.2. Fiscal Rules

The fiscal rules are a core element of improving the effectiveness of the budget framework, strengthening efficiency and discipline in budget implementation, and, in particular, ensuring fiscal sustainability in the medium-term. Continuing on the same principles as last year, **the MTFF 2026-2028** must comply with the conditions of **fiscal rules**, which are set on key fiscal indicators. However, the implementation of **fiscal rules** could be more flexible than prescribed in force majeure cases such as natural disasters, the spread of global infectious diseases, emergencies that are serious and unpredictable, or urgent necessities to serve the national interest, etc., thus providing sufficient capacity for the RGC to intervene and resolve challenges in a timely manner.

In line with international best practices, **the fiscal rules** set out in **the MTFF 2026-2028** are divided into two: **1). Fiscal Anchor**; and **2). Operational Rules.**

A. Fiscal anchor

The fiscal anchor is a fiscal rule that sets a ceiling on public debt at a level that ensures fiscal sustainability in the medium-term, using the five indicators in Cambodia's Debt Sustainability Analysis (DSA) as highlighted in the following paragraphs. In addition, based on IMF recommendations, which are considered more prudent, **the MTFF 2026-2028** will set an additional fiscal anchor, **the public debt-to-GDP ratio in face value**, which is at a lower level than that set in the DSA.

Therefore, for the medium-term 2026-2028, **Cambodia's fiscal anchor** is set as **5 + 1 key indicators**:

(1). Present Value of Total Public and Publicly Guaranteed (PPG) Debt to GDP ratio at **55%**;
(2). Present Value of PPG External Debt to GDP ratio at **40%**;
(3). Present Value of PPG External Debt to Exports ratio at **180%**;
(4). PPG External Debt Service to Exports ratio at **15%**;
(5). PPG External Debt Service to Revenue ratio at **18%**; and an additional key indicator:
(6). Face Value of Total Public Debt to GDP ratio at **40%**.

B. Operational Rule

In addition, **the operational rule** has been set using **the Budget Balance Rule**, which is a rule that is appropriate for the Cambodian context in preparing the annual budget framework and is closely linked to the fiscal anchors set out above. The RGC has set a ceiling for **the overall budget deficit not to exceed -5.0% of GDP**, which is approximately **-3.5% of GDP in the Government Finance Statistics (GFS) format**. The budget deficit ceiling is set in order to continue to maintain public debt sustainability and ensure medium-term fiscal sustainability, in line with the policy stance of gradual fiscal consolidation stance while still allowing for the implementation of priority policies aimed at maintaining macroeconomic and financial stability and supporting the recovery and promoting economic growth and development.

Table 4: Fiscal Rules

Fiscal rules	
Fiscal anchor	(1). Present Value of Total Public and Publicly Guaranteed (PPG) Debt to GDP ratio at **55%**; (2). Present Value of PPG External Debt to GDP ratio at **40%**; (3). Present Value of PPG External Debt to Exports ratio at **180%**; (4). PPG External Debt Service to Exports ratio at **15%**; (5). PPG External Debt Service to Revenue ratio at **18%**; and (6). Face Value of Total Public Debt to GDP ratio at **40%**.
Operational rule	The overall budget deficit must not exceed **-5.0% of GDP** or **-3.5% of GDP in the GFS format**.

3.3. Policy Priorities

As a strategic and policy direction, promoting the successful implementation of the "**Pentagonal Strategy - Phase 1**" remains a priority for the Royal Government while preparing to launch and implement the "**Program to Promote Competitiveness, Enhance Diversification, and Strengthen Resilience for Economic Growth in a High Uncertainty of Global Environment 2025-2028**" to continue to address key structural issues. In this regard, **the Fiscal Framework 2026-2028** will support key policy priorities by introducing the following policy measures:

- Continue to maintain peace, political stability, social achievements, and address social emergency issues to ensure the safety and well-being of the people;
- Continue to ensure macroeconomic and public financial stability, to maintain living standards, to protect and create jobs for the people, and to increase the effectiveness and coverage of social protection and the provision of essential social services;
- Continue to promote economic diversification in existing key sectors and develop new sources of growth through policy support for a competitive environment, promoting the development of all types of physical infrastructure, both hard and soft, and

implementing financing mechanisms and financial products to support high value-added investments;

- Promote human capital development by improving the quality of education to support sustainable, inclusive, and resilient economic growth, training and developing professional and technical skills at all levels to support high-value-added production;
- Promote social citizenship, promote culture, and people's well-being in preparation to become citizens of upper-middle-income countries;
- Continue to promote social welfare, build the resilience of Cambodian society, and continue to develop a comprehensive social protection system as well as provide social services, particularly paying attention to sectors that have been adversely affected by the changes in the trade regime;
- Continue to promote digital transformation by investing in digital infrastructure and promoting green development to build a sustainable digital government and digital citizen;
- Continue to strengthen governance and institutions through the implementation of the national public administration reform program, the public financial management reform program, the sub-national democratic development reform program, the legal reform program, and the justice system reform program; and
- Continue to promote the private sector, including supporting the development of SMEs and the informal economy, by strengthening the implementation of new investment laws, introducing specific incentive measures, and improving the business environment with competitiveness and equity.

4. Fiscal Policy Framework

4.1. Budget Execution in 2024 and 2025

A. Budget Execution in 2024

In 2024, **the outturn of total revenue collection** (provisional estimate) reached 15.19% of GDP, a decrease of around -17.1% compared to 2023. This decrease is mainly due to changes in revenue recording in line with the Law on the Public Financial System 2023. In particular, **the current revenue** achieved positive growth, but at a slower pace, at a rate of 3.5% compared to 2023, equivalent to 14.58% of GDP and 89.4% of the budget law. The slower growth of current revenue compared to the rate of economic growth is primarily due to the sectors driving national economic expansion in 2024 which received extensive tax incentives and exemptions, including agriculture, tourism, the garment industry, and non-garment manufacturing. At the same time, sectors that serve as major sources of domestic revenue experienced relatively weak growth, particularly the finance, real estate, and construction sectors. Meanwhile, tax expenditure has continued to rise, driven by the ongoing implementation of incentive measures and the broadening of tax exemptions or reliefs, aimed at easing the financial burden on households and enhancing the business environment as the economy continues to recover from multiple consecutive crises. Nevertheless, revenue collection agencies have strengthened the implementation of various targeted measures to maximize revenue mobilization, which has played a crucial role in achieving this positive growth rate.

Given that revenue collection has fallen short of expectations, the RGC has adopted measures to rationalize the budget spending. On the one hand, to maintain spending at an appropriate level to support the essential operations of all governmental bodies; and on the other hand, to prioritize strengthening budget efficiency, both in budget allocation and execution, to ensure the successful implementation of key policy measures aimed at stimulating growth and safeguarding the livelihoods of the people. In this regard, key policy priorities established by the RGC for 2024, including the recruitment of public servants, the increase of wage and pension for civil servants, armed forces, and retirees, as well as the implementation of priority initiatives and critical reforms across ministries and institutions, and **"Six Priority Policy Programs"** and **"Five Key Measures"** of the RGC, have been successfully implemented as planned. Meanwhile, the RGC has implemented various policy programs, such as the Social Protection Policy, which covers more than 7.8 million people, aimed at enhancing overall human capital through productivity-enhancing programs such as skills development and the Graduation-based social protection program, providing healthcare aimed at achieving universal health coverage in Cambodia, providing vocational and technical training to youth from poor and vulnerable families across the country, and deploying agricultural technical officers to all communes and Sangkats with agricultural activities nationwide, etc. As a result, **the total expenditure for 2024** is estimated to reach approximately 18.09% of GDP, lower than the budget law, corresponding to roughly 93.5% of the budget law. Additionally, the **budget deficit for 2024** is estimated at -2.89% of GDP, exceeding the budget law by around 0.49 percentage points. The final assessment of the 2024 budget implementation and actual figures will be reflected in the forthcoming **draft law on the 2024 Budget Settlement.**

B. Estimated Budget in 2025

In 2025, **the total revenue** is estimated to grow by 5.5% compared to 2024 (provisional estimate), reaching approximately 14.91% of GDP. **The current revenue in**

2025 is estimated to increase by 5.6% compared to 2024 (temporary), amounting to approximately 14.32% of GDP and representing 97.3% of the budget law, which is contributed by the anticipated continued decline in key tax revenues, including income tax, indirect taxes, and provincial tax collections. Meanwhile, revenues from certain sectors, such as construction and real estate, are expected to continue growing at a sluggish pace, alongside the ongoing implementation of various tax incentive policies. The RGC will continue mobilizing additional domestic market financing via government bond issuances in 2025 of around 500 billion Riel to support budget financing in an environment where revenue growth remains subdued.

