Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

Cambodia Economic Update
June 2024

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP
East Asia & Pacific

CAMBODIA'S EXPORT REVIVAL AND TRADE SHIFTS

SPECIAL FOCUS
Strengthening Cambodia's Education System for Future Growth

Cambodia Economic Update
June 2024

CAMBODIA'S EXPORT REVIVAL AND TRADE SHIFTS

SPECIAL FOCUS
Strengthening Cambodia's Education System for Future Growth

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP
East Asia & Pacific

TABLE OF CONTENTS

BOXES

FIGURES

TABLES

ACKNOWLEDGMENTS

The June 2024 Cambodia Economic Update (CEU) was prepared by Sodeth Ly, Lauri Pynnonen, Lars M. Sondergaard, Tara Beteille, and Saurav Katwal, with contributions from Samuel Christopher Hill, Kimsun Tong, Faya Hayati, Tsuyoshi Fukao, Fata No, and Runsinarith Phim. Chankesey Heav served as a research assistant. Seakheang Heng provided administrative support. Saroeun Bou helped with the press release, web display, and dissemination events.

The team worked under the overall guidance of Sebastian Eckardt and Cristian Aedo. The team is grateful for the advice and comments provided by Lalita M. Moorty, Mariam Sherman, and Maryam Salim. Several colleagues, including Aaditya Mattoo and Ergys Islamaj, provided comments on the draft version.

The team is grateful to the Cambodian authorities, particularly the Ministry of Economy and Finance and the National Bank of Cambodia, for their cooperation and support. The authorities have just rebased Cambodia's Gross Domestic Product (GDP). The rebased GDP data will be used in the next edition of the CEU. The report also benefited from the advice, comments, and views of various stakeholders in Cambodia, including its enthusiastic readers and critics.

The CEU, produced biannually, provides up-to-date information on macroeconomic developments in Cambodia. It is distributed and discussed widely, including among Cambodian authorities, development partners, the private sector, think tanks, civil society organizations, and academia.

For information about the World Bank and its activities in Cambodia, please visit our website at www.worldbank.org/cambodia.

To be included in the email distribution list of the CEU and related publications, please contact Seakheang Heng (sheng4@worldbank.org). For questions on the contents of this publication, please contact Saroeun Bou (sbou@worldbank.org).

ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CEU	Cambodia Economic Update
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CSES	Cambodia Socio-Economic Survey
EAP	East Asia and Pacific region
ECE	Early childhood education
EU	European Union
FDI	Foreign direct investment
FP	Family Package
GDP	Gross domestic product
GTF	Garment, travel goods, and footwear
MEF	Ministry of Economy and Finance
MFI	Micro-finance institution
MoEYS	Ministry of Education, Youth, and Sports
NBC	National Bank of Cambodia
NLA	National Learning Assessment
PISA	Program for International Student Assessment
QIP	Qualified investment project
SEA-PLM 2019	Southeast Asia Primary Learning Metrics 2019 report
TVET	Technical and vocational education and training
UN	United Nations
U.S.	United States
US$	United States dollar
VAT	Value-added tax
y/y	Year-on-year

PART 1.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

EXECUTIVE SUMMARY

Recent developments

Economic activity in Cambodia picked up in the first quarter of 2024, driven mainly by goods and services exports. While domestic demand remained subdued, caused by a sharp slowdown in domestic credit growth impacted by the downturn in the property market and tighter financial conditions including elevated interest rates, exports of goods and services accelerated. International tourist arrivals continued to improve. Incoming data shows that during the first quarter of 2024, services exports rapidly expanded, with international tourist arrivals increasing at 22.5 percent year-on-year (y/y), reaching 84.2 percent of arrivals recorded during the same period in 2019. Indicating rising tourism receipts, revenue from Angkor Temple entrance fees rapidly grew, rising at 95.9 percent y/y during the same period, reaching 58.7 percent of 2019 levels.

Merchandise exports also started to accelerate. Amid stronger external demand, goods exports surged during the first quarter of 2024, growing at 17.2 percent y/y, reaching US$6.3 billion. The acceleration was largely boosted by a revival of exports of garment, travel goods, and footwear (GTF) products to the United States (U.S.) and European Union (EU) markets. Exports of non-GTF products, which mainly include agricultural commodities, electronics, electrical, leather, and wood products, including furniture, continued to be resilient. Cambodia has emerged as one of the main agricultural product exporters, and is now one of the top nine rice producers in the world. Agricultural exports increased almost fourfold during the past decade.

Since 2023, the Association of Southeast Asian Nations (ASEAN) has overtaken the EU market and become Cambodia's second-largest export market. During the first quarter of 2024, exports to ASEAN countries accounted for 28.0 percent of Cambodia's total exports, up from 24.7 percent during the same period in 2023 (and 14.6 percent in 2022). In the first quarter of 2024, the ASEAN market grew at 33.1 percent y/y, importing 85 percent of Cambodia's total agricultural commodity exports. Main agricultural commodities include rice, cassava, cashew nut, and rubber. Cambodia's agricultural commodity exports surged during the first quarter of 2024, growing at 28.1 percent y/y, reaching US$1.1 billion, or 17.4 percent of total goods exports, second only to garment exports, which amounted to US$2.0 billion.

Alongside strong trade performance, foreign direct investment in the tradeable sectors remained resilient. The value of approved foreign direct investment (FDI)-financed investment (outside special economic zones) under the qualified investment project (QIP) scheme, accelerated, reaching US$455 million or a 149.8 percent y/y increase during the first quarter of 2024.

In contrast, construction and real estate activity remained subdued. Domestic credit financing the real estate and property sector significantly slowed. The housing market correction continued, due largely to a significant increase in supply during the pre-pandemic construction boom and elevated interest rates. The value of approved property development permits contracted by 38.8 percent y/y during the first quarter of 2024, signaling downbeat investor sentiment in property investment.

The current account improved as the trade deficit narrowed. While goods exports surged, goods imports remained sluggish, amounting to US$6.39 billion, or a 9.0 percent y/y increase, reflecting soft domestic demand. The resulting decline in the trade deficit, together with rising remittances and tourism receipts, helped improve the current account balance, which reached an unprecedented surplus of 1.7 percent of GDP in 2023.

Better external sector performance helped maintain the exchange rate. The exchange rate hovered around 4,100 riel per U.S. dollar. Meanwhile, gross international reserves, reached US$19.9 billion – an 11.7 percent y/y increase in 2023. The country's gross international reserves are estimated to be equivalent to about seven months of prospective imports. As food prices decelerated owing to the easing of domestic demand, Cambodia's Consumer Price Index (CPI) dipped to zero in March 2024, a 15-year low. The easing of food prices, particularly of rice, meat, fish, and vegetables, subdued inflation, given the fact that the food component (subindex) captures a 43 percent weight of the inflation basket.

To spur economic growth, the central bank cut the foreign currency reserve requirement ratio by 2 percent, to 7 percent, in December 2023, the largest cut during the post-pandemic period. In addition, there has been a recent uptick in money supply, indicating improvements in capital inflows. Broad money growth recovered, growing at 14.9 percent y/y in February 2024, up from 6.8 percent during the same period in 2023, as foreign currency deposits accelerated.

Domestic credit growth has experienced a significant slowdown since mid-2023. Sluggish construction activity reduced demand for domestic credit, which substantially decelerated to a 4.6 percent y/y increase in February 2024, a 20-year low, down from a 14.8 percent y/y increase during the same period in 2023. Upward pressure on domestic interest rates continued, due to tightening global financial conditions. Cambodia's interest rates remained elevated as the country imports the U.S. monetary policy tightening, due to the Federal Reserve's action to tame inflation. There have been rising funding costs for banks and microfinance institutions in Cambodia, as they need to increase interest rates on deposits to attract depositors. This has pushed up their operating costs, squeezing their profit margins. In 2023, the returns on assets halved to 0.7 percent for the banking sector and 1.5 percent for the microfinance institution (MFI) sector, down from 1.4 percent and 3.0 percent in 2022, respectively. In parallel, the nonperforming loan ratios rose to 5.4 percent for banks and 6.7 percent for MFIs, up from 2.2 percent and 2.6 percent, respectively.

Domestic revenue, which was partly buoyed by a short-lived post-COVID consumer spending boom in 2022, significantly eased. General government revenue (including grants) is estimated to have reached only 21.4 percent of GDP in 2023, down from 23.4 percent in 2022. Taxes on goods and services, especially value-added taxes, excises, and import duties declined with softening domestic demand, as credit growth slowed. Efforts to contain expenditures continued, despite spending pressures, driven by civil servant wage increases and election-related spending. As a result, the general government expenditure also eased, estimated to have reached 26.7 percent of GDP in 2023, down from 27.7 percent of GDP in 2022. The fiscal deficit (including grants) is estimated to have widened to 5.3 percent of GDP in 2023, up from 4.4 percent in 2022. Financing the widening fiscal deficit required increased drawdown of government deposits (fiscal reserves), which declined to 16.4 percent of GDP in 2023, down from 18.1 percent in 2022. However, public debt remained low at 35.2 percent of GDP in 2023.

The economic recovery supported job creation. The number of manufacturing jobs rose as garment, travel goods, and footwear employment recovered. Consistent with improved goods exports, employment in the manufacturing sector also picked up. Manufacturing jobs rose by 50,500 to 1.058 million (18.1 percent of nonfarm employment) in March 2024, or a 5 percent y/y increase.

Outlook

This year's economic growth is projected to marginally improve to 5.8 percent (table ES.1), driven mainly by a continued revival of services and goods exports. Looking ahead, Cambodia's improved current account balance, supported by some success in diversifying its exported products beyond GTF products (to agricultural commodities, solar panels, and electrical and electronic parts), and its export markets beyond the U.S. and EU markets (to regional markets, especially the ASEAN market), should support resilience of goods exports.

Table ES.1. Macro outlook
(percent of GDP unless otherwise indicated)

	Projections			Change from November 2023	
	2024	2025	2026	2024	2025
Real growth (percent)	5.8	6.1	6.4	0.0	0.0
CPI (period average, percent)	2.8	2.7	3.0	0.0	0.0
Current accounts	2.7	2.6	1.6	14.2	12.2
Overall fiscal deficit	-5.5	-4.4	-4.2	-0.7	-1.2
Public debt	35.6	35.5	34.8	-0.9	-0.9

Cambodia's real growth is projected to reach 6.1 percent in 2025 and 6.4 percent in 2026. The tourism and hospitality industries are anticipated to continue to expand, with a projected increase in international arrivals, surpassing the pre-pandemic levels in the coming years, while goods exports and FDI inflows are expected to be further strengthened by the newly ratified free trade agreements and a substantial increase in private and public investment in key physical infrastructure.

Policy options

Against the backdrop of the ongoing recovery, more efforts are needed to restore fiscal space as Cambodia's fiscal buffers have shrunk, after years of government fiscal intervention. First, increasingly generous tax holidays and exemptions should be reviewed. Second, reforming the corporate income tax to broaden the tax base and strengthen compliance is a must. Third, introducing a personal income tax should be a medium-term objective of the next revenue mobilization strategy.

Given high levels of private debt, rising NPLs and falling returns to banking sector assets, safeguarding financial stability also remains important. The recent credit boom has resulted in relatively high levels of private sector debt, which is concentrated in real-estate exposures. To safeguard financial stability, the immediate focus should be on intensified bank supervision: stress testing of individual institutions, systematic onsite inspections, further alignment of the regulatory framework with international standards, and thorough assessments of the quality of loan portfolios, among others. There was a rapidly growing number of financial institutions in Cambodia until 2022. Therefore, a consolidation of the financial sector through mergers and acquisitions should help preserve profit margins by improving their efficiency and increasing market share. To prepare for increasing levels of nonperforming loans, it is crucial to ensure that resolution options are now ready to be deployed as needed, and to strengthen the country's insolvency regime. Efforts to prepare legislation on deposit insurance and bank resolution must continue.

More effort is urgently needed to create an accommodating business environment encouraging firms to operate, innovate, and increase productivity in an efficient manner. It is necessary to address the top three perceived constraints, which are practices of the informal sector, tax rates, and tax administration identified by the 2023 World Bank Enterprise Surveys, by promoting business registration, reducing the tax compliance burden, and reviewing effective tax rates. The 2023 Enterprise Surveys indicate that in Cambodia, 8.2 days were needed to clear direct exports through customs and 9 days were needed to clear imports, compared to 4 days and 8.3 days, respectively, in Vietnam. To reduce time needed to import, there is an urgent need to accelerate implementation of pre-arrival processing electronically, while undertaking complete automation of customs clearance procedures to allow the official use of electronic documents to shorten export time. The 2023 Enterprise Surveys also revealed that in Cambodia, 28 days were needed to obtain an import license and 30 days to obtain an operating license, compared to, respectively, 13.2 days and 10.7 days in Vietnam, and 9 days and 5 days in Indonesia.

Therefore, streamlining complex and restrictive business entry requirements, together with improvements to the functioning of the insolvency framework, will help reduce costs of firm entry and exit, while promoting the predictability of the regulatory environment. Considerable effort is needed to simplify and digitalize business services, especially the issuance of licenses and permits to reduce the associated costs. Accelerating full implementation of the final phase of the National Single Window to include licenses, permits, certificates, and other documents, is necessary. Fast-tracking the implementation of licensed economic operators is also needed.

Boosting learning outcomes is fundamental to develop a "future-ready" workforce and drive Cambodia's future productivity growth as the country endeavors to become an upper middle-income economy by 2030 and a high-income economy by 2050. Labor productivity growth has declined sharply over the past five years. Few young Cambodian children are being enrolled in early childhood education, while primary schools are experiencing a decline in learning outcomes. Few students are progressing to secondary school, and those that do are often inadequately prepared and experience high dropout rates. (See the Special Focus section for a more in-depth discussion on strengthening Cambodia's education system for future growth.)

It is also important to improve logistics performance, as targeted by the Pentagonal Strategy.[1] Further efforts must be made to reduce transport and logistics costs by monitoring the efficiency of main trade gateways such as ports and border checkpoints. The Enterprise Surveys reveal that transportation is now the fourth greatest constraint for businesses. This is consistent with

1 The Pentagonal Strategy is a roadmap for transforming Cambodia into a high-income country by 2050.

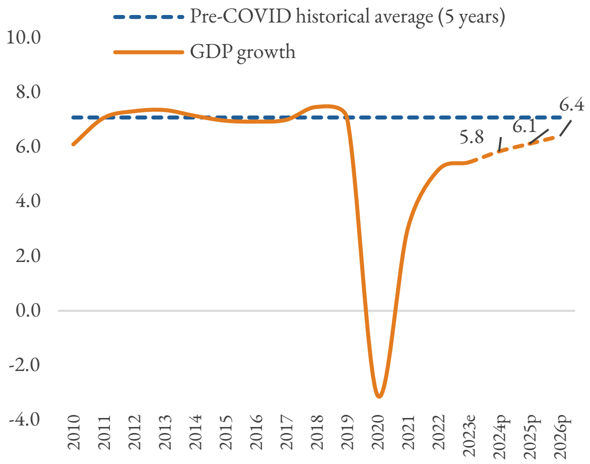
one of the findings discussed in a policy note that analyzed post-pandemic supply chain disruptions. The findings indicated that the national logistics costs in Cambodia are significantly higher than in comparable ASEAN countries, estimated at 26.4 percent of GDP in 2020. To this end, it is necessary to establish a team, and local authorities dedicated to facilitating trade with hotline support, especially for road transport.

