CAMBODIA

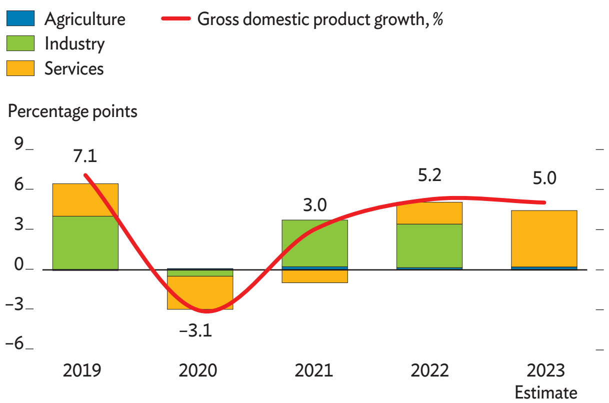
Tourism and non-garment manufacturing led economic growth in 2023. Falling imported fuel costs contributed to reduced inflationary pressures. Economic recovery is expected to continue this year and next, with continued tourism recovery and strong manufacturing growth. In contrast, agriculture, construction, and real estate are expected to grow moderately. Inflation should remain subdued amid stabilized global fuel prices. As Cambodia is poised to graduate out of the United Nations least-developed-country category in 2027, it is imperative to plan strategically for a smooth transition.

Economic Performance

Economic recovery continued amid mixed industrial performance. Real GDP grew but slightly slower from 5.2% in 2022 to an estimated 5.0% in 2023 led by a recovery in tourism and robust non-garment manufacturing. Industrial output contracted by an estimated 0.2% due to reduced international demand for garments, footwear, and travel goods (GFT) (Figure 2.23.1). Notwithstanding a 12.1% decline in GFT exports in 2023, exports of non-GFT manufactures, including vehicle parts, solar panels, and auto tires, surged by 28.4%. Construction had tepid growth, with a marginal 1.4% increase in construction material and equipment imports.

Figure 2.23.1 Supply-Side Contributions to Growth

Growth continued in 2023, led by tourism recovery and robust non-garment manufacturing.



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

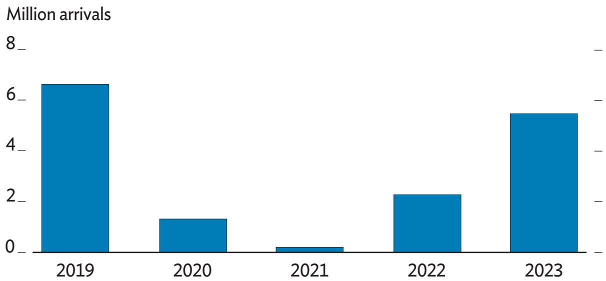
Services had robust growth, while agriculture expanded moderately. Services showed a robust recovery, growing by an estimated 12.0% in 2023. International tourist arrivals rose to 5.5 million in 2023 from 2.3 million in 2022, reaching 82.5% of the 2019 pre-pandemic levels (Figure 2.23.2). The strong recovery in tourism contributed significantly to food and accommodations, domestic trade, transport, and telecommunications services. However, the real estate sector's recovery remained muted due to low levels of foreign investment. Agricultural output grew by an estimated 1.1% in 2023, fueled by external demand for Cambodian produce. Agriculture exports grew by 8.5%, with notable increases in cassava, milled rice, cashew nuts, and rubber.

Inflation moderated in 2023 mainly on falling global fuel and food prices. Inflation decelerated in the first half before edging up in the second half, settling at 2.7% year on year at year-end. The annual average inflation rate stood at 2.1%, down from 5.3% in 2022. The exchange rate remained stable, averaging KR4,110 per US dollar. Money supply (M2) growth accelerated to 12.5% from 8.2% in 2022, but credit growth to the private sector slowed to 3.9% from 18.6% amid tighter global financial conditions.

This chapter was written by Poullang Doung and Duong Nguyen of the Cambodia Resident Mission, ADB, Phnom Penh.

Figure 2.23.2 Tourist Arrivals

Tourist arrivals rebounded led by visitors from neighboring economies.



