Strong export growth and tourism recovery accelerated growth in 2022 and shrank the current account deficit. Inflation peaked in mid-2022 on surging prices for imported goods but decelerated in the second half of the year. Growth is projected to accelerate this year and next, supported by continued tourism recovery, but inflation will moderate. Cambodia needs to scale up green investment in strategic priority areas to unlock its long-term growth potential.

**Economic Performance**

**Growth accelerated on solid export and tourism recovery.** The economy grew by an estimated 5.2% in 2022, led by rising external demand for Cambodian goods and tourism services. Industrial output grew by an estimated 8.3% in 2022 (Figure 2.23.1). Exports of garments, footwear, and travel goods increased by 39.8% year on year in the first half of 2022, and exports of other manufactured goods grew by 38.0%. Exports slowed, however, in the second half as growth weakened in the advanced economies. Construction recovered more slowly than expected as demand from foreign buyers declined, dragging down investment in the construction business.

**After contracting in 2020 and 2021, services finally recovered.** Sector growth rebounded to an estimated 4.6% in 2022 on tourism recovery that beat expectations and revived demand for food and accommodation, and on growth in local trade, transport, and communications. With improved confidence in travel and the removal of mobility restrictions, international visitor arrivals rebounded from 0.2 million in 2021 to 2.3 million (Figure 2.23.2). Recovery in real estate, meanwhile, was softer than expected as construction lagged, as did sales of high-end properties, which go primarily to foreign buyers.

**Surging prices for agricultural inputs slowed sector growth.** Growth in agriculture decelerated from 1.2% in 2021 to an estimated 0.7% in 2022 because higher...
Economic recovery is forecast to continue despite weakened external demand. The economy is expected to grow by 5.5% in 2023 and 6.0% in 2024 on more robust tourism recovery (Table 2.23.1 and Figure 2.23.5). Growth in garments, footwear, and travel goods is projected to decelerate as demand weakens in the US and Europe. Yet industry continues to benefit from new trade agreements and policy reform that includes a new investment law to create a one-stop service organization for investors. Industrial output growth is expected to decelerate to 5.8% in 2023.

The government issued $17.5 million in sovereign bonds in 2022 to diversify its financing sources. Public external debt rose in nominal terms but shrank as a percentage of GDP, from $9.5 billion in 2021, equal to 35.2% of GDP, to $10.0 billion in 2022, equal to 33.3%.

The current account deficit narrowed significantly from 40.4% of GDP in 2021 to 25.3% in 2022. Merchandise exports expanded by 18.7%, led by garments, footwear, and travel goods and by other manufactures. Merchandise imports grew by 4.2% from a high base in 2021. Import growth was led by fuel, construction materials and equipment, and consumer goods. Tourism recovery reduced the service trade deficit. Gold imports declined by 24.6% but remained large. Foreign direct investment inflow marginally increased by 2.7% to $3,579 million. International reserves fell to $17.8 billion, or cover for 6.1 months of imports, on tightening global financial conditions and US dollar appreciation (Figure 2.23.4).

Economic recovery is forecast to continue despite weakened external demand. The economy is expected to grow by 5.5% in 2023 and 6.0% in 2024 on more robust tourism recovery (Table 2.23.1 and Figure 2.23.5). Growth in garments, footwear, and travel goods is projected to decelerate as demand weakens in the US and Europe. Yet industry continues to benefit from new trade agreements and policy reform that includes a new investment law to create a one-stop service organization for investors. Industrial output growth is expected to decelerate to 5.8% in 2023.
Growth accelerated in 2022 and is forecast to gather further strength in 2023 and 2024.

<table>
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<tr>
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<td>5.3</td>
<td>3.0</td>
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</tbody>
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GDP = gross domestic product.

Sources: Ministry of Economy and Finance; National Bank of Cambodia; National Institute of Statistics; Asian Development Bank estimates.

In tandem with global energy prices, inflation is projected to moderate this year to an average of 3.0%. It is seen rising in 2024 to 4.0% (Figure 2.23.6). Inflation stood at 3.0% year on year at the end of January 2023, affecting mainly prices for food, transportation, and housing materials. Monetary policy will continue to target price stability with the implicit goal of promoting greater use of the local currency and maintaining a stable exchange rate against the US dollar. Dollarization, as measured by the ratio of foreign currency deposits to the money supply (M2), remained high at 83.0% at the end of 2022.