Upgrading Cambodia's infrastructure, particularly its electricity supply, is critically important for moving up to higher-value-added manufacturing and agro-processing industries. While access to electricity has significantly improved, low reliability of power supply remains a key bottleneck. The Enterprise Surveys indicate that 43 percent of surveyed firms experienced electrical outages (0.9 outages in a typical month) in Cambodia, compared to 12.7 percent (0.2 outages in a typical month) in Indonesia, and 28.6 percent (0.4 outages in a typical month) in Malaysia (2019). Inadequate electricity supply can increase costs, disrupt production, and reduce profitability. The Enterprise Surveys indicated that in Cambodia, losses due to electricity outages worsened as associated costs rose from 0.3 percent of annual sales in 2013 to 1.1 percent in 2023, well above Indonesia (0.2 percent), Vietnam (0.2 percent), and Singapore (zero percent). Large investments are needed in the energy sector to address the dual challenge of meeting rapid growth in electricity demand while meeting the country's climate change commitments. Investments are also needed to upgrade basic urban services such as piped water, sanitation, solid waste management, telecommunications, and transport, in conjunction with strengthened urban planning.

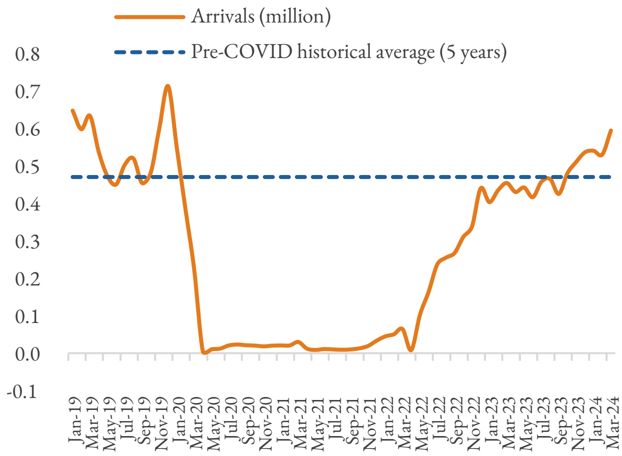
Photo: Pexels-kelly

FIGURE ES.1. CAMBODIA'S RECENT DEVELOPMENTS AT A GLANCE

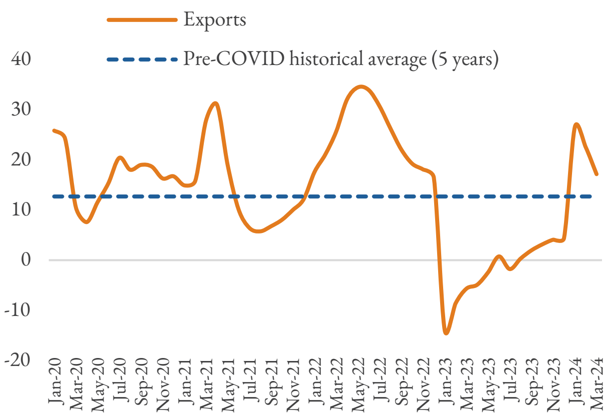
Economic growth accelerated...
Real growth (percent)



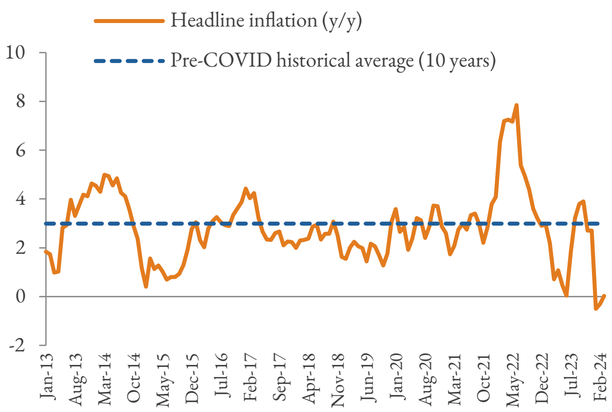
...Supported by rising services exports...
International arrivals (million)



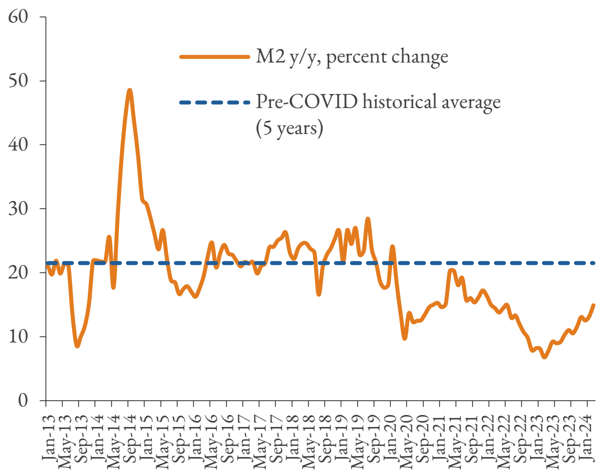
...And a revival of goods exports...
Goods exports (year-to-date, y/y percent change)



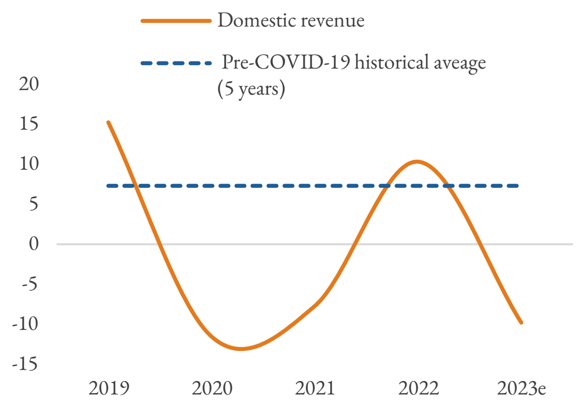
...Inflation declined to zero over the 12 months ending March 2024, a 15-year low...
(y/y percent change)



...Broad money (M2) growth picked up...
Broad money liabilities (y/y percent change)



...Domestic revenue slowed
(percent of GDP, y/y percent change)



Sources: Cambodian authorities; World Bank staff projections.
Note: e = estimate; p = projection; y/y = year-on-year.

RECENT DEVELOPMENT

Economic activity has picked up

The global economy is set to slow further this year, amid the lagged and ongoing effects of tight monetary policy, restrictive financial conditions, and feeble global trade and investment.[2] Global growth is expected to slow to 2.4 percent in 2024 – the third consecutive year of deceleration – reflecting the lagged and ongoing effects of tight monetary policies to rein in decades-high inflation, restrictive credit conditions, and anemic global trade and investment. Near-term prospects are diverging, with subdued growth in major economies alongside improving conditions in emerging market and developing economies with solid fundamentals (see box 1 on global economic developments and outlook). The recent conflict in the Middle East, coming on top of the Russian Federation's invasion of Ukraine, has heightened geopolitical risks. On the upside, resilient economic activity and declining inflation in the United States could be sustained, even in the face of substantial headwinds, if aided by further labor supply improvements. Thus, there is a possibility that U.S. growth continues to be stronger than projected as price pressures recede and monetary policy is eased, which would bolster global activity.

Most economies in developing East Asia and Pacific (EAP) are growing faster than the rest of the world but more slowly than before the pandemic.[3] Economic performance in the region, including Cambodia, is being shaped by a combination of external and domestic developments. Slowing global growth, still-tight financial conditions, and an increase in trade protection and industrial support in large and rich countries are key aspects of the external environment. Amplified public and private debt, constrained macroeconomic policy, and increased political and policy uncertainty are the major domestic issues. While domestic factors are likely to be the dominant influence on growth in China, external factors will have a stronger influence on growth in much of the rest of the region, including Cambodia.

Growth in China is projected to slow in 2024, as the bounce back from the reopening of the economy fades and proximate problems, such as elevated debt and weakness in the property sector, as well as longer-term structural factors, such as aging and decoupling, weigh on growth. The rest of the EAP region, which had suffered in 2023 from slow trade growth and tight financial conditions, is expected to grow by 5.0 percent in 2024. The likely rebound in global goods trade and the projected easing of global financial conditions are expected to offset the impact of China's slowing growth.

Resilient economic activity in the United States (U.S.) should support Cambodia's merchandise exports, given that the U.S. is Cambodia's largest export market, while declining inflation, which may result in monetary policy easing in the U.S., should help contain the country's inflation and interest rates, given the economy is highly dollarized. In contrast, slower growth in China could negatively impact the economy, given that China is one of Cambodia's major trading partners, especially for imports of intermediate goods used in the production of garment, travel goods, and footwear products for exports. China is also the main source of foreign direct investment (FDI) and tourism receipts for Cambodia. Chinese FDI continued to account for about half of FDI inflows. Chinese tourists accounted for a third of total international tourist arrivals to Cambodia before the pandemic.

International arrival numbers accelerated

Despite external headwinds, Cambodia's economic recovery has accelerated, although growth remains at a slower pace than during the pre-COVID-19 period (figure 1). The recovery is largely underpinned by a revival of services and goods exports. During the first quarter of 2024, international arrivals reached 1.58 million, up from 1.29 million during the same period in 2023. The recovery of international tourist arrivals in Cambodia is relatively comparable to those of Thailand, but slower than those of Vietnam. During the first quarter of 2024, tourist arrivals in Cambodia recovered to 84.3 percent of the arrival number recorded during the same period in 2019 (figure 2), compared to 75.9 percent and 103.15 percent for Thailand and Vietnam, respectively. However, the composition of arrivals has changed, indicating a slower recovery of tourism receipts. During the pre-pandemic period,

2 World Bank 2024a.

3 World Bank 2024b.

Box 1. Global economic developments and outlook

Although recent economic activity has proved surprisingly resilient in some major economies, notably the United States, the global outlook remains subdued, with global growth of 2.4 percent projected for 2024, and 2.7 percent in 2025) (figure B.1.1).[a] Even with the expected modest pickup next year, growth is set to remain below the pre-pandemic average amid the lagged and ongoing effects of tight monetary policy and elevated geopolitical uncertainty. Global headline and core inflation have continued to decline from 2022 peaks. However, inflation remains above target in many economies, and globally is projected to stay above its pre-pandemic average beyond this year. Monetary tightening in advanced economies and emerging market and developing economies (EMDEs) appears to have mostly concluded, but interest rates are expected to remain elevated for some time, as inflation returns to target only gradually. This will keep the stance of monetary policies in advanced economies restrictive in the near term, following the largest and fastest increase in U.S. real policy rates since the early 1980s.

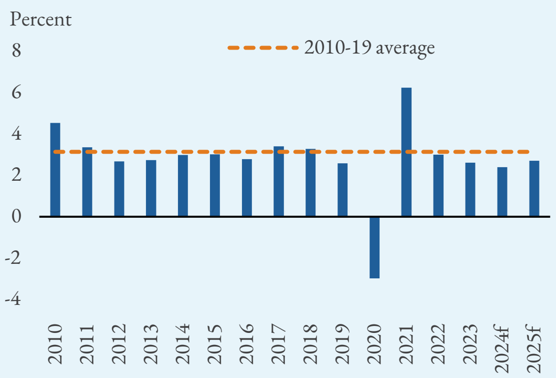
In 2023, global trade was largely stagnant, recording its worst outcome in the past 50 years outside global recessions, but is expected to recover mildly this year. Goods trade contracted last year, reflecting falling trade in key advanced economies and a deceleration in EMDEs, while services trade lost momentum following an initial rebound from the pandemic. In February 2024, global goods trade increased for almost the first time in a year (figure B.1.2). Global trade growth is expected to pick up this year, supported by expanding goods trade, but will remain below pre-pandemic averages. The contribution of services to total trade growth is expected to decrease, aligning more closely with the composition of trade before the pandemic.

Although global food and energy prices have moderated from their peaks in 2022, since the beginning of this year heightened geopolitical tensions have seen upward pressure on the prices of key commodities, notably oil. Assuming no escalation of ongoing conflicts, overall commodity prices are forecast to decline only slightly in 2024 and 2025, and to remain about 38 percent above pre-pandemic levels.[b]

In the East Asia and Pacific (EAP) region, growth is expected to slow this year.[c] **This primarily reflects weakening growth in China, where the boost from the post-pandemic release of pent-up demand has faded.** Amid softening consumption and a continued downturn in the property sector that will weigh on investment, growth in China is projected to decline from 5.2 percent last year to 4.5 percent this year. Next year, growth is projected to slow further, to 4.3 percent. In the EAP excluding China, growth is expected to pick up modestly, from 4.4 percent in 2023 to 4.6 percent in 2024, supported by the anticipated recovery in global trade, and then strengthen to 4.8 percent next year.

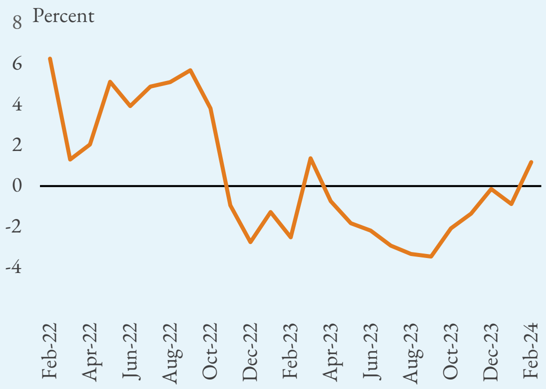
Risks to the global outlook remain titled to the downside. An escalation in armed conflict could weaken global sentiment and push up commodity prices, stoking still-elevated global inflation and delaying global monetary easing. A further downside risk concerns the possibility of tighter-than-expected global financial conditions. Monetary easing in advanced economies could be delayed if progress returning inflation to targets slows, while an intensification of geopolitical tensions could lead to a lower global risk appetite. Weaker-than-expected growth in China, stemming from a protracted slowdown in the property sector, and climate-change-related natural disasters, pose further key downside risks to the global outlook.

Figure B.1.1. Global growth



Source: World Bank.
Note: Real world GDP growth. 2024 and 2025 are forecasts.

Figure B.1.2. Global goods trade growth



Source: CPB World Trade Monitor.
Note: Year-on-year change in real global goods trade.

Sources: a. World Bank 2024a, b. World Bank 2024c. c. World Bank 2024d.
Note: This box was prepared by Samuel Christopher Hill, DECPG.

air arrivals, which are often associated with relatively high tourist expenditure, accounted for two-thirds and land arrivals for one-third. The opposite has been true in the post-COVID-19 period. During the first quarter of 2024, international arrivals by land accounted for 60.0 percent (0.94 million) of the total, while air arrivals accounted for the remaining 40 percent (0.64 million). In addition, while the share of Chinese tourists was the largest, amounting to almost 40 percent of total arrivals during the pre-pandemic period, it accounted for only 12.0 percent and ranked third during the first quarter of 2024.

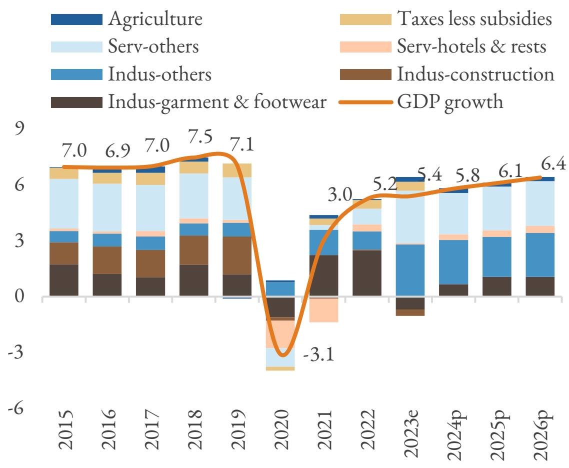
Thai and Vietnamese visitors now comprise the first- and second-largest number of tourists, accounting for 26.5 percent and 18.9 percent of the total, respectively, up from 5.6 percent and 10.0 percent, respectively, in 2019. Rising land arrivals reflect increased foreign tourists with relatively short lengths of stay and low daily expenditures, mainly Thai, crossing from Aranyaprathet (Thailand) to visit mostly Poi Pet (Cambodia), where there are casinos catering to foreign tourists. Cambodia's neighbors, especially Thailand and Vietnam, have been more successful in attracting Chinese tourists. During the first quarter of 2024, Chinese tourists accounted for 21.4 percent for Thailand and 19.1 percent for Vietnam, compared to 12.0 percent for Cambodia.