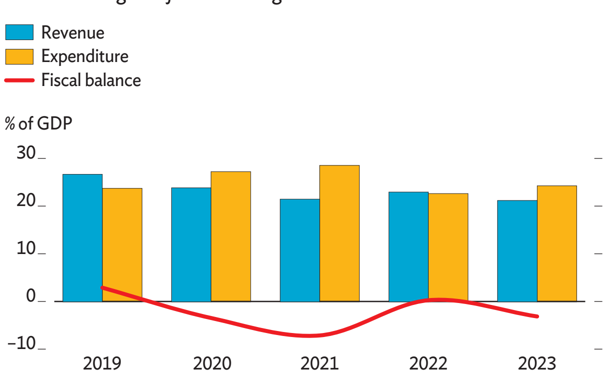
Source: Ministry of Tourism.

An expansionary fiscal policy was implemented in 2023. The government sustained its strategic economic recovery plan, prioritizing socio-economic measures in 2023. The government budget deficit is preliminarily estimated at 3.1% of GDP in 2023, lower than the planned 5.1% under the 2023 Budget Law (Figure 2.23.3). Revenue fell short of the planned 22.0% of GDP, settling at 21.2%, while expenditure, at 24.2% of GDP, remained lower than the budgeted 27.1%. The government issued the equivalent of $58.3 million in sovereign bonds in 2023 to diversify its financing sources. Public external debt rose from $10.0 billion in 2022, the equivalent of 33.9% of GDP, to $11.2 billion in 2023, or 35.0% of GDP.

Large tourism receipts and falling goods trade deficit led the current account into surplus. Imports contracted by 17.0% in 2023 due to a drop in gold, garment material, fuel, and vehicle imports. Exports increased by an estimated 1.7%, led by robust growth in non-GFT manufactures and gold exports. The tourism

Figure 2.23.3 Fiscal Indicators

Tax revenue and capital spending were lower than budgeted, leading to a smaller budget deficit than targeted.

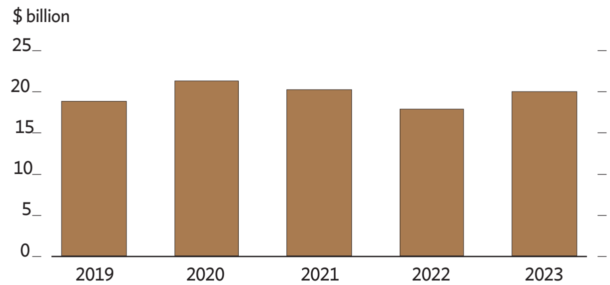


GDP = gross domestic product.

Source: Ministry of Economy and Finance; Asian Development Bank estimates.

Figure 2.23.4 International Reserves

International reserves picked up, partly contributed by buoyant foreign investment inflows.



Source: National Bank of Cambodia.

recovery turned service trade into surplus. Foreign direct investment (FDI) rose by 10.6% to $4.0 billion, and contributed to an increase in international reserves to $20.0 billion, the equivalent of 8.2 months of imports (Figure 2.23.4).

Economic Prospects

Stronger industrial exports will drive faster growth. The economy is set to grow by 5.8% in 2024 and 6.0% in 2025. The expansion is partly attributed to positive outlook for GFT exports, which have gained momentum since the last quarter of 2023 (Table 2.23.1 and Figure 2.23.5). Robust demand for Cambodia's non-GFT manufactured goods should sustain their export growth over the forecast period. Industrial output growth should accelerate to 8.0% in 2024 and 8.4% in 2025. Construction, however, may see only modest growth, largely because of the prolonged property sector downturn in the People's Republic of China (PRC).

Further recovery in tourism will fuel economic growth. Services are projected to grow by 5.4% in 2024 before tapering slightly to 5.2% in 2025, as

Table 2.23.1 Selected Economic Indicators, %

Growth is projected to accelerate in 2024 and 2025, with inflation remaining low in both years.

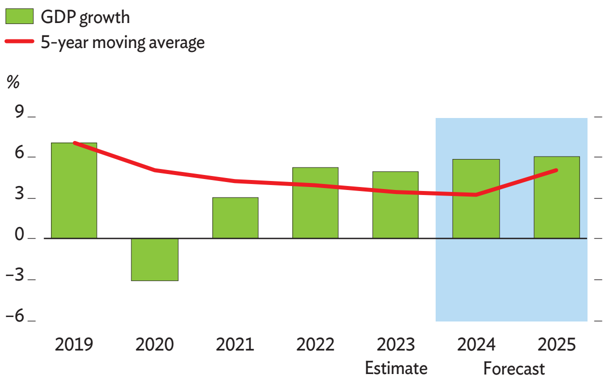
	2022	2023	2024	2025
GDP growth	5.2	5.0	5.8	6.0
Inflation	5.3	2.1	2.0	2.0

GDP = gross domestic product.