The government is expected to pursue an expansionary fiscal policy to support growth. It will sustain its socioeconomic intervention packages to support recovery following the pandemic. Programs aim to prevent COVID-19 outbreaks and provide treatment but also offer skill training, cash for work, and cash transfers. Important spending priorities are the two regional sports events and the national elections. The fiscal budget for general government operations plans a deficit of $1.6 billion, equal to 5.0% of GDP in 2023, with revenue budgeted at 21.6% of GDP and expenditure at 26.6%. The planned deficit will be financed by $0.2 billion from government savings, $0.2 billion from sovereign bond issues, and $1.2 billion in borrowing from overseas. Cambodia remains at a low risk of debt distress, with public external debt projected to rise to a manageable 34.7% of GDP in 2023 and 34.5% in 2024. The planned $200 million...
million in sovereign bonds for issuance in 2023 will provide the government with an alternative financing source and more instruments for managing monetary policy, while offering more investment options to institutional investors.

**The current account deficit is expected to shrink further as tourism continues to recover and merchandise exports grow.** This assumes that imbalance caused by the gold trade continues to wane. Growth in merchandise exports is projected to slow to 7.0% in 2023, recovering to 9.5% in 2024. Tourism recovery, supported by the reopening of the PRC, is expected to turn the service trade deficit into a surplus. Merchandise imports are expected to fall by 1.5% in 2023 before growing by 6.5% in 2024. The current account deficit will be financed by the continued inflow of foreign direct investment and aid, which are expected to build up gross international reserves beyond $21.1 billion by the end of 2024, or cover for about 7.0 months of imports.

**Risks to the outlook tilt to the downside.** They include weaker growth in the US and Europe, high private debt, disappointing tourist arrivals from the PRC and foreign direct investment, soaring energy prices, and extreme weather.

**Policy Challenge—Scaling Up Green Investments to Unlock Growth Potential**

Cambodia is rendered highly vulnerable to climate change by geography, weak governance, and high dependence on climate-sensitive pursuits. It is also one of the countries least ready to improve its climate resilience, ranking 149th among 182 countries in the 2022 Notre Dame–Global Adaptation Index (Figure 2.23.7). With extensive floodplains, Cambodia is highly exposed to floods, scoring 9.5 out of 10 in the 2023 global risk index for humanitarian crises and disasters (Figure 2.23.8). Climate change is expected to increase the frequency and intensity of flooding and drought, raise average temperatures and sea levels, and worsen saline intrusion.

**Climate change can significantly hamper Cambodia’s potential long-term growth.** Cambodia aspires to become an upper-middle-income country by 2030 and a high-income country by 2050. Climate change could, however, hold down Cambodia’s GDP by about 10% by 2050, mainly from labor productivity lost to extreme weather events and rising temperatures. Worsened flood and drought frequency and severity is expected to hit agriculture, and rising sea levels and saline intrusion to impair Cambodia’s freshwater fisheries and degrade agricultural land. Tourism is also vulnerable to climate change, which can damage key infrastructure and tourism demand.
Cambodia must consider climate change while pursuing its economic growth mandate. While Cambodia is a low emitter of greenhouse gases, its emissions are rising because of deforestation, expanded rice cultivation, and rising energy demand from industry. Shrinking its carbon footprint would present Cambodia with new growth opportunities, given rising global demand for environmentally sustainable products and services. Transitioning to a net zero economy would also create higher-quality jobs and give Cambodia better access to global investors increasingly interested in green investment.

Scaling up green investment in priority sectors would help Cambodia unlock its long-term growth potential. The government is committed to pursuing green growth through its National Strategic Plan on Green Growth, 2013–2030 and its Long-Term Strategy for Carbon Neutrality by 2050. Cambodia has potential to scale up investment in renewable energy and energy efficiency using its abundant solar energy resources. Additionally, given the importance of agriculture to Cambodian food security and its potential for commercialization, investment in climate-smart agriculture and natural capital management should be prioritized. Finally, investment in climate-resilient infrastructure will be critical to promoting growth and ensuring long-term sustainability.