Foreign tourists visiting Siem Reap remained below 2019 levels

During the first quarter of 2024, as a share of 2019 arrivals, total international tourist arrivals to Siem Reap reached only 28.8 percent. International arrivals to Siem Reap reached 0.2 million, accounting for 13.0 percent of the total during the first quarter of 2024, compared to 0.71 million or 38.2 percent of the total during the same period in 2019. As Siem Reap province is the largest tourist attraction site in the country, the revival of the tourism sector remained below the expectations of many travel, tourism, and hospitality industries there. In addition, the number of arrivals at Kong Keng International Airport at Sihanoukville, a Chinese investment hotspot (receiving the approved property development permit value of almost US$6 billion during 2018–20) remained subdued, at only 3,600 (0.2 percent of the total) during the first quarter of 2024, down from 75,000 (6.0 percent of the total) during the same period in 2019.

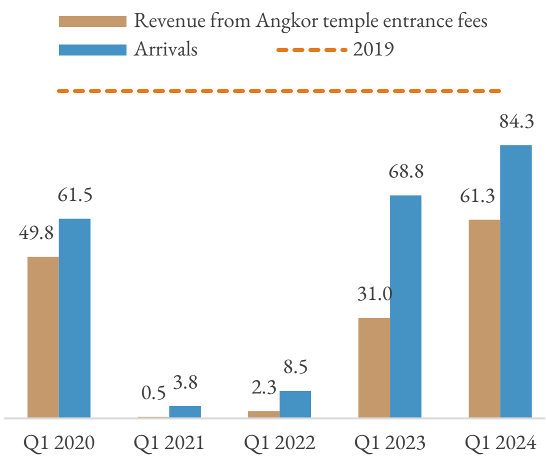
Revenue collection from Angkor Temple entrance fees rose to US$22.0 million, or a 97.8 percent y/y increase during the first quarter of 2024.[4] However, the revenue accounted for only 61.3 percent of the 2019 level. Although international arrival numbers quickly recovered, tourism receipts

Figure 1. **Economic recovery continued**
Contribution to real GDP growth
(percent)



Sources: Cambodian authorities and World Bank staff projections.
Note: e = estimate, p = projections.

Figure 2. **Three-month arrivals and tourism receipts**
(percent, 2019 = 100)



Source: Cambodian authorities.

4 Angkor Enterprise 2024.

received from international arrivals by land are estimated to have been lower than those from air arrivals. In 2023, Cambodia's tourism receipts were estimated by the Cambodian authorities to have reached only 62.9 percent (US$3.08 billion) of what was collected in 2019 (US$4.9 billion).[5]

Goods exports accelerated

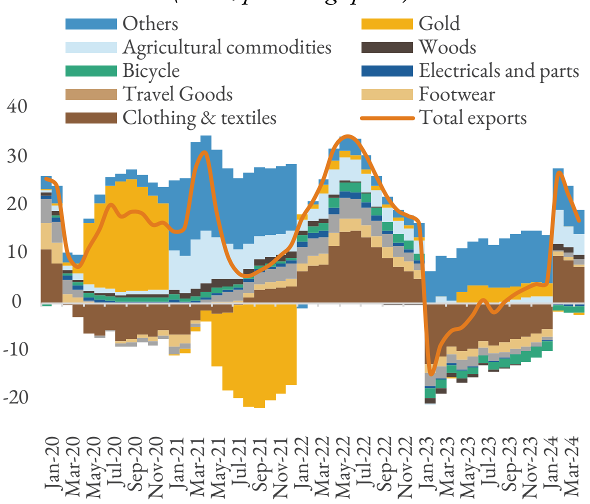
Driven by stronger external demand, Cambodia's merchandise exports accelerated. During the first quarter of 2024, goods exports (including gold) rose by 17.2 percent y/y, reaching US$6.3 billion. This year's goods export acceleration has been largely boosted by a revival of exports of garment, travel goods, and footwear (GTF) products. Exports of non-GTF products, which mainly include agricultural commodities, electronics, electrical, solar panels, leather, furniture, and other products[6] continued to be resilient (figure 3). The revival of garment product exports has also been reflected in the recovery of main intermediate goods imports, especially fabric, used for manufacturing GTF products. Fabric imports rose, growing at 10.0 percent y/y during the first quarter of 2024, up from a negative 20.4 percent during the same period in 2023.

In addition, a recovery of GTF exports to Cambodia's main export markets, especially the United States (U.S.) and the European Union (EU) (figure 4) has been behind the recent export acceleration. Goods exports to the U.S., Cambodia's largest export market, accounting for 31.4 percent of total exports, reached US$2.0 billion, or an 8.9 percent y/y increase during the first quarter of 2024, driven by exports of GTF products. Of the 17.2 percent goods export increase, garment, travel goods, footwear, and wood (plywood and furniture) products contributed 7.6 percentage points, 1.1 percentage points, 0.4 percentage points, and 0.8 percentage points of the increase in goods exports to the market, respectively, while the rest of the products contributed 7.2 percentage points.

ASEAN has become Cambodia's second-largest export market

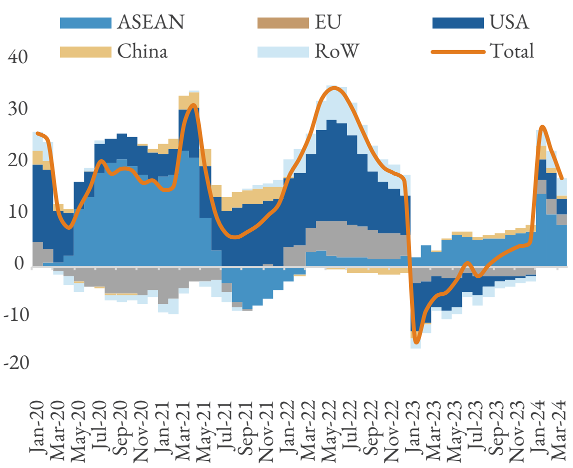
Since 2023, the Association of Southeast Asian Nations (ASEAN) has overtaken the EU to become Cambodia's second-largest export market. The share of the ASEAN market rose to 20.1 percent of the total in 2023, up from 14.6 percent in 2022, while the share of the EU market declined to 15.6 percent of the total, down from 18.0 percent during the same period. Goods exports to the ASEAN market increased further, accounting for 28.0 percent of total goods exports, reaching US$1.8 billion, or a 33.1 percent y/y increase during the first quarter of 2024. Exports of cashew nut, cassava, rubber, and mango products contributed 6.6 percentage points, 5.4 percentage

Figure 3. Contribution to export growth by product
(YTD, percentage point)



Source: Cambodian authorities.
Note: YTD = year-to-date.

Figure 4. Contribution to export growth by market
(YTD, percentage point)



Source: Cambodian authorities.
Note: RoW = rest of the world; YTD = year-to-date.

5 Ministry of Tourism 2024.

6 Unfortunately, further analysis cannot be conducted, as a large part of non-GTF exports is classified as "others" exports under Cambodia's goods export data.

points, 3.6 percentage points, and 2.6 percentage points of the increase in goods export to the ASEAN market, respectively, while the rest of the products contributed 15.0 percentage points. Unlike the U.S. (and EU) markets, which import mostly Cambodia's GTF products and bicycles, the ASEAN market largely imports Cambodia's agricultural commodities, which include cassava, cashew nut, rubber, and mango, which accounted for 25.0 percent, 14.1 percent, 5.7 percent, and 2.4 percent of total goods exports to the market, respectively, during the first quarter of 2024.

Goods exports to the EU, Cambodia's third-largest export market, accounting for 14.3 percent of total exports, reached US$903 million, or an 11.9 percent y/y increase during the first quarter of 2024, driven mainly by exports of garment and rice products. Of the increase in goods exports to the EU market, garment and rice products contributed 17.8 percentage points and 2.4 percentage points, respectively, while the contribution of bicycle exports contracted by 7.8 percentage points. Japan, China, the United Kingdom, and rest of the world markets accounted for 5.8 percent, 5.8 percent, 3.3 percent, and 11.3 percent, respectively during the first quarter of 2024.

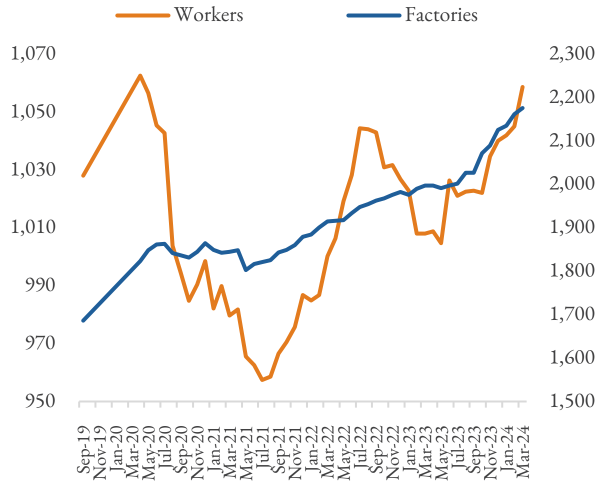
The U.S., ASEAN, and EU markets accounted for 31.4 percent, 28.0 percent, and 14.3 percent of Cambodia's total goods exports during the first quarter of 2024, respectively, compared to 33.8 percent, 24.7 percent, and 15.0 percent, respectively in 2023 (and 40.0 percent, 14.7 percent, and 18 percent, respectively in 2022). So, a rapid expansion of the share of the ASEAN market, driven mainly by non-GTF exports, which rose to 28.0 percent of total during the first quarter of 2024, up from 24.7 percent in 2023 (and 14.7 percent in 2022), will lessen the country's reliance on the U.S. and EU markets, driven largely by GTF exports.

Manufacturing jobs increased, thanks to the expansion of GTF exports

Consistent with improved goods exports, employment in the manufacturing sector also expanded. After some easing in labor market conditions was observed during the first half of 2023, manufacturing jobs started to recover. The manufacturing sector added 50,578 new jobs, reaching 1.058 million (18.1 percent of nonfarm employment) in March 2024 or a 5.0 percent y/y increase, as goods exports accelerated (figure 5). Employment gains were recorded in most manufacturing industries during the first quarter of 2024.

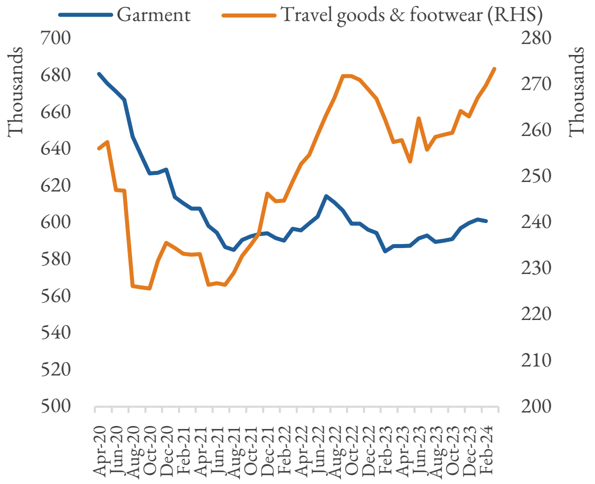
GTF manufacturing jobs, which account for 83.3 percent of total manufacturing jobs, rose to 0.88 million in March 2024 or a 4.0 percent y/y increase. Of the 0.88 million workers, garment workers accounted for 0.6 million, and travel goods and footwear workers 0.28 million (figure 6). However, jobs in the metal processing manufacturing industries, accounting for 6.0 percent of total manufacturing

Figure 5. **Manufacturing sector jobs and factories**



Source: Cambodian authorities.
Note: RHS = right-hand scale.

Figure 6. **Garment, travel goods, and footwear jobs**



Source: Cambodian authorities.
Note: RHS = right-hand scale.

jobs, decreased to 0.06 million, or a 13.3 percent y/y decline. Jobs in the chemical and plastics manufacturing industries, accounting for 2.8 percent of total manufacturing jobs, rose to 0.03 million, or a 63.9 percent y/y increase. Jobs in the food, beverage, and tobacco manufacturing industries, accounting for 2.7 percent of total manufacturing jobs, rose to 0.029 million, or a 7.9 percent y/y increase.

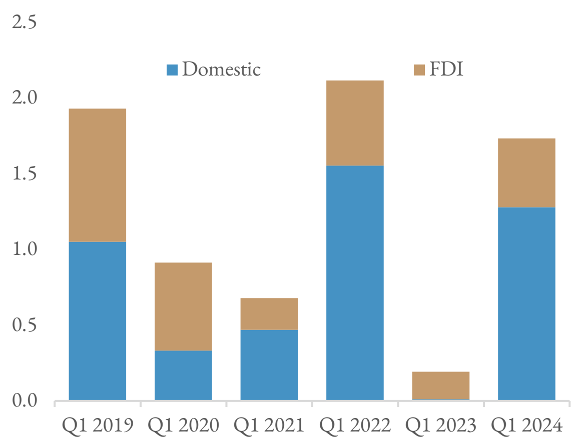
Indicating gradual productivity gains in Cambodia's GTF manufacturing industry before and after the pandemic, jobs in the GTF industries declined by 2.8 percent, decreasing to 0.84 million in 2023, down from 0.87 million in 2019, while the value of GTF exports rose by 2.6 percent, increasing to US$11.1 billion during the same period. Indicating some gains in industrial diversification, jobs in the non-GTF manufacturing industries rose to 0.2 million, or a 25.9 percent increase during the same period. Most of the gains are reflected in the metal processing industry, with its employment share increasing to 7.0 percent of total manufacturing jobs, up from 5.5 percent, and in the food, beverage, and tobacco industries, with their job share rising to 2.7 percent, up from 1.8 percent during the same period.

Jobs in the manufacturing sector account for 50 percent of industrial employment, 18.1 percent of nonfarm employment, and 11.6 percent and of total employment.[7] Given that these industries receive the minimum wage of about US$200 a month, the economic effect created by the gains of 50,578 employed people could be estimated to reach between US$60 million to US$70 million in wages and allowances alone covering October 2023–March 2024.

Approved FDI project value accelerated

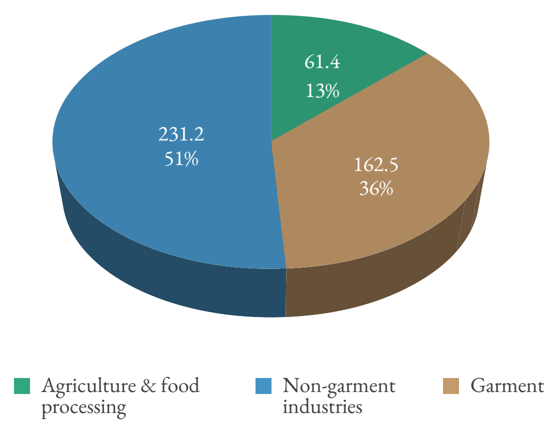
The approved FDI project value classified as a qualified investment project (QIP) reached US$455 million, or a 149.8 percent y/y increase during the first quarter of 2024 (figure 7).[8] While recovering, the approved amount is still below the approved FDI-financed project value during the same period in 2019, which was US$878 million. Of the total US$455 million, the garment industry received US$162.5 million or 36.0 percent of the total, while the agricultural and agro-processing sector received US$61.4 million or 13.0 percent of total. The non-garment manufacturing sector received the remaining US$231.2 million or 51 percent of total (figure 8). The agricultural and agro-processing sector includes fruit plantation and processing projects (US$45.6 million) and pig farm and processing projects (US$15.8 million), indicating an increased appetite for investing in the agriculture and agro-processing sector. The largest component of non-GTF manufacturing industries includes lighting decoration projects of US$36.6 million.