The total Expenditure for 2025 is set in the budget law at approximately 18.39% of GDP, with current expenditures accounting for 12.62% of GDP and capital expenditures making up 5.76% of GDP. Within this framework, the RGC has prioritized key spending areas to support the major RGC's policies, including wage increment for the civil servants and armed forces, aimed to enhance the quality, efficiency, and performance of officials, enhancing professional qualifications that align with the fundamental needs of ministries-institutions as well as strengthening and expanding public investment in both physical and non-physical infrastructure to ensure high-quality, robust, advanced, and diverse development. As a result, the **budget deficit for 2025** is estimated to be approximately -3.48% of GDP.

Table 5: Budget Execution from 2023-2025

	Annual Growth			% of GDP		
	2023	2024 temp.	2025 rev.	2023	2024 temp.	2025 rev.
Total Revenue	**0.8%**	**-17.1%**	**5.5%**	**19.84%**	**15.19%**	**14.91%**
Current Revenue	**-1.5%**	**3.5%**	**5.6%**	**15.24%**	**14.58%**	**14.32%**
Tax Revenue	**-3.1%**	**2.7%**	**4.6%**	**14.99%**	**13.43%**	**12.75%**
The General Department of Taxation	7.1%	-4.0%	3.3%	8.23%	7.31%	7.02%
o/w Sub-national	-3.5%	0.4%	-1.4%	1.09%	1.01%	0.93%
The General Department of Customs and Excise	-15.9%	13.3%	6.3%	5.20%	5.45%	5.38%
Non-tax Revenue	**12.2%**	**9.3%**	**12.6%**	**1.81%**	**1.83%**	**1.92%**
Sub national	-22.8%	-30.0%	-5.7%	0.26%	0.17%	0.15%
Other Revenue	**9.5%**	**-85.7%**	**3.5%**	**4.59%**	**0.61%**	**0.59%**
Total Expenditure	**15.5%**	**-7.2%**	**9.4%**	**21.09%**	**18.09%**	**18.39%**
Current Expenditure	**15.4%**	**4.4%**	**8.3%**	**13.00%**	**12.54%**	**12.62%**
Capital Expenditure	**15.8%**	**-25.9%**	**11.9%**	**8.09%**	**5.54%**	**5.76%**
Overall deficit/surplus				**-5.61%**	**-2.89%**	**-3.48%**

Source: MEF

Despite prevailing uncertainties, the implementation of the 2025 revenue and expenditure framework will be carried out in accordance with **the 2025 Financial Management Law** without significant modifications; which on the expenditure front, priority policies and key measures of the RGC will still be implemented as planned.

C. Budget Implementation in Relation to Fiscal Rules

Overall, the budget implementation in 2024 and 2025 is in line with the Fiscal Rules that were put in place, with all indicators below the set ceiling. Specifically, **Cambodia's total public debt for 2025 in Present Value** is estimated to be around 18.79% of GDP and in **Face Value** at around 26.59% of GDP; meanwhile, the other four indicators of the Fiscal Anchors are also below the set ceiling. In addition, the budget deficit for 2025 is also estimated to be below the level set by the operating rules.

Table 6: Indicators of Fiscal Rules 2023-2025

Indicator	Thresholds	2023	2024temp.	2025e.
I. Fiscal Anchor				
PV of total PPG debt-to-GDP	**55%**	18.81%	18.29%	18.79%
PV of PPG external debt-to-GDP	**40%**	18.69%	18.05%	18.40%
PV of PPG external debt-to-exports	**180%**	29.00%	26.90%	26.41%
PPG external debt service-to-exports	**15%**	1.78%	1.72%	1.87%
PPG external debt service-to-revenues	**18%**	7.50%	7.60%	8.75%
FV of total PPG debt-to-GDP	**40%**	25.79%	25.60%	26.59%
II. Operational Rule				
Total budget deficit	**-5%**	-5.61%	-2.89%	-3.48%

Source: MEF

4.2. Fiscal Framework 2026-2028

The 2026-2028 Fiscal Framework has been carefully prepared and developed in alignment with the established fiscal policy stance and to respond to three major medium-term contexts: **(1).** Revenue collection in the medium term will continue to face uncertainty, while external factors may negatively affect the slowly recovering revenue sector; **(2).** The continued increase in budget needs for the current expenditure and investment, including the need for continued reform and institutional capacity building, continued implementation of social protection policies and human capital development, and implementation of priority policies and investments in high-quality and resilient infrastructure for development; and **(3).** The current fiscal space is constrained by the implementation of expansionary fiscal policies over four consecutive years, i.e., from 2020 to 2023, and the limited availability of highly concessional loans.

A. Revenue Framework

The total revenue in 2026 is projected to reach 14.63% of GDP, reflecting a 5.5% increase compared to the estimated outcome for 2025. Over the medium term, 2027-2028 is expected to sustain an average growth rate of 7.3%, with revenue reaching 14.43% of GDP by 2028. From 2026 onward, revenue recording will change to a **Net Amount** basis, calculated as the **Gross Amount** adjusted for **VAT refunds**. For 2026, 5% of total VAT revenue, equivalent to 0.20% of GDP, will be earmarked for refund purposes; and, from 2027 to 2028, the earmarking rate will increase to 10%, averaging 0.42% of GDP.

The current revenue in 2026 is projected to reach approximately 14.13% of GDP, reflecting a 5.9% growth rate compared to 2025. Over the medium term, 2027-2028, current revenue is expected to sustain an average growth rate of 7.5%, reaching 13.98% of GDP in 2028, below the target set in the "**Revenue Mobilization Strategy of the Royal Government of the 7th Legislature of the National Assembly**", which aims for 16% of GDP. The shortfall in meeting the target is mainly due to heightened uncertainty and the escalation of global trade tensions, both of which have negatively impacted Cambodia's macroeconomic outlook and its overall revenue collection capacity.

The tax revenue collected by the General Department of Taxation is projected to increase by approximately 6.0% compared to 2025, with an average growth rate of 7.2% expected for 2027-2028. These projections assume that revenue growth will be driven by key sectors, including accommodation and food services, manufacturing, and transportation and storage. However, the construction and real estate sectors are expected to continue growing at a slower pace. Additionally, the resumption of strengthening taxpayer compliance efforts will be a critical factor in enhancing revenue collection efficiency and ensuring stable revenue growth over the medium term.

The tax revenue collected by the General Department of Customs and Excise is projected to increase by approximately 4.6% compared to 2025, with growth expected to reach around 6.5% for 2027-2028. This projection aligns with expectations of a moderate increase in consumers' demand, particularly for imported luxury goods, which constitute a major revenue source for the general department; meanwhile, tax expenditure related to special programs of the RGC, as well as tax exemption under the Investment Law, is expected to gradually increase. However, the actual revenue performance may fluctuate depending on the import volume of main goods such as vehicles, all types of fuel, construction materials, and mixed goods.

The non-tax revenues are projected to increase by 9.5% in 2026 and are expected to achieve an average growth rate of 11.2% over 2027-2028. Over the medium term, these revenues are anticipated to be bolstered by ongoing efforts to enhance revenue mobilization from potential sources. Additionally, revenues from royalties from mineral resources, the postal and telecommunications sector, and tourism-related revenues are expected to maintain a steady growth trajectory.