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

Figure 2.23.5 Gross Domestic Product Growth

Growth will accelerate in 2024 and 2025, staying above the 5-year moving average.



GDP = gross domestic product.
Sources: National Institute of Statistics; Asian Development Bank estimates.

tourism continues to recover. Tourist arrivals, especially from fellow Association of Southeast Asian Nations members, will likely increase, supported by the region's positive economic prospects. The recent inauguration of the Siem Reap International Airport will also likely attract more tourists. However, the recovery in real estate is expected to be gradual, constrained by reduced investment from the PRC.

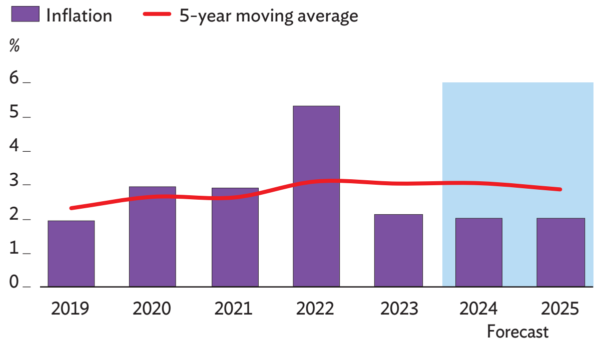
Agriculture will likely continue its moderate growth. Agriculture is forecast to grow by 1.3% in 2024 and 1.4% in 2025, buoyed by rising export demand and domestic consumption. The positive trajectory is further supported by recent bilateral free trade agreements with the PRC, the Republic of Korea, and the United Arab Emirates, and Cambodia's participation in the Regional Comprehensive Economic Partnership.

Low and stable inflation is expected to continue. Headline inflation will average around 2.0% in 2024 and 2025 if global fuel prices remain stable (Figure 2.23.6). The National Bank of Cambodia, committed to maintaining a stable exchange rate against the US dollar to preserve price stability and public confidence in the riel, plans to set a policy rate to anchor market interest rates while actively promoting broader use of the riel.

Gradual fiscal consolidation should begin this year. Following years of fiscal expansion to stimulate the economy, the government will embark on a gradual fiscal consolidation from 2024 to restore the fiscal buffers diminished during the pandemic. The new

Figure 2.23.6 Inflation

Inflation should remain low in 2024 and 2025 on expected lower energy prices.



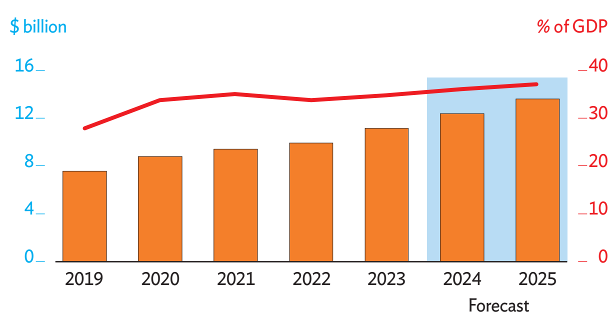
Sources: National Institute of Statistics; Asian Development Bank estimates.

revenue mobilization strategy 2024–2028, under preparation, envisages a focus on enhancing revenue collection through greater tax administration efficiency rather than introducing new taxes. Spending will align with the government's Pentagonal Strategy, which prioritizes education and skills development along with expanding health-care coverage and social assistance for the poor and vulnerable. With external public debt forecast at 36.3% of GDP in 2024 and 37.3% in 2025, the risk of public debt distress remains low (Figure 2.23.7). The government plans to issue the equivalent of $108 million in sovereign bonds in 2024 to finance revenue-generating investment projects.