Figure 7. **Approved QIP project value**
(US$ billion, fixed asset)



Source: Cambodian authorities.
Note: QIP = qualified investment project.

Figure 8. **Approved FDI-financed project by sector**
(US$ million, Q1 of 2024)



Source: Cambodian authorities.

7 Ministry of Planning 2021.

8 The data cover only newly approved qualified investment projects located outside special economic zones.

Chinese FDI accounted for 95.0 percent of the total approved FDI projects amounting to US$455 million. Vietnamese and Malaysian FDI financed the remaining projects. During the past decade, most of the approved FDI-financed projects in Cambodia came from China (including Hong Kong SAR, China). The share of approved Chinese FDI-financed projects rose to 90 percent in 2023, up from 55 percent in 2014. In addition, there have been notable shifts in the composition of FDI projects, compared to the pre-COVID period, with a rising share of non-garment manufacturing projects and a declining share of real estate investment projects. The non-garment manufacturing sector includes the metal, paper, furniture, plastic, and chemical industries, as well as the logistics, energy, and hospitality industries. If these newly emerging manufacturing industries are properly nurtured, product diversification will follow.

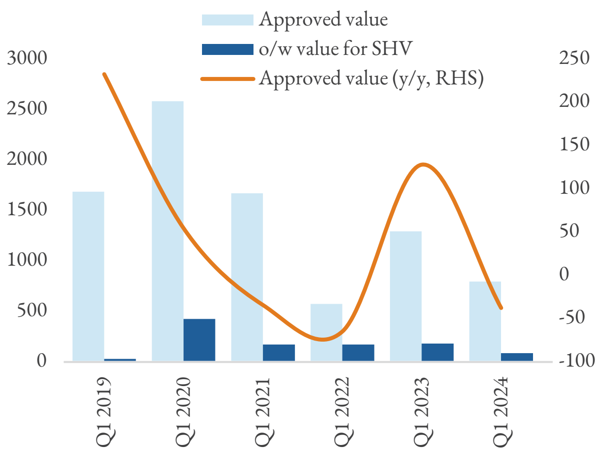
As shown in figure 7, about 50 percent of QIP projects are domestically financed. However, unlike FDI-funded projects, domestic QIP projects are relatively large. Most projects are invested in the non-tradeable industries, especially infrastructure and construction. Prior to the COVID-19 period, domestic QIP projects were mostly invested in hotels, resorts, shopping centers, cement, and energy. Since the pandemic hit, domestic QIP projects have been largely invested in logistics and port infrastructure, energy, casinos, and agro-industry.

Property development remained sluggish

Approved permit value for real estate development projects continued to trend down, consistent with subdued real estate and construction activity. During the first quarter of 2024, approved property development project value reached US$786 million, or a 38.8 percent y/y decline (figure 9). Of this, approved property development permits for projects in Sihanoukville province, which experienced the most rapid construction boom during the pre-pandemic period, accounted for US$77.3 million, or a 54.7 percent y/y decline. The number of approved square meters of property development permits also eased, reaching 1.8 million, or a 34.8 percent y/y decrease in the first quarter of 2024. In 2023, investor appetite[9] for investing in the real estate sector, especially the housing market, partly revived, as reflected in an expansion of approved permit value after the sector was hit hard by the pandemic during 2020–22. The revival, however, was short-lived, given that construction activity has remained subdued as housing price corrections continue, despite a limited supply of affordable housing.

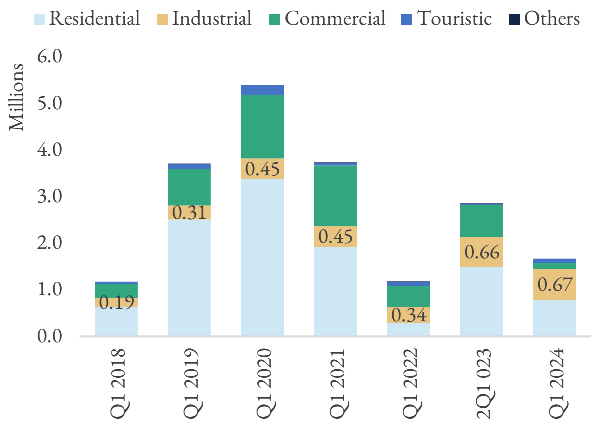
Regardless of the overall decline, the approved industrial building area is trending upward. The approved industrial building area rose to 0.67 million square meters or 33.6 percent of total approved area during the first quarter of 2024, up from 0.65 million

Figure 9. **Approved property project permits**
(US$ million)



Source: Cambodian authorities.
Note: RHS = right-hand scale; SHV = Sihanoukville province.

Figure 10. **Approved permit area by property type**
(million square meters)



Source: Cambodian authorities.

9 The approved construction permit data do not indicate investor nationalities.

square meters or 21.5 percent of the total during the same period in 2023 (figure 10). In contrast, as appetite for investing in residential property remained anemic, the approved residential property area declined to 0.77 million square meters or 39.1 percent of the total, down from 1.5 million square meters or 48.6 percent of the total during the same period. Similarly, the approved commercial building area declined to 0.13 million square meters or 6.4 percent of the total, down from 0.68 million square meters or 22.3 percent of total. The increase in the approved industrial building area at the expense of residential and commercial property building areas may reflect a shift in investor appetite to production and manufacturing activity.

Imports of basic construction materials picked up

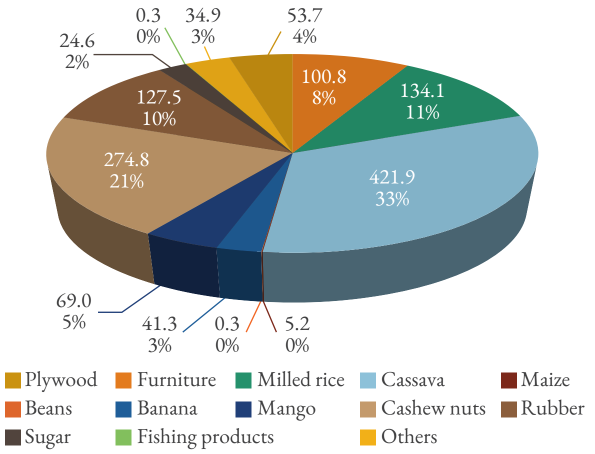
Performance of basic construction material imports improved, after experiencing a steep decline during the past few years since the pandemic hit. During the first quarter of 2024, imports of construction equipment, steel, and cement used for all types of construction industries recovered, growing at 19.9 percent, 33.5 percent, and 15.0 percent y/y in value terms, respectively, and 1.2 percent, 35.9 percent, and 24.1 percent y/y in volume terms, respectively. While privately financed real estate and property construction activities continue to be subdued, private and public investments in nonresidential property projects, which include physical infrastructure such as roads, bridges, logistics, and port infrastructure, continue, as indicated in rising industrial building permit and approved FDI-financed non-garment QIP projects.

Crop production expanded

Despite less favorable weather conditions with floods and droughts, agricultural production improved. Crop production, which accounts for 57.1 percent of agricultural GDP, reached 36.8 million metric tons or a 6 percent y/y increase in 2023.[10] Rice production rose to 12.5 million metric tons, or a 7.5 percent y/y increase. Of the 7.5 percent increase, land expansion contributed 3.2 percentage points and yield improvement 4.3 percentage points. Average rice yield rose to 3.56 metric tons per hectare in 2023, up from 3.42 metric tons in 2022. In 2023, rainy season rice production reached 9.35 million metric tons and dry season rice production 3.14 million metric tons, up from 8.71 million metric tons and 2.92 million metric tons, respectively, in 2022. Indicating a marginal improvement in rice irrigation techniques, the share of dry season rice to total rice production rose to 25.1 percent in 2023, up from 23.3 a decade ago.

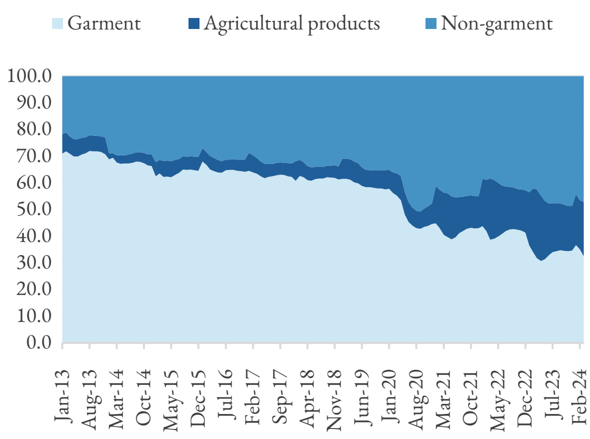
Cultivation and production of industrial crops were mixed. In 2023, rubber production reached 391,800 metric tons or a 5.1 percent y/y increase. Cassava production, however, declined to 14.2 million metric tons, a contraction of 0.5 percent y/y. Fruit production, which includes banana and mango, improved, rising to 0.9 million metric tons or a 5.0 percent y/y increase and 2.2 million metric tons or a 14.6 percent y/y increase, respectively.

Figure 11. **3-month agricultural exports**
(US$ million)



Source: Cambodian authorities.
Note: YTD = year-to-date.

Figure 12. **Shares of main goods export items**
(YTD, % share of total goods exports)



Source: Cambodian authorities.
Note: YTD = year-to-date.

10 Ministry of Agriculture, Forestry & Fisheries 2023.

Box 2. The 2023 World Bank Enterprise Surveys

As shown in table B.2.1, there has been a significant reduction in the percentage of firms in total surveyed firms reporting constraints due to political instability and access to finance, among others, indicating improvements in the business environment in Cambodia during the past decade. Enhancements in political stability have positively influenced the country's investment climate and business confidence. Access to finance has notably developed, with an increased availability of financial products and expanded services supporting business operations and growth. Infrastructure has also progressed, particularly with gradual improvements in roads, ports, and electricity supply, which has bolstered business activities and attracted foreign investments. Efforts have been made to advance the labor market through educational enhancements and vocational training. Nevertheless, Cambodia continues to face key challenges in four areas.

Informal economy: **The level of informality in Cambodia's economy remains a significant and growing challenge compared to its regional peers.** The results of Enterprise Survey 2023 for Cambodia revealed that many small and medium-sized businesses are reported to have operated without formal registration or outside the formal regulatory and fiscal systems. While the informality in the business sector can provide an unfair advantage to informal businesses over formal firms that comply with the prevailing rules and regulations, it can also lead to a less competitive economy overall, because informal businesses typically have limited access to new technologies, skilled labor markets, and export opportunities.

Tax rate: **Tax obligation in Cambodia is frequently identified by businesses as a considerable barrier.** This burden affects not only profitability but also impinges on the financial capacity of businesses to pursue investments and expansion. The Enterprise Survey 2023 indicates that 71 percent of large firms perceived it as a significant constraint to business operations within the nation (figure B.2.1). Elevated tax burdens can deter investment, particularly in sectors where profit margins are already low. Compared with its regional peers, the tax rate in Cambodia is relatively more burdensome, which could place Cambodian businesses at a competitive disadvantage. This is particularly relevant in attracting foreign investment, where companies might opt for locations with more favorable tax conditions.

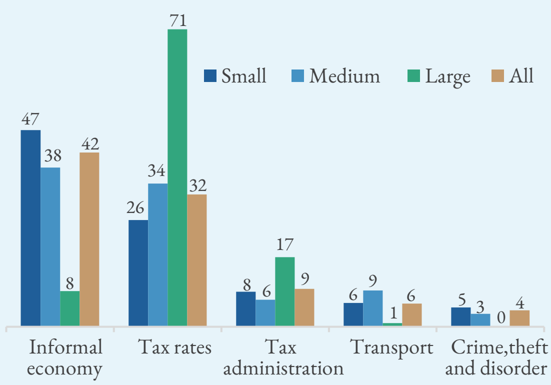
Tax administration: **Alongside the tax rate, how taxes are administered – that is, how they are collected, processed, and enforced – represents a major challenge, as specifically cited by numerous large firms.** The World Bank's Cambodia Public Expenditure Review underscores that the processes of tax administration in Cambodia are perceived as comparatively burdensome. The inefficiencies and ambiguity inherent in the tax administration system may result in uncertainty and elevate the compliance costs for businesses. Furthermore, frequent interactions with tax officials necessitated by these complexities raise the overall cost of doing business.

Transport: **Despite considerable progress made during the past decade, transport has been identified as the fourth most important constraint by small and medium-sized businesses in Cambodia.** Though the percentage of firms that identified this constraint is similar across countries and region, the quality and reach of transportation infrastructure in Cambodia lags significantly behind its peers. According to the World Economic Forum's competitiveness ranking in 2019, Cambodia scored 3.6 out of 7 in road quality, the second lowest in the region. In comparison, countries like Singapore led with a score of 6.5, followed by Malaysia with 5.3, Thailand with 4.4, Vietnam with 3.4, and Laos with 3.7. Inadequate roads, limited rail transport, and underdeveloped port facilities contribute to high logistics costs and inefficiencies in the supply chain. This not only affects domestic businesses but also diminishes Cambodia's attractiveness as a destination for foreign investment.

Table B.2.1. Enterprise Survey findings
(% of firms)

Constraints	KH13	KH16	KH23	SG23	VN23	EAP23
Access to finance	1	8	0	3	21	21
Access to land	4	5	1	1	3	4
License and permit	0	3	1	7	5	3
Corruption	13	7	0	1	0	3
Courts	6	1	1	0	0	1
Crime, theft and disorder	2	2	4	0	3	3
Customs and trade regulation	1	0	2	8	5	3
Electricity	28	2	3	2	4	5
Unskilled workforce	6	12	0	24	12	9
Labor regulations	3	1	0	38	2	4
Political instability	9	16	0	0	4	5
Informality	13	28	42	4	22	19
Tax administration	0	1	9	2	5	3
Tax rates	12	6	32	5	9	11
Transport	2	7	6	6	6	6

Figure B.2.1. Top 5 constraints in 2023
(% of firms)



Sources: Enterprise surveys, the World Bank.
Note: EAP = East-Asia and Pacific Region; KH = Cambodia; SG = Singapore; VN = Vietnam.