Table 7: Medium-term Revenue Forecasting from 2026-2028

	Annual Growth			% of GDP		
	2026p.	2027p.	2028p.	2026p.	2027p.	2028p.
Total Revenue	**5.5%**	**6.8%**	**7.8%**	**14.63%**	**14.48%**	**14.43%**
Current Revenue	**5.9%**	**7.0%**	**8.0%**	**14.13%**	**14.01%**	**13.98%**
Tax Revenue	**5.4%**	**6.4%**	**7.5%**	**12.17%**	**12.00%**	**11.91%**
The General Department of Taxation	6.0%	6.7%	7.8%	6.93%	6.85%	6.82%
o/w Sub-national	*3.5%*	*7.0%*	*8.1%*	*0.90%*	*0.89%*	*0.89%*
The General Department of Customs and Excise	4.6%	5.9%	7.0%	5.24%	5.15%	5.09%
Non-tax Revenue	**9.5%**	**10.9%**	**11.5%**	**1.95%**	**2.01%**	**2.07%**
Sub national	*3.3%*	*3.9%*	*3.7%*	*0.14%*	*0.13%*	*0.13%*
Other Revenue	**-6.7%**	**1.1%**	**1.4%**	**0.51%**	**0.48%**	**0.45%**

Source: MEF

To achieve the projected outcomes and address revenue collection challenges while fostering sustainable economic growth, **the Fiscal Framework 2026-2028** outlines the following key measures for enhancing additional revenue sources:

GDT Measures:

- Enhance the efficiency and mechanisms for tax investigations through the implementation of the Manual on the Investigation of Tax Crimes and the Standard Operating Procedures (SOP) for Tax Crime Investigation aims to ensure transparency, fairness, and public trust while also strengthening the taxpayer feedback mechanism to guarantee confidentiality, privacy, high confidence, and responsiveness;
- Encourage voluntary tax registration, particularly among small and medium-sized enterprises (SMEs);
- Continue research and development of information systems related to personal income tax, in preparation for its full implementation;
- Pilot the **E-invoicing System** through: 1). engaging with the private sector to establish an e-invoicing framework that enables timely reporting and transaction validation, and 2). Developing legal and regulatory documents, including comprehensive guidance to facilitate the pilot implementation;
- Implement tax-related measures to support the formalization of the informal economy, encouraging businesses to transition into the formal system while maintaining them as an additional revenue base;
- Enhance the VAT refund system by ensuring greater efficiency in processing input VAT claims, reducing time delays, and preventing excessive VAT credit accumulation over the long term;
- Expand the scope of the Double Taxation Agreement (DTA) through continued negotiations, fostering international tax cooperation and reducing tax burdens on cross-border transactions;
- Strengthen tax revenue collection, particularly VAT on digital goods and services, ensuring proper taxation of electronically traded products and services;
- Assess the feasibility of a self-service tax system by providing taxpayers with a user-friendly platform to understand their tax obligations, track tax debts, monitor audit statuses, and access other relevant tax-related information;
- Conduct taxpayer satisfaction surveys regularly, utilizing feedback to enhance the quality of taxpayer services;

- Modernize tax administration through digital integration, improving core tax functions such as E-registration, E-filing, and E-payment, while also optimizing tax audits by reducing duplication and multiple audits through the implementation of the SOP on Auditing; and
- Strengthen tax debt management by minimizing outstanding tax debt and preventing future debt accumulation.

GDCE Measures:

- Monitor and prepare responsive measures to address the introduction of Reciprocal Tariffs by trading partners;
- Implement the 14 key reform measures in the trade facilitation sector under the GDCE's jurisdiction, as endorsed in "the 19th Government-Private Sector Forum";
- Enhance the efficiency of preferential tax rate management within the framework of free trade agreements, while improving the implementation of tax incentives across various sectors, particularly for qualified investment projects (QIPs);
- Strengthen compliance mechanisms for e-commerce regulation and maximize the use of electronic payment functions (E-Payment) to facilitate transactions;
- Refine tax policies for priority sectors by ensuring the effective implementation of tax incentives in line with new laws and regulations;
- Expand automation in customs operations by simplifying procedures through the use of electronic documents, reducing paper-based transactions, and incorporating Artificial Intelligence (AI);
- Strengthen the **Best Trader Mechanism** by enhancing incentive systems, increasing public awareness of its benefits, and promoting the continued implementation of the **Authorized Economic Operator Program** (AEO);
- Expand post-clearance audit measures, with an emphasis on combatting intellectual property rights infringements;
- Improve scanner efficiency by conducting feasibility studies on installing additional scanners at key ports, utilizing state funds to enhance compliance enforcement while maintaining trade facilitation;
- Implement pre-arrival customs formalities via electronic systems fully, optimizing customs risk management, reducing border crossing times, and lowering transaction costs; and
- Strengthen public-private partnership mechanisms by fostering collaboration to address issues and ensure smoother trade operations.

■ Non-tax Measures:

- Integrate all non-tax revenue transactions at the national administration of the ministries-institutions, and sub-national administrations into the NRMIS system by ensuring data synchronization with FMIS, SARMIS, and other key platforms;
- Accelerate the digitalization of revenue collection processes by enabling ministries and institutions to conduct routine operations efficiently using information technology systems for managing revenues from the state-owned property;
- Develop targeted action plans by ministries and institutions responsible for non-tax revenue collection, focusing on maximizing mobilization efforts, particularly for major revenue sources, and ensuring timely contributions to the government's budget, in alignment with the **Revenue Mobilization Strategy of the Royal Government of the 7th Legislature of the National Assembly**;
- Expand the full adoption of e-Payment systems by ensuring harmonization and ease of payment for improved transaction efficiency;
- Review and strengthen compliance measures for companies holding economic-concessional land and those companies engaged in the research and exploitation of mineral, gas, and petroleum resources, ensuring adherence to contractual agreements and implementing appropriate actions in cases of non-compliance;
- Enhance revenue collection and reporting mechanisms for public enterprises by ensuring improved financial oversight and accountability;
- Strengthen the revenue collection framework for carbon credits that aligns with economic valuation standards for optimal efficiency;
- Improve audit effectiveness to ensure accurate fulfillment of casino gaming revenue obligations, closely monitoring operations that remit revenue disproportionately to their business scale, while enforcing outstanding debts; and
- Enhance the management and collection of mandatory revenues from all forms of legal gaming activities by ensuring full compliance and maximizing revenue to its optimal level.

B. Public Expenditure Framework

The public Expenditure for 2026-2028 is planned in alignment with the above-stated policy stance, based on the basis balance of revenue and expenditure, and without relying on the government's savings. In this regard, the medium-term public expenditure is designed to be both conservative and highly proactive, based on the principles of strict adherence to budget discipline and enhanced budget efficiency through continued efforts to improve budget allocation to be more targeted and responsive to actual needs. This Medium-Term Public Expenditure Framework continues to prioritize spending, focusing primarily on maintaining socio-economic stability, continuing to implement social protection policies, human capital development, institutional capacity building, public administration reform, structural reform, and implementation of key priority policies. The objectives are to enhance competitiveness, increase productivity, and intensify economic diversification, with the aim of building a strong foundation for sustainable growth, job creation, and investment, particularly in high-quality and resilient infrastructure, to support social and economic development, as well as to facilitate economic recovery and growth. As revenue has not yet improved as anticipated, particularly due to the impact of trade wars on overall economic activity and the need for interventions, the RGC has decided to postpone the implementation of the **"Fiscal Reserve Fund"** in 2026 and begin to allocate the fiscal reserve fund from 2027 at the rate of 2% of the national-level current revenue outturn from the year N-2 to rebuild the fiscal buffer.

For 2026, the total expenditure is planned at 16.83% of GDP, dropping by approximately -1.7% compared to the 2025 Budget Law. For 2027-2028, the total expenditure is planned to increase on average at around 7.8% annually, reaching approximately 16.74% of GDP by 2028.