An expected rise in demand for imported goods will drive the current account balance back into deficit. Since the pandemic, gold trade has been volatile and unpredictable, with gold exports spiking in 2020, followed by a surge in imports in 2021 and 2022. This trend reversed again in 2023 when gold exports surged, turning the current account into surplus. Exports of

Figure 2.23.7 Public External Debt

Public external debt remains sustainable with low risk of debt distress.



GDP = gross domestic product.
Sources: Ministry of Economy and Finance; Asian Development Bank estimates.

goods are expected to account for 76.3% of GDP in 2024 and 77.7% in 2025, while imports are expected to reach 96.6% of GDP this year and 97.5% in 2025. As a result, the goods trade deficit is projected to be 20.3% of GDP in 2024 and 19.8% in 2025. With a services trade surplus expected at 5.1% of GDP in 2024 and 5.5% in 2025, the current account deficit is projected at 8.6% of GDP in 2024 and 7.6% in 2025, assuming more stabilized gold trade. The deficit will be financed by FDI and aid inflows, bolstering gross international reserves to approximately $25.0 billion by the end of 2025, covering over 7.6 months of imports of goods and services.

Risks to the outlook tilt to the downside. Risks include potential slower growth in major economies like the US, Europe, and the PRC; the high level of private debt impacting financial sector growth and the broader economy; a renewed rise in energy prices; and effects from extreme weather events.

Policy Challenge—Ensuring a Smooth Transition from Least-Developed-Country Category

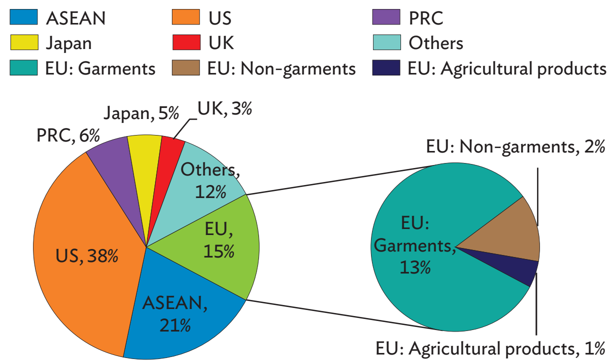
Cambodia is on track to graduate from the least-developed-country (LDC) category. Two decades after being included in the United Nations LDC category, the country met the graduation criteria for the first time in 2021. According to the UN 2024 triennial review, gross national income per capita is currently $1,590, crossing the threshold of $1,306; human assets index is 77.8, above the 66 threshold level; and the economic and environmental index is 24.1, below the 32 threshold level. Thus, Cambodia is well-positioned to pass its second consecutive triennial review this year, potentially graduating out of the LDC category in 2027.

Graduation offers long-term benefits. By sending positive signals on the country's development and stability, it will likely attract higher FDI and stimulate faster economic growth. Graduation may also accelerate economic diversification, reducing reliance on a few products and markets. Preparing for graduation often involves strengthening institutions and capacity, leading to more effective governance, policy implementation, and resilience to external shocks.

Graduation, however, will bring immediate challenges. Loss of trade benefits, such as duty-free privileges and lenient rules of origin, will impact several key exports, most notably GFT exports to the European Union (EU), which accounted for 12.7% of all exports in 2023 (Figure 2.23.8). The World Trade Organization projects that graduation could lead to a 6.0% drop in exports by LDCs, particularly affecting GFT. Graduation will also reduce official development assistance (ODA), an important factor contributing to the past decade of high growth and development.

Figure 2.23.8 Export Markets in 2023

Garments accounted for most exports to the EU.



ASEAN = Association of Southeast Asian Nations, EU = European Union, PRC = People's Republic of China, UK = United Kingdom, US = United States.

Source: Ministry of Economy and Finance.

Cambodia must start preparing for a smooth transition. The country should continue expanding its participation in free trade agreements, including those with the EU, to secure market access post-graduation. It should also intensify commitment to economic diversification into new markets and higher value-added products. It should also explore the Generalized System of Preferences Plus (GSP+)—which extends zero-tariff benefits to newly graduated countries—by ratifying the remaining environmental protection and good governance conventions. Strengthening human capital development, supporting climate-resilient infrastructure, and fostering a conducive business environment for micro, small and medium-sized enterprises should remain cornerstones of long-term growth. Finally, it is imperative to strengthen domestic resource mobilization to diversify funding sources and reduce reliance on ODA for public investment in infrastructure and social development projects.