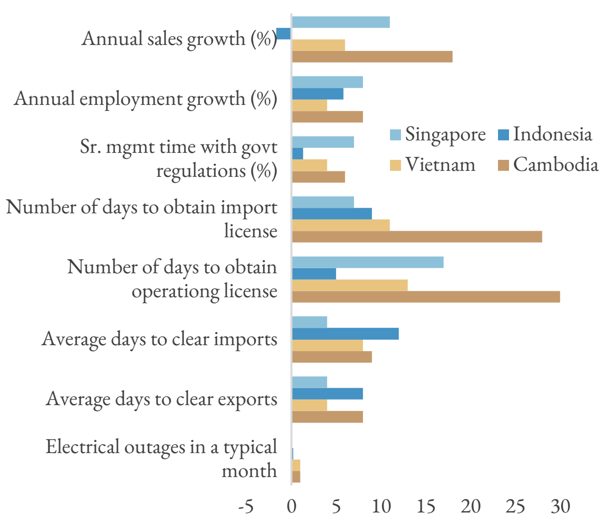
Cambodia is emerging as a major agricultural exporter

Cambodia's agricultural exports continued to increase, reaching US$4.0 billion in 2023 (figure 11). Agricultural exports increased almost fourfold during the past decade. Unlike other economic sectors of the economy, agriculture continued to be resilient during the pandemic. In 2022, Cambodia ranked among the top nine rice producers in the world.[11] Thanks partly to the newly signed free trade agreements, Cambodia is now emerging as a major exporter of agricultural products. As a share of total goods exports, agricultural exports rose to 20.4 percent during the first quarter of 2024, up from 6.3 percent in December 2013 (figure 12). During the first quarter of 2024, the country's agricultural commodity exports grew at 28.1 percent y/y, reaching US$1.1 billion and accounting for 17.4 percent of total goods exports, second only to garment exports, which amounted to US$2.0 billion. The major traditional agricultural products are rice, cassava, rubber, and wood products. Their combined exports account for about 80 percent of total agricultural exports. In addition to exports of traditional agricultural products, exports of cashew nuts and fresh fruits, especially bananas and mangos, are also emerging, accounting for about 16.0 percent of total agricultural exports, in spite of Cambodia's high transport and logistics costs.

Despite progress, subsistence farming remains a large part of Cambodia's agriculture sector. According to the Cambodia Agricultural Survey conducted in 2021, an estimated 63 percent of all households are involved in agricultural production. Home consumption was reported as the main agricultural product destination by 58 percent of household agricultural holdings in Cambodia, while 42 percent reported that agricultural production was mostly for sale. Approximately 94 percent of the 2 million household agricultural holdings cultivate crops, indicating relatively slow progress on high value-added livestock production.[12] While aromatic rice accounts for 80 percent of Cambodia's total milled rice exports, the country produces mostly non-aromatic paddy, which accounts for 59.1 percent (2.1 million hectares) of total planted area, and 59.2 percent (2.08 million hectares) of total harvested area in 2023, as producing high-quality rice seeds remains a challenge.

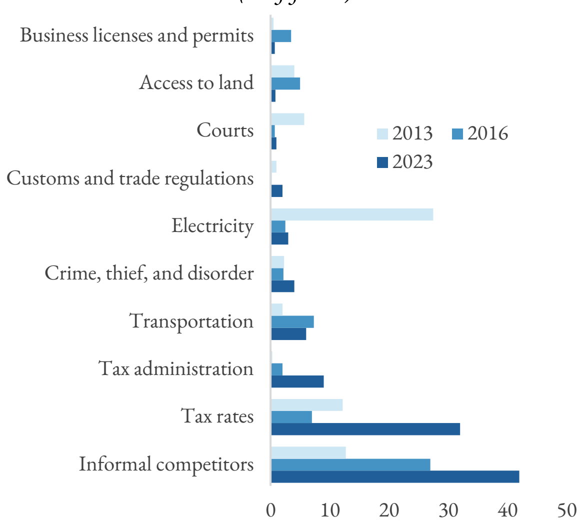
In addition, agricultural commodity exporters mentioned challenges in exporting Cambodia's agricultural commodity products, in particular, fresh fruits, due to the lack of a cold chain. Developing a cold chain will enable Cambodia to participate in the global perishable products market as an exporter. The lack of cooling systems, cold storage, and cold transport makes transporting temperature-sensitive products along a supply chain through thermal and refrigerated packaging methods a daunting challenge. The lack of cold chain logistics in

Figure 13. 2023 Enterprise Surveys – regional comparison



Source: Cambodian authorities.
Note: YTD = year-to-date.

Figure 14. Enterprise Surveys for Cambodia
Top 10 business environment constraints
(% of firms)



Sources: Enterprise Surveys, World Bank.

11 Food and Agriculture Organization 2022.

12 Ministry of Planning 2021.

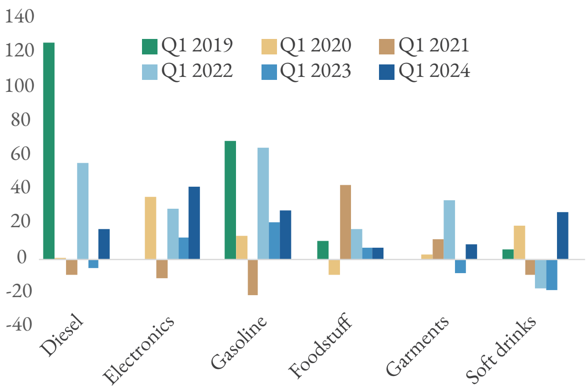
Cambodia reportedly results in wasteful perishables negatively impacting the incomes of both fruit famers and exporters.

The business environment needs to be further improved

The 2023 Enterprise Surveys[13] indicated that the time required to obtain an import license is as long as 28 days in Cambodia, compared to 11 days in Vietnam, 9 days in Indonesia, and 7 days in Singapore. Similarly, the time required to obtain a business operating license is as long as 30 days, compared to 13 days in Vietnam, 9 days in Indonesia, and 17 days in Singapore (figure 13). Delays in obtaining licenses can be costly to entrepreneurs as they add uncertainty and additional costs to much needed business transactions. The 2023 Enterprise Surveys indicated that the top three business environment constraints are practices of the informal sector,[14] tax rates, and tax administration (figure 14). While improving tax administration helped boost tax revenue collection during the past decade, it may have resulted in an increased tax administration burden on the private sector, especially formal enterprises. Officially, tax rates have not been changed since 2013. Tax rates, perceived as being in the top two constraints, may be due to improved compliance as the authorities strengthened tax administration to curb tax evasion.

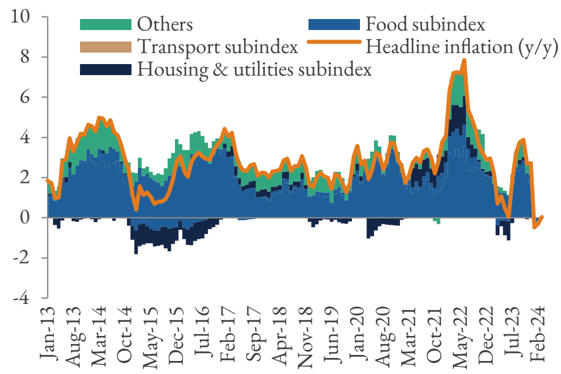
The fourth biggest constraint on business in the 2023 Enterprise Surveys for Cambodia is transportation. This has changed only slightly since 2016, when the surveys found that transportation was among the top two constraints. Issues related to transportation, as it was persistently perceived as an obstacle to firm operations, likely include high costs and the low reliability of Cambodia's logistics performance. In addition, the reliability of electricity remains a key constraint, with 43 percent of surveyed firms having experienced electrical outages. Losses due to electricity (power) outages worsened, as associated costs rose from 0.3 percent of annual sales in 2013 to 1.1 percent in 2023, well above Indonesia (0.2 percent), Vietnam (0.2 percent), and Singapore (zero percent). Low reliability (and high costs) of electricity was earlier reported by firms as one of the reasons preventing Cambodia from transitioning to and participating in a more advanced stage of global value chains, which include motor vehicle parts and components, electronics assembly, and medical devices manufacturing.[15] See box 2 for more details on the findings on the 2023 Enterprise Surveys.

Figure 15. Imports of consumer goods improved
(YTD, y/y percent change)



Source: Cambodian authorities.
Note: YTD = year-to-date.

Figure 16. Inflation dipped
Contribution to 12-month inflation
(percentage points)



Source: Cambodian authorities.
Note: y/y = year-on-year.

---

13 World Bank 2023a; https://www.enterprisesurveys.org/en/data/exploreeconomies/2023/cambodia.

14 When firms are formally registered, they are required to abide by rules and regulations, which are commonly set by governments. Paying taxes is usually the most tangible consequence of becoming part of the formal private sector. Some firms try to avoid these consequences by not registering their business and thereby remaining in the informal sector. A large informal sector may represent a challenge to competing formal firms as informal firms are able to engage in practices that can provide an unfair advantage over formal firms, which must comply with the prevailing rules and regulations.

15 World Bank 2019; https://www.worldbank.org/en/country/cambodia/publication/cambodia-economic-update-december-2019-upgrading-cambodia-in-global-value-chains.

Private consumption marginally improved

Private consumption, which significantly eased in 2023 when one-off pent-up domestic demand ran out of steam, marginally picked up in 2024. As discussed, Cambodia's manufacturing exports have started to recover since the fourth quarter of 2023, adding jobs and earnings. The manufacturing sector alone created a net 50,500 new jobs, or a 5 percent y/y increase. This has supported consumer spending. Thanks to the central bank's monetary policy accommodation, market liquidity improved, despite elevated interest rates (see discussion under the monetary section below). In addition, the services exports, especially tourism receipts, expanded as international arrivals picked up. Given that domestic consumption accounts for about two-thirds of GDP, its partial recovery has started to support retail and wholesale activities as reflected in improved consumer goods imports.

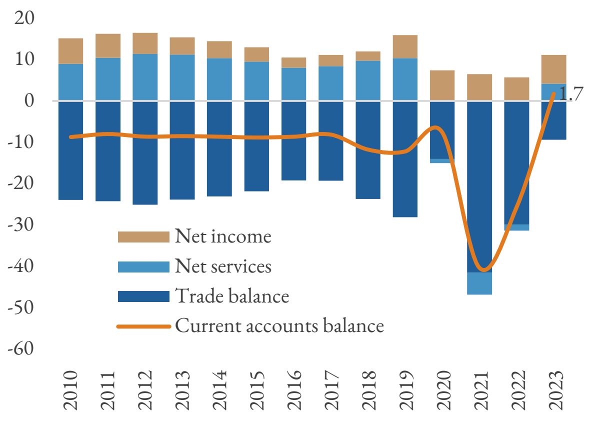
As a result, imports of nondurable consumer goods inched up. During the first quarter of 2024, top ticket items of imported nondurable consumer goods, which include diesel, electronics, gasoline, foodstuff, garments, and soft drinks, expanded by 17.1 percent, 42.5 percent, 28.7 percent, 6.1 percent, 8.4 percent, and 26.9 percent, respectively (figure 15). However, the initial revival of domestic demand, which helped boosted goods imports, is not likely to be sustained due to the marked slowdown of domestic credit growth.

While nondurable consumer goods imports recovered, durable consumer goods imports remained subdued. During the first quarter of 2024, imports of all kinds of motor vehicles, which include motorcycles, passenger cars, trucks, buses, tractors, and other vehicles, declined, contracting by 3.5 percent y/y. Despite a decent expansion of manufacturing jobs, households that still face slow wage growth, with only a 2 percent increase in the minimum wage of the manufacturing export sector and slack growth in the labor market, caused largely by stalled construction activity, take a cautious approach toward purchasing durable consumer goods, especially when borrowing costs remain high. An in-depth analysis cannot be conducted due to the nonavailability of actual data on personal consumption expenditure on durable and nondurable goods and services, especially retail sales data, to gauge consumer demand for finished goods.

Inflation declined to zero over the 12 months ending March 2024

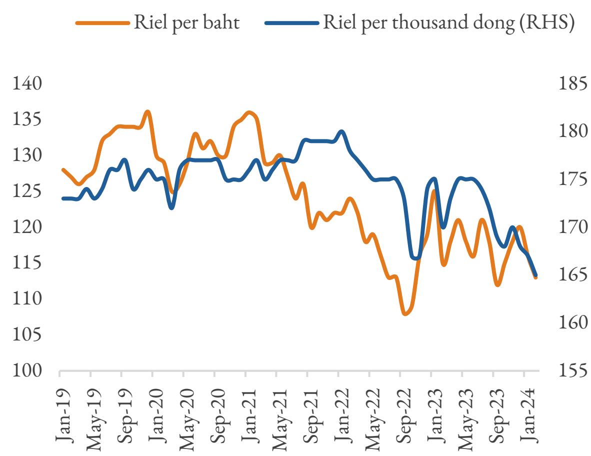
As food prices decelerated caused by the easing of domestic demand, Cambodia's Consumer Price Index (CPI) dipped in March 2024 to 0.0 percent y/y, a 15-year low (figure 16), down from 0.7 percent during the same period in 2023. During the post-pandemic period, inflation peaked in June 2022 at 7.8 percent, a 13-year high, caused largely by rapidly rising prices of food and petroleum products resulting from the global food and oil price shock. The easing of food prices, particularly of rice, meat, fish, and vegetables, subdued inflation, given

Figure 17. The current account surplus was unprecedented
(percent of GDP)



Sources: Cambodian authorities.

Figure 18. The riel appreciated against regional currencies



Source: Cambodian authorities.
Note: RHS= right-hand scale.

Box 3. The 2023 current account surplus

During 2010–19, Cambodia persistently ran a large current account deficit, averaging at 9.0 percent of GDP annually (figure B.3.1). Although a current account deficit in itself is neither good nor bad, it is likely to be unsustainable and lead to harmful consequences when it is persistently large, fuels consumption rather than investment, occurs alongside excessive domestic credit growth, follows an overvalued exchange rate, or accompanies unrestrained fiscal deficits.[a] For several years before the pandemic, the current account had been increasingly volatile, impacted by the trade imbalances, which were largely driven by rising imports of construction materials and consumer goods, especially vehicles, petroleum, and electronics fueled by construction and consumption booms. The deficits had been largely financed by capital inflows, especially FDI and rapid domestic credit growth. Can Cambodia's large current account deficit be sustained? No. The empirical literature considers persistent deficits above 5 percent of GDP to be unsustainable in the long run.[b] Deficits in the external current account are the result of the accumulation of net claims of foreigners on residents.

Since the pandemic hit in 2020, gold appears to have been used by traders as a hedge against inflation, and gold trade has become a main factor contributing to increased volatility of the trade and current account balances, while imports of construction materials (and consumer goods) softened as real estate and construction activity stalled (and credit growth plummeted). Gold trade has since been significant and unpredictable. According to the Observatory of Economic Complexity, in 2022, Cambodia became the 12th largest gold importer in the world and traded gold primarily with Singapore; Thailand; Switzerland; Hong Kong SAR, China; Australia; and Japan. The net gold trade (gold exports minus gold imports) widened quickly to -3.8 percent of GDP in 2020 and peaked at -21.5 percent of GDP in 2021 before marginally easing to -14.3 percent of GDP in 2022 (figure B.3.2). As a result, the current account deficit significantly widened to 40.4 percent of GDP in 2021 and 26.0 percent of GDP in 2022. As depicted in figure B.3.1, while substantial FDI inflows continued, financing the large current account deficits did entail corresponding declines in gross international reserves. During 2020–22, the deficits worsened due partly to severe disruptions in tourism receipts and workers' remittances due to the adverse impacts of the COVID-19 pandemic, leading to negative implications on the service and secondary income accounts.

Overinvestment in the property sector ended the bustling real estate and construction activity, followed by the property market correction. A marked slowdown in private consumption ensued. In 2023, customs data showed that goods imports declined by 18.5 percent, while central bank data indicated a significant deceleration of domestic credit growth to 4.1 percent, down from 18.9 percent in 2022. As a result, the current account balance recorded an unprecedented surplus of 1.7 percent of GDP in 2023. In addition to the decline in goods imports, relatively resilient goods exports also helped. Cambodia's strategic endeavors to diversify its export portfolio beyond conventional sectors like textiles and tourism yielded favorable outcomes. The country managed to broaden its trade spectrum by cultivating industries such as electronics, bicycles, and agricultural products, thereby contributing to offsetting the country's trade deficit impacted by the slowdown in GTF exports. In addition, the net service balance also exhibited a surplus of 4.1 percent of GDP in 2023, marking a significant enhancement from the 1.5 percent deficit recorded in 2022. This positive shift can be attributed to the burgeoning tourism sector, highlighted by the substantial rise in tourist arrivals from 2.3 million in 2022 to 5.4 million in 2023. Noteworthy improvements were also seen in the primary income account, transitioning from a deficit of 5.3 percent of GDP in 2022 to a deficit of 3.0 percent in 2023, principally owing to reduced reinvested earnings in the financial sector. Furthermore, the secondary income account showcased a surplus of 10.0 percent of GDP in 2023, predominantly propelled by the influx of remittances from abroad.