The current expenditure is planned at 12.05% of GDP in 2026, which is an increase of approximately 2.5% compared to the 2025 Budget Law. For 2027-2028, the current expenditure is planned to grow on average by about 5.5% per year, which will be around 11.47% of GDP by 2028.

The wage spending is planned to increase by 2.4% in 2026 compared to the 2025 Budget Law for annual promotions and grades, and allocating budget for incentive spending to support performance in public administration in order to increase productivity and enhance public services efficiency. For 2027-2028, the wage spending is planned to grow at an average rate of 4.2%. Meanwhile, **non-wage spending is planned to increase by 2.6% in 2026 compared to the 2025 Budget Law, and to grow at an average rate of 6.5% for 2027-2028** in line with the spirit of strengthening budget allocation efficiency through efforts to ensure the budget allocation is accurate and well-targeted, particularly for the social sector, while limiting the unnecessary and low-priority spendings, while maintaining the operation of ministries and institutions, and improving the effectiveness of implementing social protection policies aimed at promoting equity and harmony in society. **In fact, the RGC has also prepared a budget envelope in the unallocated expenditure for implementing intervention programs aimed at maintaining the stability of people's livelihoods and promoting social equity.**

The capital expenditure is planned at 4.78% of GDP in 2026 with a negative growth rate of -10.9% compared to the 2025 Budget Law. This negative growth is due to a decline in budget support from external financing and the loss of preferential terms from traditional sources of financing in the form of grants and concessional loans after graduating from low-income country status. However, the capital expenditure in 2026 will continue to prioritize in key public investment projects in line with the RGC's development goals and within feasible financing capacity. Meanwhile, public investment expenditure by domestic financing is maintained at the same level as in the 2025 Budget Law. **For 2027-2028, the capital expenditure is planned to recover at an average rate of 13.7% per annum, reaching approximately 5.27% of GDP by 2028.** This growth takes into account the necessary spendings for development and in response to the needs of the people, maintaining economic growth stability, enhancing competitiveness, and improving the business environment. The RGC will place high priority on infrastructure investments, particularly by continuing to invest in high-quality physical infrastructures, as well as increasing both the quantity and quality of investments in green and digital infrastructures, in order to build the foundation for digital transformation and continue to repair, restore, and improve the essential infrastructure.

Overall, the total national expenditure in 2026 is planned at 15.79% of GDP, representing a decrease of approximately -1.1% compared to the 2025 Budget Law. For 2027-2028, the total national expenditure is projected to grow on average at 7.9% per year, reaching around 15.73% of GDP by 2028. The total national expenditure, including the current expenditure and capital expenditure, for 2026-2028, is planned to be allocated to the following sectors:

The general administration sector expenditure is planned to be on average around 1.53% of GDP for the medium-term (2026-2028), equivalent to an average annual growth rate of 5.3% to continue strengthening the international cooperation and economic diplomacy, continuing to support the implementation of the national public administration reform program, attracting and managing private investment and enhancing partnerships in development, modernization and automation of the tax administration system, modernization of public expenditure and public financial system, building and developing digital business and economy, as well as the continued monitoring and evaluation on the **"Pentagonal Strategy-Phase I"**.

The national defense, security and public order sector expenditure is planned to be on average around 2.61% of GDP for the medium-term (2026-2028), equivalent to an average annual growth rate of 3.6% to continue supporting the implementation of national sovereignty, public order security, strengthening the implementation of "Safe Village-Commune-Sangkat Policy", modernization of border management and control systems, equip knowledge and skills to national police, paying attention to the livelihoods and welfare of armed forces, and improving quality and efficiency of the judicial system.

The social sector expenditure is planned to be on average around 4.95% of GDP for the medium-term (2026-2028), equivalent to an average annual growth rate of 6.1% which is still considered the first priority sector, aiming to maintain the stability of people's livelihoods and promote social equity, continue to improve the quality of education and support the strengthening and expansion of access to education and skills development to meet the demand of the labor market, enhance the quality of healthcare services and expand access to healthcare service towards Universal Health Coverage (UHC) in Cambodia, promote the implementation of national social protection policy, continue to provide social security, promote gender equality, and further support other priority policies on social, religious, cultural, and environmental issues.

The economic sector expenditure is planned to be on average around 3.71% of GDP for the medium-term (2026-2028), equivalent to an average annual growth rate of 7.2%, focusing primarily on enhancing productivity in line with market standards and requirements, continuing to deploy agricultural technical officers to all communes and sangkats nationwide to promote agricultural productivity and organize agricultural association in rural areas, supporting the development of Small and Medium Enterprises (SMEs), and implementing **the National Strategy for Informal Economy Development 2023-2028, the National Policy on Science, Technology, and Innovation 2020-2030, the Cambodia Digital Economy and Society Policy Framework 2021-2035, the Cambodia Digital Government Policy 2022-2035,** and **the Agricultural Development Policy 2021-2030** etc.

Other expenditure is planned to be on average around 2.99% of GDP for the medium-term (2026-2028), equivalent to an average annual growth rate of 1.8%, which is an appropriate and sufficient size to provide flexibility for the Royal Government to meet the targeted expenditures and planned and unplanned expenditures, aiming to promptly respond to any expenditure needs of the Royal Government and ministries-institutions in solving socio-economic issues, and implementing priority policies and key measures, providing subsidies to sub-national administrations, allocating budget for national and international events, and other urgent tasks such as natural disasters and food reserves. In particular, at the execution stage, the planned expenditure will be allocated to the above four main sectors, in accordance with each expenditure purpose.

The total sub-national expenditure in 2026 is planned to be at 1.80% of GDP, including subsidies to sub-national administration amounting to 0.77% of GDP. For 2027-2028, the total sub-national expenditure is planned to grow on average by approximately 6.4% per year, reaching around 1.75% of GDP by 2028. Overall, the sub-national budget package for 2026-2028 is planned to support the development and improvement of public service delivery at the local level as well as the provision of maternity leave allowances to female council members for the three levels of sub-national administrative councils, and the continued strengthening of administrative, technical, and financial management capacities to ensure the effective implementation of the transfer of authorities, responsibilities, and resources from the national level through the implementation of **the National Program for Sub-National Democratic Development Phase II, 2021-2030**.

In order to achieve the goals of maintaining social stability and economic recovery, the RGC must strengthen budget efficiency, both in terms of allocation and operation, based on the principles of budget discipline with high caution and responsiveness to follow direction of the RGC's policies and reform programs through key measures in expenditure execution for 2026-2028, as follows:

- Continue strengthening and expanding the implementation of incentive systems for qualified officials to enhance the capacity of public administration, performance, productivity, and the efficiency of public service, as well as examining the possibility of a salary increment based on the inflation rate, with the goal of maintaining the living standards of officials at all levels;
- Set the principle for recruiting new government officials for both civil servants and the armed forces, in proportion to the number of retired civil servants, except for the prioritized ministries;
- Continue improving the education system and vocational and technical training at all levels to be in line with labour market demands, digital transformation, and supporting high value-added production;
- Continue strengthening the healthcare system toward Universal Health Coverage (UHC) in Cambodia, and further developing a comprehensive social protection system to build resilience and promote social well-being;
- Continue allocating resources to key sectors that will ensure resilience, inclusiveness, and sustainability by prioritizing the public administration reform, structural reform, human capital development, and building physical, green, and digital infrastructures;
- Continue promoting economic diversification and growth through the development of sectors that serve as new sources of growth and continue to mobilize resources from all sources to their full potential to enhance productivity, competitiveness, and the implementation of financial mechanisms and products to support high value-added investments;
- Allocate budget in accordance with revenue capacity derived from domestic revenue by striving not to use the government's savings except in the most necessary cases to ensure fiscal sustainability and below threshold budget balance by prioritizing

expenditure and strengthening budget efficiency at both allocation and operational levels;

- Strengthen the procedures for managing, planning, and implementing public investment projects and maintenance and repair of public infrastructure;
- Build and develop infrastructure along the border, especially the border belt road, and develop the northeastern region, which has economic potential with a focus on the agro-industrial sector;
- Improve the data management system of the public investment project, which serves as the basis for project planning, evaluation, selection, and cost comparison;
- Examine and evaluate risks thoroughly in the implementation of each public investment project in order to be able to manage potential risks and increase the efficiency of budget spending;
- Strengthen monitoring and evaluation of performance budgeting to be more thorough on costs, quantity, and quality to further enhance the efficiency of budget allocation and improve the quality of identifying key performance indicators;
- Continue to maintain medium- and long-term debt sustainability and keep debt distress at low risk by setting a ceiling on annual loans and state guarantees, identifying key debt indicators, setting targets for financing use, and diversifying financing sources; and
- Continue strengthening public debt management through the effective, efficient, transparent, and accountable implementation of the Public Debt Management Strategy 2024-2028 to ensure fiscal sustainability with a focus on investment in priority sectors, particularly in the areas of increasing productivity and value-add in the economy, promoting connectivity, enhancing competitiveness and diversifying the economy.

C. Budget Deficit and Financing

The overall medium-term budget deficit is expected to narrow from the 2025 Budget Law, reflecting the continued implementation of the **Gradual Fiscal Consolidation Stance** and adhering to the fiscal rules set out to maintain fiscal stability and public debt sustainability in the future. **In this regard, the budget deficit in 2026 is expected to be at -2.19% of GDP, and for 2027-2028 is expected to be on average around -2.21% of GDP, which is lower than the previous four years (2021-2024).** Meanwhile, the RGC could build the fiscal reserve fund with a total of approximately 1,127 billion riels for 2027-2028. Overall, financing to support the budget deficit in the medium-term will continue from three main sources, including: **1).** Direct external financing for public investment projects; **2).** Budget support financed by development partners; and **3).** Government bond issuance.

Table 8: Summary Table of the MTFF for 2026-2028

% of GDP	2025BL	2025Rev.	2026p.	2027p.	2028p.
Total revenue	**15.31%**	**14.91%**	**14.63%**	**14.48%**	**14.43%**
Current revenue	14.72%	14.32%	14.13%	14.01%	13.98%
Total expenditure	**18.39%**	**18.39%**	**16.83%**	**16.57%**	**16.74%**
Current expenditure	12.62%	12.62%	12.05%	11.84%	11.47%
Capital expenditure	5.76%	5.76%	4.78%	4.73%	5.27%
Current surplus	**2.10%**	**1.70%**	**2.08%**	**2.16%**	**2.51%**
Budget Balance	**-3.08%**	**-3.48%**	**-2.19%**	**-2.09%**	**-2.32%**
Financing needs	***4.25%***	***4.66%***	***3.60%***	***3.76%***	***3.88%***
Overall deficit	3.08%	3.48%	2.19%	2.09%	2.32%
Debt amortization	1.18%	1.18%	1.20%	1.25%	1.14%
VAT Refund	0.00%	0.00%	0.20%	0.42%	0.42%
Financing sources	***4.25%***	***4.66%***	***3.60%***	***3.76%***	***3.88%***
External financing	3.06%	3.06%	2.95%	2.83%	3.04%
Budget support	0.96%	0.96%	0.22%	0.24%	0.16%
Government bond issuance	0.24%	0.24%	0.23%	0.28%	0.26%
Government saving	0.00%	0.40%	0.00%	0.00%	0.00%
VAT Refund	0.00%	0.00%	0.20%	0.42%	0.42%

Source: MEF

D. Outcomes of the Medium-Term Fiscal Framework Compared to Fiscal Rules

Overall, **the Medium-Term Fiscal Framework for 2026-2028** has been formulated in adherence to the fiscal rules set out. In fact, **the Present Value of Cambodia's total public debt for 2026-2028** is projected to be, on average, at 19.41% of GDP, and in **Face Value** at an average of 27.77% of GDP; meanwhile, the other four indicators of fiscal anchor also remain below the set threshold. In addition, the budget deficit in 2025 is also estimated to be below the set operational rules.

Table 9: Forecasting Indicators of Fiscal Rules for 2025-2028

Indicators	Threshold	2025e.	2026p.	2027p.	2028p.
1. Fiscal Anchor					
PV of total PPG debt-to-GDP	**55%**	18.79%	19.02%	19.46%	19.74%
PV of PPG external debt-to-GDP	**40%**	18.40%	18.47%	18.89%	19.09%
PV of PPG external debt-to-exports	**180%**	26.41%	25.53%	25.00%	24.08%
PPG external debt service-to-exports	**15%**	1.87%	1.98%	1.88%	1.76%
PPG external debt service-to-revenues	**18%**	8.75%	9.82%	9.85%	9.73%
Face Value of total PPG debt-to-GDP	**40%**	26.59%	27.19%	27.91%	28.22%
2. Operational Rules					
Total budget deficit	**-5%**	-3.48%	-2.19%	-2.09%	-2.32%

Source: MEF

5. Fiscal Risks

The fiscal risks refer to any events or impacts that result in lower-than-expected revenue collection and/or exceed the envelope of the total planned expenditure, which in turn, widen the budget deficit. Fiscal risk evaluation comprises risk basis analysis, impact estimation, as well as preparation and implementation of various mechanisms to prevent, mitigate, and minimize the impacts that may arise from those risks.

Table 10: Summary of Potential Impact and Emergence Likelihood of Fiscal Risks

Potential Fiscal Impact		Remote	Possible	Probable
	High		• Risks from Financial Sector	
	Medium		• Framework Reliability	• Macroeconomic Risks
	Low	• Risks from Public Corporations and Public Investment • Public Private Partnerships (Government Guarantees)	• Risk of Government Debt	
		Likelihood		

A. Macroeconomic Risks

Macroeconomic risks refer to particular event that causes negative effects directly and indirectly on national economic growth. Among which, most of the macroeconomic risks' source exists from external factors which produce negative effects on Cambodia's economy, causing changes in projection as well as macroeconomic framework overall, and effects on Cambodia's economy are assessed at the medium level. Such risks have a high possibility to occur and are caused by 5 main factors, including: (1). The stronger rise of protectionism causing higher tariffs than expected and/or undesired result from negotiations between Cambodia and US; (2). The high increase in international commodities prices is causing rising inflation pressure; (3). The tightening global monetary policy responding to inflation pressure; (4). Slowdown in global economic growth and China's growth due to the effects of protectionism; and (5). The rising severity of climate change and natural disasters.

Overall, the rise of protectionist policies, especially through raising reciprocal tariffs, has been putting additional pressure on the trade situation and global economic recovery through the increasing heat in the intensification of regional and global geo-economics. The effects of the policies would burden the global trade and supply chain, which could likely lead to the rise of inflation pressure. As a result, the loosening monetary policy would slow down the pace or could start returning to tightening in case of rising inflation pressure. In this regard, global economic growth would be affected by both the effects of protectionist policies and tightening global monetary policies. Meanwhile, climate change and natural disaster events, including floods, droughts, and other disasters, would prevent economic activities and damage public infrastructures, which would burden public finances.

Box 1: Sensitivity Analysis of Reciprocal Tariff Policy Implementation

The implementation of the US's reciprocal tariff policy has caused a negative impact on the global and regional economic trends, including Cambodia, where no institution has yet been able to estimate the exact scale of the effect, as the situation continues to evolve rapidly. As previously noted, Cambodia's economic growth has been revised downward from 6.3%, projected before the introduction of the tariff policy, to 5.2% and 5% for 2025 and 2026, respectively. Although the macroeconomic policy outlook in this framework has factored in the effect of the tariff policy implementation on Cambodia's economy, the measurement of the actual extent remains a challenge due to the high degree of uncertainty surrounding the implementation, which may evolve in either a negative or positive direction quicker than expected. It should be re-emphasized that the effect and impact of the tariff policy on the economy will depend on several key factors, for instance: (1). The actual negotiation outcome between Cambodia and the US; (2). The tariff rates applied to other countries that are Cambodia's competitors; and (3). The availability to shift the production and trade chains.