Sources: a. Devadas and Loayza 2018. b. Carranza 2002.

Figure B.3.1. The current account
(% of GDP)

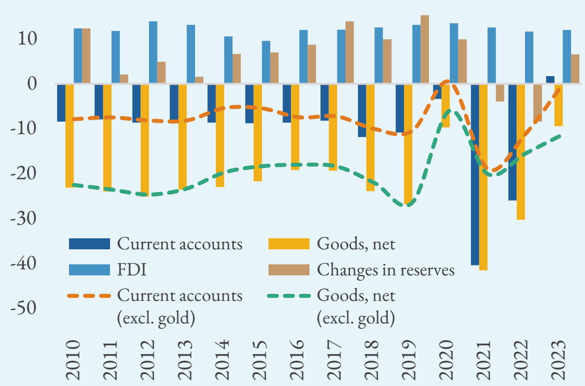
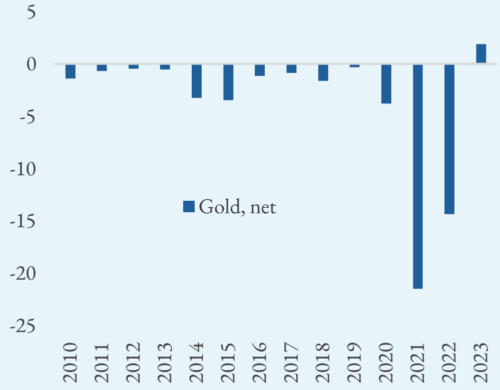


Figure B.3.2. Gold trade, net
(% of GDP)



the fact that the food component (subindex) captures a 43 percent weight of the inflation basket.

The contribution of the food subindex to inflation shrank to zero percentage points in March 2024, down from 1.3 percentage points during the same period in 2023, thanks to subdued prices of rice, meat, fish, and vegetables. Similarly, during the same period, the contribution of the housing and utilities subindex remained subdued at zero percentage points, up from -0.4 percentage points, owing to the relatively subdued costs of maintenance and repairs of dwellings, while the contribution of the transport subindex was also zero percentage points, up from -0.5 percentage points. Cambodia's CPI, excluding food, rose to zero percent y/y in March 2024, up from -0.6 percent during the period in 2023. Although global rice prices have recently inched up, domestic rice prices remained contained as Cambodia is emerging as an agriculture commodity exporter exporting several agricultural commodities beyond rice. This, together with the highly dollarized economy, seems to indicate that short- to longer-term inflation expectations continue to be well anchored.

Subdued inflation in Cambodia's main import partners, Thailand, Vietnam, and China, which, respectively, reached -0.8 percent, 4.0 percent, and 0.7 percent y/y in February 2024, helped contain domestic price pressures. Among other ASEAN members, only Lao PDR, which is not Cambodia's main import partner, continued to experience high inflation of 25.4 percent in February 2024. Inflation rates in Malaysia were 1.8 percent y/y and in Singapore 3.4 percent y/y, in February 2024. In addition, the relatively stable Cambodian riel compared to the U.S. dollar exchange rate closely maintained by the central bank helps promote overall price stability.

An unprecedented current account surplus was recorded in 2023

The decline in the trade deficit, together with rising remittances and tourism receipts, helped improve the current account balance, which registered an unprecedented surplus of 1.7 percent of GDP in 2023 (figure 17).[16] While exports of garment, travel goods, and footwear (GTF) manufacturing products were subdued, caused by the slowdown in global demand, exports of non-GTF products, which include electrical and vehicle components, bicycles, and agricultural products, accelerated. As a result, goods exports rose by 5 percent y/y in 2023, while goods imports shrank, contracting by 18.5 percent y/y, caused by subdued private consumption as domestic credit growth plummeted, with stalled construction activity (see also box 3 for more discussion on the current account). In addition, import substitution is growing, with several global vehicle brands such as Ford, Toyota, and Isuzu setting up vehicle assembly and production facilities in Cambodia.

Last year's unprecedented current account surplus indicated a marked improvement of Cambodia's external sector performance after the current account deficit hit rock bottom at 40.4 percent of GDP in 2021. Boosted by travel and tourism receipts, net services improved, registering 4.1 percent of GDP in 2023, while net income rose to 7.0 percent of GDP, according to the central bank's quarterly balance-of-payments data. The net services started to record a surplus in 2023, thanks to rising travel and tourism receipts after international arrivals recovered during the post-COVID-19 period. Similarly, net income expanded, thanks to improved investment incomes and continued strong worker remittances, which remained at 7.5 percent of GDP, reaching US$2.5 billion in 2023. Net FDI rose to 12.0 percent of GDP (US$3.8 billion) in 2023, up from 11.6 percent (US$3.4 billion) in 2022. As a result, gross international reserves rose, reaching US$19.9 billion – an 11.7 percent y/y increase in 2023. The country's gross international reserves are estimated to be equivalent to about seven months of prospective imports. This helped ease pressures on the exchange rate, while inflation remained contained as food and oil prices moderated. Continued FDI inflows and concessional financing largely cover external financing needs (see more discussion on concessional financing-debt disbursement under the fiscal section, below).

The riel appreciated against regional currencies

The current account balance, which improved owing primarily to the narrowing trade deficit, helped ease pressures on the riel. As the U.S. Federal Reserve (Fed) has held the federal funds rate

16 National Bank of Cambodia 2024; www.nbc.gov.kh/english/economic_research/monetary_and_financial_statistics_data.php.

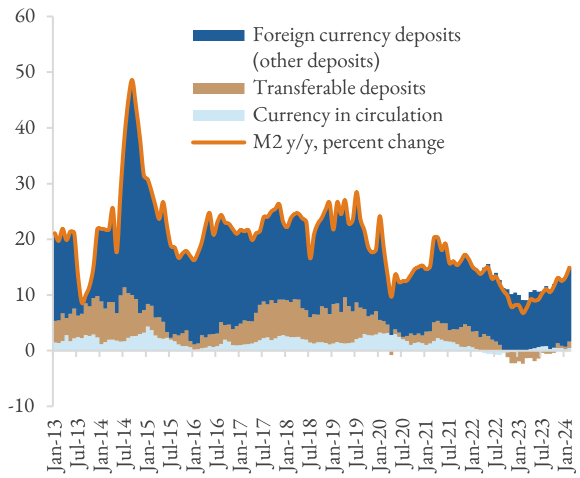
unchanged at a target range of 5¼ to 5½ percent,[17] a 23-year high at its peak for the current monetary tightening cycle since July 2023, the U.S. dollar appreciated against major currencies. The dollar appreciated against the Japanese yen, Korean won, Chinese yuan, Taiwanese dollar, and Australian dollar.[18] As a result, the riel, which is pegged to the U.S. dollar, has also appreciated against regional currencies, especially the baht and the dong (figure 18). While Thailand, Vietnam, China, and Japan are Cambodia's main export markets outside the U.S. and EU markets, the riel-baht, riel-dong, riel-yuan, and riel-yen exchange rates appreciated, reaching 113 riel per baht, 0.165 riel per dong, 565 riel per yuan, and 26.99 riel per yen, in February 2024, up from 115 riel per baht, 0.17 riel per dong, and 581 riel per yuan, and 29.69 riel per yen, during the same period in 2023. Pegging the riel to the strong U.S. dollar, therefore, hurts Cambodia's export competitiveness for both goods and services (tourism).

The riel-U.S. dollar exchange rate also marginally appreciated, reaching 4,062 riel per U.S. dollar in April 2024, down from 4,115 riel per U.S. dollar during the same period in 2023. The central bank, the National Bank of Cambodia, targets the riel exchange rate at 4,000 riel per U.S. dollar. The exchange rate policy is one of the key tools in the central bank's monetary policy. The objective is to achieve price stability.[19] Since the start of the Fed's interest rate hikes to keep rapid inflation from becoming entrenched (see the monetary section below, for more discussion on rising interest rates), the riel-U.S. dollar exchange rate has been under increased pressure. Given that the economy is highly dollarized, targeting exchange rate stability helps maintain the purchasing power of those who earn income in riel, while preventing full dollarization.

Money supply marginally increased

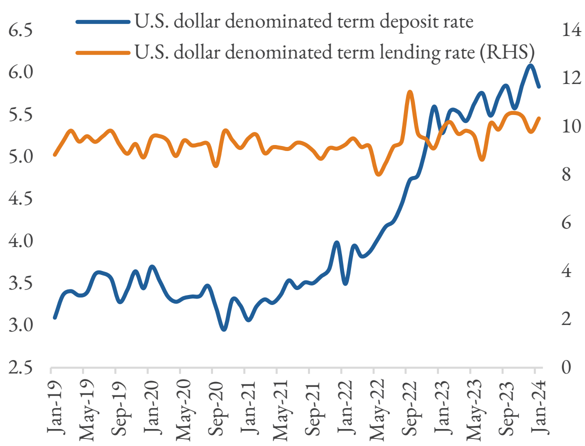
There has been a recent uptick in money supply. Incoming data show that broad money growth recovered as foreign currency deposits picked up. Indicating an improvement in capital inflows, broad money once again expanded, growing at 14.9 percent over the 12 months ending in February 2024, up from 6.8 percent during the same period in 2023, owing to improved foreign currency deposits (figure 19). Given the economy is highly dollarized, foreign currency deposits contribute the most to broad money growth. Of the 14.9 percent broad money growth, the contributions of foreign currency deposits (and other deposits) accounted for 13.3 percentage points, transferrable deposits for 1.2 percentage points, and currency in circulation 0.4 percentage points in February 2024, up from 9.1 percentage points, negative 2.3 percentage points, and negative 0.1 percentage points, respectively, during the same period in 2023. The positive growth

Figure 19. Broad money growth recovered
Contribution to broad money growth
(percentage points)



Source: Cambodian authorities.

Figure 20. Interest rates remained elevated
Domestic interest rates
(percent per year)



Source: Cambodian authorities.
Note: RHS = right-hand scale.

17 United States Federal Reserve 2024.

18 See https://www.nbc.gov.kh/english/economic_research/monetary_and_financial_statistics_data.php.

19 The National Bank of Cambodia's Exchange Rate Policy; https://www.nbc.gov.kh/english/monetary_policy/exchange_rate_policy.php.

rate of currency in circulation reflected an injection of local currency by the central bank to the market. Although Cambodia's highly dollarized economy limits the ability of the country's central bank to influence the money aggregate, the recent decrease in the reserve requirement ratio, one of a few monetary policy instruments available to influence the money supply, may partially support market liquidity. The central bank reintroduced its accommodative monetary policy by lowering its reserve requirement ratio to support economic growth. The central bank cut the foreign currency reserve requirement ratio by 2 percent, the largest cut during the post-pandemic period, to 7 percent in December 2023.[20]

Domestic interest rates remained elevated

Upward pressure on domestic interest rates continued, due to elevated interest rates in the United States. Cambodia "imports" U.S. monetary policy as the economy is highly dollarized. Since the beginning of the current tightening cycle started in mid-2022, the Fed's action to tame inflation has put pressure on domestic interest rates, which remain elevated (figure 20). There have been rising funding costs for banks and microfinance institutions in Cambodia, as they need to increase interest rates on deposits to attract depositors. This has pushed up their operating costs, squeezing their profit margins. The high interest rates squeezed the returns on assets of the banking and microfinance institution (MFI) sectors, which halved to 0.7 percent and 1.5 percent in 2023, respectively, down from 1.4 percent and 3.0 percent in 2022, respectively. Similarly, the returns on equity of the banking and MFI sectors declined to 3.8 percent and 6.0 percent in 2023, respectively, down from 7.0 percent and 13.6 percent in 2022, respectively.

In parallel, the nonperforming loan ratios rose to 5.4 percent for banks and 6.7 percent for MFIs, up from 2.2 percent and 2.6 percent, respectively, partly reflecting the end of the forbearance measures introduced during the pandemic and the decrease in domestic credit growth. In January 2024, the weighted average interest rates of U.S. dollar-denominated term deposits rose to 5.83 percent per year, up from 4.1 percent per year in June 2022. Similarly, the weighted average interest rates of U.S. dollar-denominated term loans rose to 10.34 percent per year, up from 8.4 percent per year during the same period. High interest rates reduce the overall level of domestic demand, while encouraging domestic saving as consumers can receive higher returns on their savings. The negative impact on economic activity of the current monetary policy tightening cycle has started to materialize. As discussed, the demand for durable consumer goods remained subdued and domestic credit growth plummeted, indicating investment and consumer spending are being harmed by the current monetary policy tightening cycle (see the domestic credit section below).

Credit sharply decelerated as housing development activity stalled

Domestic credit growth has experienced a significant slowdown since mid-2023. While a tightening of credit conditions, caused by rising interest rates, may also play a role, weaker credit demand may account for the bulk of the slowdown. First, the demand for domestic credit by the real estate and construction sector plummeted. With an overinvestment in the property market, the housing market correction continued, resulting in a decline in the demand for bank credit. Second, higher interest rates, low consumer confidence, and falling real disposable income resulting from lasting scars of the COVID-19 pandemic[21] have also contributed to the weak credit demand by households and firms. As a result, credit sharply decelerated to 4.6 percent y/y, a 14-year low in February 2024, down from 14.8 percent during the same period in 2023 (figure 21). The rate of credit growth is the slowest since late 2009, when the economy was hit by the global financial crisis.

Credit is rotating from the real estate to trade and agriculture sectors

Despite the overall slowdown in credit growth, the share of domestic credit financing the retail, wholesale, and agriculture sectors combined increased, reaching 35.5 percent of total outstanding credit (US$52 billion) in February 2024, up from 34.7 percent during the same period in 2023 (figure 22). As a result, since September 2023, the share of domestic credit financing the retail, wholesale, and agriculture sectors

20 National Bank of Cambodia 2023.

21 World Bank 2020.

combined has exceeded the share of domestic credit going to the construction, real estate, and mortgage sectors. This indicates a gradual shift in domestic credit provision to the economy's main productive (services and agriculture) sectors away from the property sector. The share of domestic credit going to the construction, real estate, and mortgage sectors declined to 33.3 percent of the total in February 2024, down from 34.6 percent during the same period in 2023, caused by a slowdown in the demand for credit resulting from an overinvestment in the property market.

The slowdown in credit growth led to a decline in the credit-to-GDP ratio, which shrank to 166.2 percent in February 2024, down from 171.8 percent during the same period in 2023. Private sector deposit growth, however, accelerated to 15.7 percent y/y in February 2023. This likely indicates improved confidence in the financial sector, attracted by elevated deposit interest rates as well as the ability of households and businesses to save. The slowdown in credit growth and the pickup in deposit growth helped reduce the loan-to-deposit ratio, which stood at 127.9 percent in February 2024, down from 141.5 percent during the same period in 2023.