The effect on Cambodia's economy could be greater than assumed if negotiations with the US fail to produce the expected results and the 49% tariff rate is applied after a 90-day delay; thus, it would severely affect Cambodia's exports to the US, with the impact in 2026 expected to be more pronounced than in 2025. **Under this pessimistic scenario, Cambodia's total exports could decline to 9.8% and 8.6%, while economic growth may diminish to 4.7% and 4.1% in 2025 and 2026, respectively.** For 2027 and 2028, the economic growth may settle at around 5.0% and 5.5%. Notably affected sectors may include: garments, non-garment manufacturing, transportation and storage, and wholesale and retail. Total exports (% of GDP) will see a slowdown due to the decline in exports to the US, including both garment and non-garment products. Simultaneously, total imports (% of GDP) are also expected to decrease with the drop in imports, particularly in raw material imports serving the manufacturing sector (both garment and non-garment).

The economic slowdown, particularly the decline in Cambodia's exports, will have a direct and indirect negative impact on revenue collection. In fact, direct impacts are expected to be minimal as the types of revenue directly affected—such as tax on payroll and other withholding taxes—are relatively small. In contrast, indirect impacts are expected to be more substantial, in which indirect tax revenues are projected to decrease due to reduced overall consumption, both in domestic economic activity and import demand, while revenue from other sectors will be indirectly affected—such as transportation and storage, financial and insurance activities, and real estate—are also expected to be affected due to pessimistic sentiments and sluggish economic activity. Additionally, the tax base may also shrink if Cambodia's economy suffers significant consequences from the tariff policy, making it difficult to achieve the projected medium-term revenue growth targets.

Based on this scenario, the current revenue growth is expected to slow down to 4.3% in 2025, equivalent to 96.0% of the 2025 Budget Law, a 1.3 percentage points of 2025 Budget Law lower than the baseline. For 2026, the current revenue is projected to grow only by 3.9%, or 99.7% of the 2025 Budget Law, a 3.3 percentage points of 2025 Budget Law lower than the baseline—putting increased pressure on the national budget. In this case, the RGC may need to introduce budget consolidation measures through expenditure constriction on approved spending that is not strictly necessary or can be deferred in 2025. Moreover, for the 2026 public expenditure package, the RGC will need to rationalize some spending against the above budget planning, including: (1). Keeping sectoral spending at the same level as the 2025 Budget Law; (2). Maintaining non-wage current spending in project implementation at the same level as the 2025 Budget Law; and (3). Requiring the use of approximately USD 60 million in government savings to cover the shortfall.

B. Public-Private Partnerships

A Public-Private Partnership (PPP) project refers to the development of public infrastructure projects and/or the provision of public services projects carried out under a PPP contractual framework between the public and private sectors. In such arrangements, the private partner is required to invest, assume a portion of the risks, and receive benefits based on performance and the conditions stipulated in the contract. Generally, PPP projects can create risks through fiscal commitment in two forms: **(1) Direct fiscal commitment,** which the Royal Government currently does not have; and **(2) Contingent liabilities**. In this sense, the payment claim on government guarantee or early termination payment can cause contingent liabilities and thus put pressure on fiscal stability. The liabilities may also emerge if the implementation of the contract is hindered by factors such as government actions, changes in law, and force majeure risks, especially political force majeure.

In Cambodia, PPP projects account for approximately 39% of GDP. Although PPP projects in Cambodia appear large relative to the size of the economy, the risks are assessed as low in potential impact and remote in likelihood, as most of them are revenue-generating projects, while some PPP projects only require the Royal Government to make availability payments on a regular basis. Nonetheless, in cases where the RGC cannot collect sufficient user fees for the payment, the obligated amount is manageable in size and has not yet posed any risks to fiscal stability.

Furthermore, the completed and ongoing PPP projects are not subject to any form of government guarantees, except for approximately 38 energy sector projects, where the Royal Government has provided payment guarantees in the event that Electricité du Cambodge (EDC) is unable to fulfill its payment obligations to private partners. However, based on EDC's past performance, the RGC has never had to make payments on behalf of EDC, and EDC continues to have sufficient financial capacity to meet its obligations.

Additionally, under the authority of the General Department of Public-Private Partnerships at the Ministry of Economy and Finance (MEF), any PPP projects that are approved after the enactment of the PPP Law are required to undergo a project feasibility study, which includes a comprehensive assessment of the project, including, financial aspects, the level of support provided by the RGC, as well as risk identification and risk mitigation mechanisms before proceeding under the PPP framework. Moreover, to alleviate the risks of contingent liabilities, the RGC has implemented several policy measures, including: (1). Implementation of contingency fund; (2). Setting a guarantee payment ceiling for new projects to 10% of the national budget; (3). Continuing the policy of not providing direct credit/loan guarantees to the private sector, (4). Mechanisms for project management should be adopted at the institutional level to prevent and mitigate potential impacts arising from the project; and 5). Regular monitoring and enforcement of relevant laws and mechanisms to assess and avoid the occurrence of this risk.

C. Risk of Government Debt

The government's debt risk likelihood is considered moderate, manifesting in the form of increased debt and expenditure that puts pressure on the national budget, which includes rising financing costs due to monetary policy tightening, among other factors. Additionally, Cambodia's preparation to graduate from the Least Developed Country (LDC) status will further hinder the country from benefiting from high concessional loans, while international financing and grant financing are thinning, which could lead to a widening fiscal deficit.

Nonetheless, the potential impact of the debt risk remains low and sustainable in the short and medium-term. In 2024 (estimated), the public debt stock is projected at approximately 19.3% of GDP and 19.2% of GDP on average for 2025–2027, which is significantly below the indicative threshold of 55% of GDP (in present value). At the same time, debt risk continues to receive close attention through the implementation of mechanisms for monitoring, oversight, and evaluation of project/program execution under the framework of international financing and budget support funds, especially the application of key principles and measures laid out by the RGC in the "**Public Debt Management Strategy 2024–2028**".

D. Risks from Public Corporations and Public Investment

Risk from public corporations may arise in the event of domestic and international economic and political uncertainty, which could affect the corporation's financial position and their ability to repay loans to the RGC. In this sense, state lending is to be reviewed and refined through amendment on Prakas over lending principles and procedures to public administrative institutions, public enterprises, joint ventures in which the RGC has minority share, and banking and financial institutions, in accordance with the actual needs, as well as study to develop debtor appraisal mechanism and strengthen regular monitoring of the debtor's financial and business situations. As a result of the evaluation, the risk from public corporation is assessed as remote in likelihood and low in potential impact due to most of the public corporations maintain financial, operational, and managerial autonomy, in which currently, none of the corporation is experiencing significant losses and their borrowing activities are under the supervision and management of the MEF; in other word, public corporations are not authorized to directly loan from development partners.

Similarly, the risk from public investment financed by the national budget may arise from asset damage or delays in project implementation. In Cambodia's context, public investment projects funded through Chapter 21 of the national budget (direct investment projects) are generally focused on repairing, rehabilitation, and upgrading the quality of infrastructure previously financed by development partners over the past two or three decades. Based on this ground, the risk from public investment is also assessed as remote in likelihood and low in potential impact. Nonetheless, in cases of natural disaster or any other force majeure events that cause damage to infrastructure in times of heightened fiscal pressure, the risk assessment could move from low/remote to medium/possible.

E. Risks from the Financial Sector

Risks from the financial sector refer to the occurrence of financial crises involving banks and non-bank financial institutions, which could result in both direct and indirect debt liabilities and increase expenditure. In the event of a crisis in the financial sector, the RGC will see a loss in national revenue and face a significant increase in expenditure as an effort to maintain socio-economic stability, especially providing support to distressed financial institutions, which could create intense pressure on fiscal stability. In this context, fluctuations in the financial sector can have a considerable impact on fiscal as well as macroeconomic stability, both directly and indirectly, through the spillover effect on the livelihoods of people and other sectors.

Over the medium term, the risks from the financial sector in Cambodia are assessed as possible in likelihood, reflected by the continued rise in non-performing loans. The financial sector is a critical area of focus and operates under the supervision of the National Bank of Cambodia, the country's monetary authority. The Bank plays a key role in regulating the banking system, maintaining monetary stability, and consistently formulating and implementing monetary policies with a high degree of effectiveness and prudence.

F. Fiscal Framework Reliability

The high uncertainty of the global economy and the rapid shifts in domestic demand trends continue to pose challenges to revenue forecasting and actual revenue collection performance. Simultaneously, the Royal Government has continued to implement a series of supporting policies, including tax rate reductions and tax incentives, which may result in actual revenue collection falling short of projections; hence, reducing the RGC's capacity to support planned public expenditures. In addition, limitations in data in terms of quality, scope, and timeliness, as well as the capacity of technical personnel, may also contribute to systemic gaps in the analysis and forecasting of macroeconomic and fiscal frameworks. Overall, this risk has a medium potential impact on fiscal stability and is assessed as possible in likelihood. To reduce both the impact and likelihood of this risk, the Royal Government will focus on several measures, including: (1). Continued proactive monitoring of changes in economic and social conditions; (2). Human resource development aiming to enhance the reliability of the fiscal framework preparation; and (3). Bolstering the role of the MEF as the central oversight body to facilitate the collection, control, and management of data while also mobilizing inputs from relevant stakeholders to strengthen the resilience of public financial management.

6. Conclusion

The "Medium-Term Fiscal Framework 2026-2028" or "MTFF 2026-2028" has been carefully formulated in compliance with the Law on Public Financial System and the Public Financial Management Reform Program 2004-2025, as well as **the Budget System Reform Strategy 2025-2028**. The **MTFF 2026-2028** consists of 3 objectives, including: (1). Promoting budget efficiency and transparency at allocative and operative levels to ensure public financial sustainability; (2). Strengthening socio-economic resilience with rapid responsive capability to future crises; (3). Responding to socio-economic development demands in order to drive the momentum of national development sustainably and inclusively, and to achieve Cambodia's long-term vision.

Based on recent outlooks, national economic growth in medium term (2026-2028) is projected to slightly slow down to 5.4% on average with a manageable inflation rate level of 2.5% and a maintained stable exchange rate of 4,060 Riel/USD. Even though Cambodia has enjoyed peace and stable politics in country, Cambodia's economic outlook has been surrounded by high risks and uncertainties, especially external factors taking clearer shapes, including high uncertainties and challenges of geo-politics and geo-economics intensification, along with rising severity of climate change and natural disaster impacts, which are not under Cambodia's control.

In this context, the fiscal policy for the medium-term has been prepared by taking into account the continued implementation of **"Gradual Fiscal Consolidation Stance"** to ensure fiscal sustainability in the medium-term by focusing mainly on continued strengthening budget effectiveness at allocative and operative levels, and by guiding resources to targeted priority expenses as well as efforts in strengthening improvement in revenue collection with consideration of continued maintaining momentum and pace of economic activities, and avoidance of economic distortion at the greatest extent. **In this regard, the current revenue collection is expected to grow, on average, of 7.0% in 2026-2028, with a growth rate of 5.9% in 2026, equivalent to 14.13% of GDP. The total public expenditure is expected to grow, on average, at 4.6% per annum, with the current expenditure growth of 2.5% in 2026, equivalent to 12.05% of GDP. As a result, the budget deficit will slow down to around -2.20% of GDP on average for 2026-2028, which is around -2.19% of GDP in 2026.** Consequently, Cambodia's public financial situation is assessed to continue a strong and sustainable stance following the issuance of public financial measures. This framework will also become the foundation for preparing the **"Medium-Term Budget Framework 2026-2028"** and the **"Draft of Financial Management Law for 2026"**.

In conclusion, amid all of these highly uncertain outlooks, the RGC will continue to expand and strengthen its internal foundation to become more competitive to absorb benefits from new opportunities and to continue to build socio-economic resilience in order to have adequate capability in avoiding imminent future risks. The RGC will continue monitoring the situation's development and reassess the macroeconomic and public financial outlooks in mid-year to serve as a foundation for preparing the **Draft of Financial Management Law 2026.** In an improved development situation, the RGC will continue adopting this framework. In case of a worse situation, the RGC will review the possibility of revising the framework based on the actual situation, to ensure confidence in the budget and to reflect reality. Meanwhile, the RGC will continue to be ready in cautious, active, and flexible manners in preparing and issuing policies and intervention measures for response and adaptation to circumstances on time with higher effectiveness.

Appendixes

Appendix A: Macroeconomic Framework 2022-2028

Indicator	2022	2023	2024e	2025e	2026p	2027p	2028p
GDP current price (billion riels)	**164,059**	**177,351**	**191,862**	**206,396**	**221,669**	**239,207**	**258,930**
GDP per capita (dollar)	2,383	2,525	2,719	2,896	3,071	3,272	3,497
Real GDP growth (%)	**5.1%**	**5.0%**	**6.0%**	**5.2%**	**5.0%**	**5.5%**	**5.8%**
Deflator (%)	3.5%	3.0%	2.0%	2.2%	2.3%	2.3%	2.3%
Inflation (%)	5.3%	2.1%	0.8%	3.0%	2.1%	2.5%	2.5%
Exchange rate (Riels/dollar)	4,087	4,110	4,070	4,054	4,052	4,050	4,050
Export (% GDP)	57.7%	54.6%	56.8%	59.0%	61.2%	63.9%	67.1%
Import (% GDP)	-79.7%	-61.5%	-66.3%	-69.8%	-72.6%	-76.7%	-81.2%
Trade balance (% GDP)	-22.0%	-6.9%	-9.5%	-10.8%	-11.4%	-12.9%	-14.1%
Current account balance incl. Transfer (% GDP)	-18.9%	1.3%	0.5%	-1.0%	-1.6%	-2.8%	-3.9%
International reserves (million dollars)	17,805	19,998	22,511	24,450	26,336	28,299	30,125
International reserves (months of Imports)	6.1	8.2	9.6	7.6	7.3	6.9	6.4

Source: NBC (External sector 2024) and MEF's Projection

Appendix B: Medium-term Fiscal Framework 2024-2028

B1. In billion riels

Indicators	2024temp.	2025BL	2025rev.	2026p.	2027p.	2028p.
Total revenue	**29,151**	**31,598**	**30,764**	**32,441**	**34,642**	**37,353**
Total current revenue	**27,983**	**30,389**	**29,555**	**31,313**	**33,501**	**36,196**
General Department of Custom and Excise	10,448	10,146	11,108	11,622	12,311	13,173
General Department of Taxation	14,023	16,272	14,493	15,360	16,386	17,664
Non-Tax Revenues	3,511	3,971	3,954	4,331	4,804	5,358
Other revenues	**1,168**	**1,209**	**1,209**	**1,128**	**1,141**	**1,157**
Total expenditure	**34,701**	**37,950**	**37,950**	**37,305**	**39,647**	**43,356**
Total current expenditure	**24,068**	**26,054**	**26,054**	**26,702**	**28,325**	**29,699**
Wage	11,015	11,514	11,514	11,788	12,283	12,799
Non-wage	13,052	14,540	14,540	14,914	16,042	16,900
Total capital expenditure	**10,633**	**11,896**	**11,896**	**10,603**	**11,321**	**13,657**
Domestic financing	4,425	5,025	5,025	3,553	4,090	5,369
External financing	6,208	6,871	6,871	7,050	7,231	8,289
Current surplus	**3,915**	**4,335**	**3,500**	**4,611**	**5,176**	**6,497**
Overall deficit/surplus	**-5,550**	**-6,352**	**-7,187**	**-4,864**	**-5,005**	**-6,004**