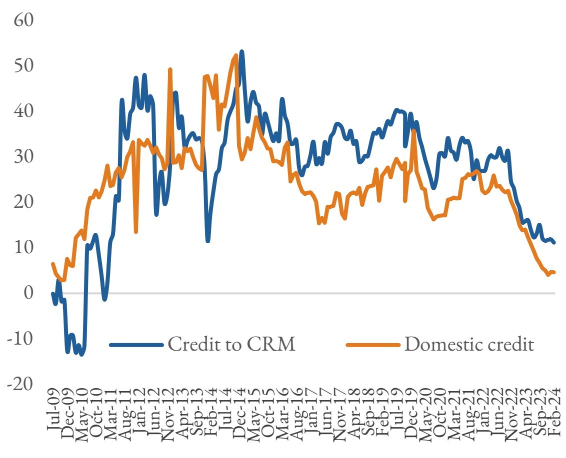
Domestic revenue collection remained sluggish

Incoming data showed that in January 2024, domestic revenue collection barely increased, growing at 0.2 percent y/y, down from 11.3 percent during the same period in 2023. After a rapid recovery in 2022, in part reflecting a one-time consumption boom after lifting COVID-19-related mobility restrictions, growth in government revenue collection has slowed. Cambodia continues to rely on taxes on goods and services (indirect revenue) (figure 23). Its direct revenue, which includes largely profit and income taxes, remains relatively small, accounting for about one-third of total tax revenue, as the country has not yet introduced a personal income tax.

Since 2023, Cambodia's indirect revenue, which consists mainly of consumption taxes such as the value-added tax and excises, has been affected by sluggish private consumption, as domestic credit growth significantly slowed. In addition, taxes on international trade, consisting mostly of revenue from import tariffs, are also being hit by slow imports and newly signed free trade agreements. As a result, taxes on goods and services declined to 8.8 percent of GDP and on international trade to 2.0 percent of GDP in 2023, down from 10.5 percent and 2.1 percent, respectively, in 2022. While recovering owing to the revival of the tourism sector, nontax revenue amounted to 1.9 percent of GDP in 2023, well below its pre-pandemic peak of 3.0 percent.

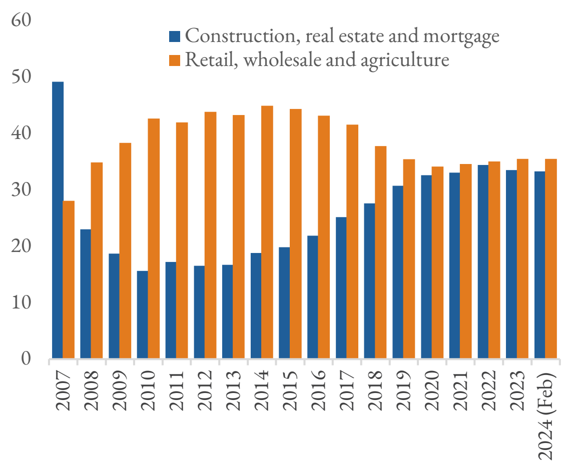
In addition, its corporate income tax is increasingly constrained by generous tax incentives under the new Law on Investment. Nevertheless, owing to efforts to strengthen tax revenue administration, gradual achievements in improving direct revenue collection continue. A

Figure 21. **Domestic credit growth plummeted**
Credit growth
(y/y percent change)



Sources: Cambodian authorities.
Note: CRM = construction, real estate, and mortage.

Figure 22. **Domestic credit allocation is shifting to finance trade and agriculture**
(percent of total)



Sources: Cambodian authorities.
Note: CRM = construction, real estate, and mortgage; RWA = retail, wholesale, and agriculture.

new 2024–28 revenue mobilization strategy is to be introduced this year.

Budget expenditure expanded moderately

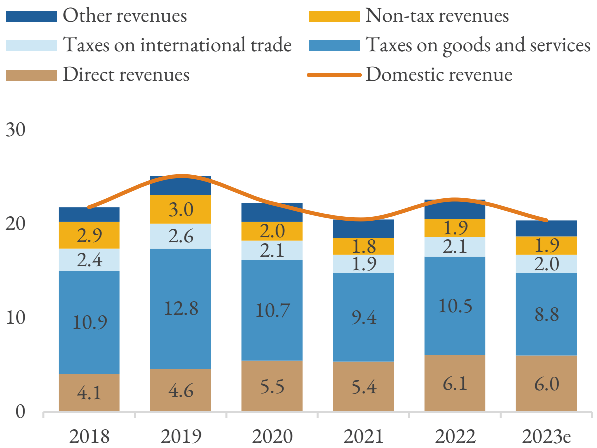
In 2023, owing to an estimated decline of capital expenditure, thanks to budget consolidation efforts, government outlays remained contained, despite rising current expenditure caused by reintroduction of the across-the-board public sector wage increase (frozen during 2021–22 to save budgetary resources to finance to COVID-19-related spending), introduction of social security benefits for former civil servants and veterans, hosting of the 32nd Southeast Asian Games, and election-related spending. Thanks to the decline of domestically financed public capital investment, capital expenditure is estimated to have declined to 7.4 percent of GDP in 2023, down from 8.7 percent in 2022 (figure 24), as a countercyclical public investment boost introduced to cushion negative impacts of the pandemic has been withdrawn. However, public expenditure on wages and compensation and on goods and services is estimated to have marginally increased, reaching 6.8 percent of GDP and 8.1 percent of GDP in 2023, respectively, up from 6.7 percent and 8.0 percent in 2022, respectively. Other expenditures, which cover subnational budget expenditures, also marginally increased, and are estimated to have reached 4.0 percent of GDP in 2023, up from 3.8 percent in 2022. However, spending pressures continue. In January 2024, reflecting volatility of budget expenditure, central government expenditure quickly accelerated, expanding at 62.6 percent y/y, up from negative 13.0 percent during the same period in 2023. Cambodia continues to implement the across-the-board public sector wage increase and social assistance program. It is boosting technical and vocational education and training (TVET) and healthcare. The 2023–28 Pentagonal Strategy aims at training 1.5 million TVET trainees, targeting universal health coverage, boosting agricultural extension activity, and more.

The overall fiscal deficit widened

Owing largely to the decline in domestic revenue, the fiscal deficit is estimated to have widened. In 2023, the gap between total revenue (including grants) and expenditure under general government operations is estimated to have reached 5.3 percent of GDP, compared to 4.4 percent recorded in 2022 (figure 25). Revenue including grants is estimated to have amounted to 21.4 percent of GDP, down from 23.4 percent of GDP collected in 2022, while expenditure marginally declined to 26.7 percent of GDP, down from 27.7 percent of GDP during the same period, thanks to budget consolidation efforts.

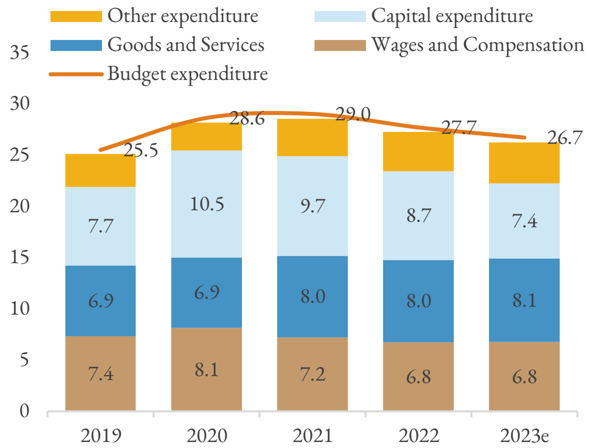
External funds continued to play a major role in financing the fiscal deficit. Since the pandemic hit in 2020, the authorities have been filling the pandemic-induced widening financing gap primarily with rising proceeds from loan disbursements, supplemented by drawdowns of government deposits (fiscal reserves)

Figure 23. **Domestic revenue eased**
General government domestic revenue
(percent of GDP)



Sources: Budget settlement laws and World Bank staff estimates.
Note: e = estimate.

Figure 24. **Expenditure remained contained**
General government expenditure
(percent of GDP)



Sources: Budget settlement laws and World Bank staff estimates.
Note: e = estimate.

(see the public debt section for details). To finance the estimated 5.3 percent of GDP overall fiscal deficit, external financing, which includes project and budget support, is estimated to have accounted for three-quarters (figure 26), while the remaining one-quarter is estimated to have been financed by a drawdown of government deposits (fiscal reserves), which stood at 15.4 percent of GDP (20.1 trillion riel) by February 2024, down from 16.3 percent of GDP during the same period in 2023.

Cash transfer programs continued

The COVID-19 cash transfer program, the largest component of the government's fiscal intervention during the pandemic, concluded at the end of March 2024, with the total disbursement of US$1,342 million after being introduced in June 2020. To continue providing social assistance to poor and vulnerable households, the Royal Government of Cambodia approved the Family Package (FP), a permanent program, in December 2023. The FP integrates the existing four programs: (i) a conditional cash transfer for pregnant women and child under two years old, (ii) a scholarship program for primary and secondary school students, (iii) a cash transfer for people with disabilities, and (iv) a cash transfer for people aged 60 and older (table 1).

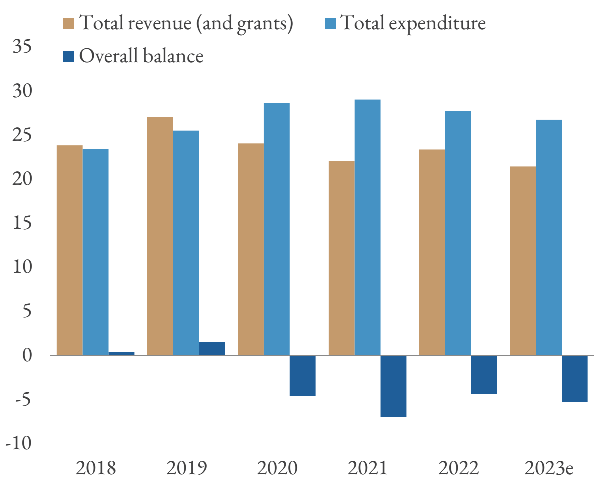
The FP, which was officially implemented in April 2024, signals a major policy shift toward increased and better targeted social assistance coverage for poor and vulnerable families on a permanent basis. It aims to improve the adequacy of social assistance by offering a flat rate unconditional cash transfer, together with conditional amounts tailored to each eligible family member (pregnant women, children under two, school-aged children, people with disabilities, people living with HIV/AIDS, and people aged 60 and older). The FP is expected to benefit approximately 654,000 households (2.8 million individuals or around 18 percent of the population) identified under the Identification of Poor Households Program (ID Poor). In this regard, 434,600 million riel (US$100 million) has been budgeted for the FP for 2024 and 701,302 million riel (US$170 million) for 2025.

The incidence of poverty under the national poverty line was 17.8 percent in 2019/20, but it is anticipated that poverty rates increased in 2021 due to the economic impacts of the pandemic and associated lockdowns. However, with the projected economic recovery and moderating inflation, the poverty rate is estimated to have decreased in 2023.

Public debt stock reached 35.5 percent of GDP

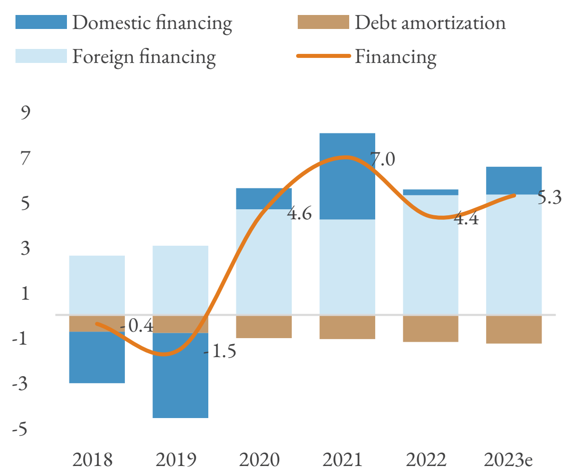
By end-2023, Cambodia's public debt-to-GDP ratio reached 35.5 percent or US$11.2 billion in outstanding debt, of which 99.5 percent, or US$11.19 billion, is public external debt, while public domestic debt accounted for the remaining

Figure 25. General government operations
(percent of GDP)



Sources: Budget Settlement Laws; World Bank staff projections.
Note: e = estimate.

Figure 26. General government surplus/deficit and financing
(percent of GDP)



Sources: Budget Settlement Laws; World Bank staff projections.
Note: p = projections.

0.5 percent, or US$52.39 million. [22] Of the total US$11.19 billion public external debt, 64.0 percent is owed to bilateral creditors and 36.0 percent to multilateral creditors, compared to 67.5 percent and 32.4 percent, respectively, in 2022. Triggered by the pandemic, Cambodia's debt accumulation picked up amid slow revenue collection and rising demand for health and social assistance spending, resulting in a widening financing gap. To finance the gap, the country's public debt, which consists almost solely of external debt, rose by 7.3 percent of GDP, to 35.5 percent of GDP by 2023, up from 28.2 percent in 2019. External borrowing remained highly concessional, with a weighted grant element of 44.7 percent in 2023. The weighted average interest rate of contracted loans was 0.96 percent per year in 2023, down from 1.11 percent in 2022, while weighted average maturity declined to 24.1 years, down from 26.9 years.

Table 1. Family Package components

Benefit Types	Conditions	# of payments	Amount (riel)
Pregnant women and children under 2	Prenatal checkups during pregnancy	4	80,000
	Give birth at public health facilities	1	400,000
	Postpartum medical checkups	3	80,000
	Medical checkups, vaccinations, and immunizations for children	7	80,000
Scholarship	Children go to primary	12/year	20,000
	Children go to lower secondary	12/year	20,000
	Children go to upper secondary	12/year	30,000
Elderly (60+)	Elderly aged 60 and older	12/year	28,000
Disability	Disability card	12/year	28,000
HIV/AIDS	Equity card	12/year	28,000
Basic allowance	Equity card	12/year	34,000

Source: Cambodian authorities.

China continued to be Cambodia's largest official creditor. Total debt owed to China reached US$4.11 billion. As a share of total outstanding public external debt, Chinese outstanding debt declined to 36.7 percent in 2023, down from 40.1 percent in 2022, due to rising multilateral debt. Cambodia's second-largest creditor is the Asian Development Bank, to which it owed US$2.3 billion, or 23.6 percent of total public external debt.

The World Bank is Cambodia's third-largest creditor, with a US$1.3 billion debt stock or 11.8 percent of total public external debt as of end-2023. In 2023, the amount of loans signed between Cambodia and the World Bank was the largest, reached US$501.3 million, or 27.7 percent of total public external debt contracted in 2023. Similarly, the amount of loan disbursements by the World Bank to Cambodia was also the largest, accounting for US$393.6 million or 22.3 percent of total public external loan disbursements in 2023. World Bank loan disbursements have risen quickly, increasing from US$15.8 million a year in 2017 to meet rising demand for financing priority sectors. A wide-ranging area of the priority sectors financed by the World Bank include policy development financing, general and higher education, social and economic land allocation, agricultural diversification, health equity and quality improvement, road connectivity, livelihood enhancement, water supply, and disaster management.[23] Cambodia's fourth- and fifth-largest creditors are Japan and the Republic of Korea, accounting for 11.2 percent and 5.1 percent of total outstanding debt, respectively. Old debt accounted for 5.6 percent of the total.

Rising external finances by Cambodia's official creditors have helped close the pandemic-induced widening financing gap. Loan disbursements rose quickly from US$829 million (2019) to US$1,213 million (2020), US$1,168 million (2021), US$1,345 million (2022), and US$1,523 million (2023). Of the total disbursement of US$1,523 million in 2023, 63.1 percent financed the country's public infrastructure sectors (transport, energy, irrigation, water supply, and others) and 36.9 percent financed non-infrastructure priority sectors (agriculture, health, education, and other priorities). This indicates a significant shift in government priorities, given that a decade ago, loan disbursements almost entirely

22 Ministry of Economy and Finance 2024a.

23 For detailed sectors and projects, see: https://projects.worldbank.org/en/projects-operations/projects-list?lang=en&countrycode_exact=KH&os=0.

financed public infrastructure priorities. In 2013, physical infrastructure priorities received as much as 96.6 percent of total loan proceeds, while the non-infrastructure priorities received the remainder.