B2. Growth Rate

Indicators	2024temp. /2023	2025BL /2024 temp.	2025rev. /2024 temp.	2026p. /2025p.	2027p.	2028p.
Total revenue	**0.81%**	**8.40%**	**5.53%**	**5.45%**	**6.78%**	**7.82%**
Total current revenue	**3.50%**	**8.60%**	**5.62%**	**5.95%**	**6.99%**	**8.04%**
General Department of Custom and Excise	13.30%	-2.89%	6.32%	4.62%	5.93%	7.00%
General Department of Taxation	-3.95%	16.04%	3.35%	5.98%	6.68%	7.80%
Non-Tax Revenues	9.26%	13.08%	12.59%	9.55%	10.93%	11.53%
Other revenues	**-85.66%**	**3.51%**	**3.51%**	**-6.68%**	**1.12%**	**1.38%**
Total expenditure	**-7.23%**	**9.36%**	**9.36%**	**-0.92%**	**6.28%**	**9.36%**
Total current expenditure	**4.40%**	**8.25%**	**8.25%**	**3.68%**	**6.08%**	**4.85%**
Wage	4.14%	4.53%	4.53%	2.38%	4.20%	4.20%
Non-wage	4.62%	11.40%	11.40%	4.72%	7.56%	5.35%
Total capital expenditure	**-25.92%**	**11.88%**	**11.88%**	**-10.87%**	**6.78%**	**20.63%**
Domestic financing	-35.21%	13.55%	13.55%	-29.29%	15.11%	31.25%
External financing	5.83%	10.69%	10.69%	2.59%	2.57%	14.63%

B3. Ratio to GDP

Indicators	2024temp.	2025BL	2025rev.	2026p.	2027p.	2028p.
Total revenue	**15.19%**	**15.31%**	**14.91%**	**14.63%**	**14.48%**	**14.43%**
Total current revenue	**14.58%**	**14.72%**	**14.32%**	**14.13%**	**14.01%**	**13.98%**
General Department of Custom and Excise	5.45%	4.92%	5.38%	5.24%	5.15%	5.09%
General Department of Taxation	7.31%	7.88%	7.02%	6.93%	6.85%	6.82%
Non-Tax Revenues	1.83%	1.92%	1.92%	1.95%	2.01%	2.07%
Other revenues	**0.61%**	**0.59%**	**0.59%**	**0.51%**	**0.48%**	**0.45%**
Total expenditure	**18.09%**	**18.39%**	**18.39%**	**16.83%**	**16.57%**	**16.74%**
Total current expenditure	**12.54%**	**12.62%**	**12.62%**	**12.05%**	**11.84%**	**11.47%**
Wage	5.74%	5.58%	5.58%	5.32%	5.14%	4.94%
Non-wage	6.80%	7.04%	7.04%	6.73%	6.71%	6.53%
Total capital expenditure	**5.54%**	**5.76%**	**5.76%**	**4.78%**	**4.73%**	**5.27%**
Domestic financing	2.31%	2.43%	2.43%	1.60%	1.71%	2.07%
External financing	3.24%	3.33%	3.33%	3.18%	3.02%	3.20%
Current surplus	**2.04%**	**2.10%**	**1.70%**	**2.08%**	**2.16%**	**2.51%**
Overall deficit/surplus	**-2.89%**	**-3.08%**	**-3.48%**	**-2.19%**	**-2.09%**	**-2.32%**

Appendix C: National-Level Budget Allocation by Sectors

C1. In billion riels

Indicators	2024BL	2025BL	2026p.	2027p.	2028p.
Total National-Level Expenditure	**34,497**	**35,398**	**35,007**	**37,198**	**40,724**
General administration	**3,173**	**3,453**	**3,390**	**3,793**	**4,017**
Current expenditure	2,987	3,240	3,172	3,553	3,740
Capital expenditure	186	213	218	240	277
Defense, security and public order	**5,488**	**5,641**	**5,788**	**5,995**	**6,271**
Current expenditure	5,454	5,625	5,772	5,979	6,249
Capital expenditure	34	16	16	16	22
Social sector	**9,796**	**10,616**	**10,976**	**11,877**	**12,669**
Current expenditure	9,211	9,433	9,766	10,587	11,020
Capital expenditure	585	1,183	1,210	1,290	1,649
Economic sector	**7,888**	**8,017**	**8,215**	**8,447**	**9,814**
Current expenditure	1,756	1,838	1,888	1,900	1,956
Capital expenditure	6,132	6,180	6,326	6,547	7,858
Other expenditure	**8,152**	**7,671**	**6,638**	**7,087**	**7,952**
Current expenditure	4,398	3,767	4,189	4,347	4,627
Capital expenditure	3,754	3,905	2,449	2,739	3,325

C2. Growth Rate

Indicators	2024BL	2025BL	2026p.	2027p.	2028p.
Total National-Level Expenditure	**-5.8%**	**2.6%**	**-1.1%**	**6.3%**	**9.5%**
General administration	**3.0%**	**8.8%**	**-1.8%**	**11.9%**	**5.9%**
Current expenditure	5.1%	8.5%	-2.1%	12.0%	5.3%
Capital expenditure	-21.9%	14.2%	2.5%	9.8%	15.6%
Defense, security and public order	**5.2%**	**2.8%**	**2.6%**	**3.6%**	**4.6%**
Current expenditure	6.9%	3.1%	2.6%	3.6%	4.5%
Capital expenditure	-69.8%	-53.4%	0.0%	0.0%	37.5%
Social sector	**9.0%**	**8.4%**	**3.4%**	**8.2%**	**6.7%**
Current expenditure	16.2%	2.4%	3.5%	8.4%	4.1%
Capital expenditure	-45.0%	102.4%	2.3%	6.6%	27.8%
Economic sector	**12.0%**	**1.6%**	**2.5%**	**2.8%**	**16.2%**
Current expenditure	11.0%	4.6%	2.8%	0.6%	3.0%
Capital expenditure	12.2%	0.8%	2.4%	3.5%	20.0%
Other expenditure	**-33.6%**	**-5.9%**	**-13.5%**	**6.8%**	**12.2%**
Current expenditure	29.8%	-14.4%	11.2%	3.8%	6.4%
Capital expenditure	-57.7%	4.0%	-37.3%	11.9%	21.4%

C3. Ratio of GDP

Indicators	2024BL	2025BL	2026p.	2027p.	2028p.
Total National-Level Expenditure	**17.98%**	**17.15%**	**15.79%**	**15.55%**	**15.73%**
General administration	**1.65%**	**1.67%**	**1.53%**	**1.59%**	**1.55%**
Current expenditure	1.56%	1.57%	1.43%	1.49%	1.44%
Capital expenditure	0.10%	0.10%	0.10%	0.10%	0.11%
Defense, security and public order	**2.86%**	**2.73%**	**2.61%**	**2.51%**	**2.42%**
Current expenditure	2.84%	2.73%	2.60%	2.50%	2.41%
Capital expenditure	0.02%	0.01%	0.01%	0.01%	0.01%
Social sector	**5.11%**	**5.14%**	**4.95%**	**4.96%**	**4.89%**
Current expenditure	4.80%	4.57%	4.41%	4.43%	4.26%
Capital expenditure	0.30%	0.57%	0.55%	0.54%	0.64%
Economic sector	**4.11%**	**3.88%**	**3.71%**	**3.53%**	**3.79%**
Current expenditure	0.92%	0.89%	0.85%	0.79%	0.76%
Capital expenditure	3.20%	2.99%	2.85%	2.74%	3.03%
Other expenditure	**4.25%**	**3.72%**	**2.99%**	**2.96%**	**3.07%**
Current expenditure	2.29%	1.82%	1.89%	1.82%	1.79%
Capital expenditure	1.96%	1.89%	1.10%	1.15%	1.28%