U.S. dollar-denominated outstanding public external debt remained the largest, rising to 46.0 percent of total debt stock in 2023, followed by Special Drawing Rights (SDR)-denominated debt, at 19.2 percent. Although China is Cambodia's top creditor, the country's public external debt denominated in Chinese yuan accounted for only 11.3 percent of total debt stock. Public external debt denominated in Japanese yen, euro, and other currencies, accounted for 11.2 percent, 6.9 percent, and 5.4 percent, respectively. The shares of these currencies of denomination have remained relatively unchanged for a decade.

Cambodia remained at low risk of external and overall debt distress

Cambodia remained at low risk of external and overall debt distress under the Low-Income Countries Debt Sustainability Framework, according to the joint World Bank/International Monetary Fund Debt Sustainability Analysis conducted in 2023. The current debt-carrying capacity remains consistent with a medium classification. The baseline scenario assumes a steady economic recovery, largely driven by a rebound in tourism and manufacturing goods exports. The total public and publicly guaranteed debt-to-GDP ratio is projected to rise by around 4 percentage points of GDP during the next decade, but its level is set to remain stable. Moreover, the debt burden indicators are projected to remain well below their thresholds under the baseline and the shock scenarios. However, stress tests show that debt sustainability remains vulnerable to shocks in exports and growth.

OUTLOOK

This year's economic growth is projected to marginally improve to 5.8 percent (see table 2), driven mainly by a continued revival of services and goods exports. Looking ahead, Cambodia's improved current account balance, supported by some success in diversifying its exported products beyond GTF products (to agricultural commodities, solar panels, and electrical and electronic parts) and its export markets beyond the U.S. and EU markets (to regional markets, especially the ASEAN market) should support resilience of goods exports. The economic recovery, in conjunction with continued social assistance programs, should translate into a decline in poverty, reversing part of the likely increase in poverty in 2020 and 2021. The pace of poverty reduction is projected to accelerate this year.

Cambodia's real growth is projected to accelerate further in the short term. Cambodia's real growth is projected to reach 6.1 percent in 2025 and 6.4 percent in 2026. The tourism and hospitality industries are anticipated to continue to expand, with a projected increase in international arrivals, surpassing the pre-pandemic levels in the coming years, while goods exports and FDI inflows are expected to be further strengthened by the newly ratified free trade agreements and a substantial increase in private and public investment in key physical infrastructure.

CHALLENGES AND RISKS

The outlook is subject to downside risks, which include weaker-than-expected global demand, global financial stress amid elevated debt and high borrowing costs, and a slower-than-anticipated recovery in China. Cambodia's highly dollarized economy is affected by the U.S. monetary policy tightening cycle, while its GTF exports are susceptible to consumer demand in the United States and EU. In addition, the country is also dependent on Chinese FDI. In China, further loss of consumer confidence could hold back spending and weigh on growth, especially as China's property sector slump continues. Domestically, a faster-than-expected increase in nonperforming loans could affect macro-financial stability as the housing market correction continues. High global interest rates and decelerating credit growth continue to affect Cambodia's financial sector, which is showing signs of deleveraging.

POLICY OPTIONS

Against the backdrop of the ongoing recovery, more efforts are needed to restore fiscal space as Cambodia's fiscal buffers have shrunk, after years of government fiscal intervention. First, increasingly generous tax holidays and exemptions should be reviewed. Second, reforming the corporate income tax to broaden the tax base and strengthen compliance is a must. Third, introducing a personal income tax should be a medium-term objective of the next revenue mobilization strategy.

Given high levels of private debt, rising NPLs and falling returns to banking sector assets, safeguarding financial stability also remains important. The recent credit boom has resulted in relatively high levels of private sector debt, which is concentrated in real-estate exposures. To safeguard financial stability, the immediate focus should be on intensified bank supervision: stress testing of individual institutions, systematic onsite inspections, further alignment of the regulatory framework with international standards, and thorough assessments of the quality of loan portfolios, among others. There was a rapidly growing number of financial institutions in Cambodia until 2022. Therefore, a consolidation of the financial sector through mergers and acquisitions should help preserve profit margins by improving their efficiency and increasing market share. To prepare for increasing levels of nonperforming loans, it is crucial to ensure that resolution options are now ready to be deployed as needed, and to strengthen the country's insolvency regime. Efforts to prepare legislation on deposit insurance and bank resolution must continue.

More effort is urgently needed to create an accommodating business environment encouraging firms to operate, innovate, and increase productivity in an efficient manner. It is necessary to address the top three perceived constraints, which are practices of the informal sector, tax rates, and tax administration identified by the 2023 World Bank Enterprise Surveys, by promoting business registration, reducing the tax compliance burden, and reviewing effective tax rates. The 2023 Enterprise Surveys indicate that in Cambodia, 8.2 days were needed to clear direct exports through customs and 9 days were needed to clear imports, compared to 4 days and 8.3 days, respectively, in Vietnam. To reduce time needed to import, there is an urgent need to accelerate implementation of pre-arrival processing electronically, while undertaking complete automation of customs clearance procedures to allow the official use of electronic documents to shorten export time. The 2023 Enterprise Surveys also revealed that in Cambodia, 28 days were needed to obtain an import license and 30 days to obtain an operating license, compared to, respectively, 13.2 days and 10.7 days in Vietnam, and 9 days and 5 days in Indonesia.

Therefore, streamlining complex and restrictive business entry requirements, together with improvements to the functioning of the insolvency framework, will help reduce costs of firm entry and exit, while promoting the predictability of the regulatory environment. Considerable effort is needed to simplify and digitalize business services, especially the issuance of licenses and permits to reduce the associated costs. Accelerating full implementation of the final phase of the National Single Window to include licenses, permits, certificates, and other documents, is necessary. Fast-tracking the implementation of licensed economic operators is also needed.

Boosting learning outcomes is fundamental to develop a "future-ready" workforce and drive Cambodia's future productivity growth as the country endeavors to become an upper middle-income economy by 2030 and a high-income economy by 2050. Labor productivity growth has declined sharply over the past five years. Few young Cambodian children are being enrolled in early childhood education, while primary schools are experiencing a decline in learning outcomes. Few students are progressing to secondary school, and those that do are often inadequately prepared and experience high dropout rates. (See the Special Focus section for a more in-depth discussion on strengthening Cambodia's education system for future growth.)

It is also important to improve logistics performance, as targeted by the Pentagonal Strategy.[24] Further efforts must be made to reduce transport and logistics costs by monitoring the efficiency of main trade gateways such as ports and border checkpoints. The Enterprise Surveys reveal that transportation is now the fourth greatest constraint for businesses. This is consistent with one of the findings discussed in a policy note that analyzed post-pandemic supply chain disruptions. The findings indicated that the national logistics costs in Cambodia are significantly higher than in comparable ASEAN countries, estimated at 26.4 percent of GDP in 2020. To this end, it is necessary to establish a team, and local authorities dedicated to facilitating trade with hotline support, especially for road transport.

24 The Pentagonal Strategy is a roadmap for transforming Cambodia into a high-income country by 2050.

Table 2. **The macro outlook indicates continued economic recovery**

	2019	2020	2021	2022	2023e	2024p	2025p	2026p
National Accounts and Prices								
GDP at constant market prices (% change)	7.1	-3.1	3.0	5.2	5.4	5.8	6.1	6.4
Agriculture	-0.5	0.6	1.2	0.7	1.4	1.4	1.4	1.5
Industry	11.3	-1.4	9.4	8.3	4.8	7.4	7.7	8.1
Services	6.2	-6.3	-2.7	3.5	8.0	6.1	6.3	6.4
Consumer Price Index	1.9	2.9	2.8	5.5	2.1	2.8	2.7	3.0
General Government (% of GDP)								
Revenue and grants	27.0	24.1	22.0	23.4	21.4	20.7	20.6	20.3
Expenditure and net lending	25.5	28.8	29.2	27.7	26.7	26.2	25.0	24.5
Overall balance (including grants)	1.5	-4.7	-7.2	-4.4	-5.3	-5.5	-4.4	-4.2
Foreign financing	3.1	4.7	4.2	5.3	5.3	4.3	3.7	3.6
Net domestic financing (from current savings)	-3.8	1.1	4.0	0.3	1.2	2.6	2.2	2.2
Amortization	-0.8	-1.0	-1.1	-1.2	-1.3	-1.4	-1.5	-1.6
Money and Credit								
Broad money (% change)	18.2	15.3	20.0	8.2	12.5	13.0	15.1	17.0
Credit to the private sector (% change)	27.0	17.7	23.2	18.9	4.1	7.6	10.8	12.6
External Sector (US$m unless otherwise)								
Exports (goods and services)	16,351	16,692	18,566	24,494.7	29,149.5	35,679.0	45,186.1	58,646.5
Imports (goods and services)	18,198	19,955	29,489	40,467.1	32,125.3	35,953.8	44,126.2	57,068.3
Foreign direct investment, net inflows	3,561	3,498	3,391	3,425	3,639	4,080	4,351	4,620
Gross official reserves	18,763	21,334	20,272	17,816.0	19,895.6	23,550.4	26,135.4	28,785.9
(months of imports)	9.7	10.4	8.1	7.0	6.0	5.5	5.0	5.0
Current account (percent of GDP)	-8.0	-7.5	-39.7	-25.5	1.7	2.7	2.6	1.6
Exchange rate (riel per US$ average)	4,070	4,077	4,100	4,150	4,110	4,100	4,090	4,080
Total public debt (% of GDP)	28.1	35.9	36.1	36.7	33.6	35.6	35.5	34.8
Memorandum items:								
Nominal GDP, US$m	27,030	25,972	26,963	29,158	31,662	34,290	37,271	40,559

Sources: Cambodian authorities; World Bank staff estimates and projections.
Note: e = estimate; p = projections.

Upgrading Cambodia's infrastructure, particularly its electricity supply, is critically important for moving up to higher-value-added manufacturing and agro-processing industries. While access to electricity has significantly improved, low reliability of power supply remains a key bottleneck. The Enterprise Surveys indicate that 43 percent of surveyed firms experienced electrical outages (0.9 outages in a typical month) in Cambodia, compared to 12.7 percent (0.2 outages in a typical month) in Indonesia, and 28.6 percent (0.4 outages in a typical month) in Malaysia (2019). Inadequate electricity supply can increase costs, disrupt production, and reduce profitability. The Enterprise Surveys indicated that in Cambodia, losses due to electricity outages worsened as associated costs rose from 0.3 percent of annual sales in 2013 to 1.1 percent in 2023, well above Indonesia (0.2 percent), Vietnam (0.2 percent), and Singapore (zero percent). Large investments are needed in the energy sector to address the dual challenge of meeting rapid growth in electricity demand while meeting the country's climate change commitments. Investments are also needed to upgrade basic urban services such as piped water, sanitation, solid waste management, telecommunications, and transport, in conjunction with strengthened urban planning.

PART 2.
STRENGTHENING CAMBODIA'S EDUCATION SYSTEM FOR FUTURE GROWTH[25]

25 The Special Focus section is contributed by Lauri Pynnonen.

Photo: DALL-E

Introduction

Cambodia has made significant strides in expanding access to education over the past decade. The country's net enrollment rates have increased steadily, with primary education attendance reaching 90 percent in 2019, up from 81 percent in 2009.[26] Similarly, enrollments at the lower and upper secondary levels have shown good progress. Despite these improvements, Cambodia still faces numerous challenges in providing quality education to all its citizens. The recent COVID-19 pandemic has further exposed the vulnerabilities of the education system, with prolonged school closures leading to substantial learning losses.[27] Even prior to the pandemic, Cambodia already faced high learning poverty rates, with students scoring low in both Khmer and mathematics. Moreover, disparities in access to education, especially at the secondary level, and variations in learning outcomes, persist across different geographic locations and socioeconomic backgrounds.

Investing in education is not merely a social imperative but also an economic necessity. A well-educated, skilled workforce is the cornerstone of productivity, innovation, and competitiveness in today's knowledge-driven global economy. Countries that have prioritized educational investment, such as Finland, the Republic of Korea, and Singapore, have reaped significant economic benefits, transforming themselves into dynamic, high-income economies. Conversely, the costs of neglecting education can be severe and far-reaching. Low educational attainment and poor learning outcomes perpetuate intergenerational cycles of poverty, diminish workforce productivity, and impede a nation's ability to adapt to technological advancements and global market shifts. In Cambodia, where learning poverty rates remain high and disparities in access and quality persist, the potential economic and societal consequences of inaction are substantial.

Cambodia's Human Capital Index score of 0.49 highlights the urgency of addressing these challenges. This score indicates that a child born in Cambodia today will only be 49 percent as productive as they could be if they had access to complete education and full health. In other words, Cambodia is currently only realizing about half of its human capital potential. Improving educational outcomes, starting with foundational skills, is crucial for Cambodia to unlock its full human capital and drive sustainable economic growth.

As Cambodia aspires to become an upper middle-income country by 2030, prioritizing human capital development through education will be essential. Strong foundational skills serve as the building blocks for advanced cognitive, technical, and socio-emotional skills later in life. These skills are critical for fostering a technology- and innovation-driven economy, enhancing workforce productivity, and enabling Cambodia to successfully transition to higher-income status. However, achieving this goal will require a concerted effort to address the persistent challenges in the education system, such as uneven resource allocation, limited teacher effectiveness, and gaps in foundational learning.

In the past decade, there has been a notable increase in public expenditure on education, particularly on teacher salaries. However, this surge in resources has not necessarily led to a more effective allocation or better learning outcomes for students. Cambodia's relatively low global standing in large-scale international assessments like the Southeast Asia Primary Learning Metrics (SEA-PLM) and the *Program for International Student Assessment* (PISA), along with declining learning outcomes, reflect this discrepancy. The rise in government expenditure on education primarily stemmed from increased wages for educational staff, with wage expenditure constituting nearly 80 percent of total Ministry of Education, Youth, and Sports (MoEYS) expenditure in 2021. Conversely, capital expenditure by MoEYS has significantly declined, plummeting from 27 percent in 2011 to 17 percent of total expenditure in 2021.[28]

Of significant concern is the inefficient distribution of teachers, which has led to large class sizes of 45 to 60 students, with Cambodia consistently having higher student-teacher ratios than its ASEAN counterparts.[29] From 2013 to 2018, Cambodia had the highest student-teacher ratio for primary schools, and although the ratio for secondary schools is lower, it remains high. Moreover, there is a stark imbalance in the distribution of

26 Cambodia Socio-Economic Survey Reports 2014, 2019/20.

27 Bhatta et al. 2022.

28 World Bank 2024e.

29 Boy and Water 2023.

teachers between urban and rural regions as well as among provinces. Many rural areas consistently grapple with a severe shortage of teachers, a long-standing and persistent issue. At the provincial level, there is concentration of teachers in Phnom Penh, while most other provinces face teacher shortages.

This Special Focus chapter on education delves more deeply into these critical issues. By examining educational access, spending, outcomes, teacher effectiveness, and foundational learning, we seek to provide actionable policy recommendations to strengthen Cambodia's education system. The chapter will address the following areas: access and equity in education, with a focus on early childhood education and primary schooling and an examination of trends in enrollment and learning outcomes and a discussion of strategies to enhance access and quality; trends in education spending and the relationship to learning outcomes and the need to focus on spending better; and the importance of teacher effectiveness and policies to improve teacher recruitment, training, and deployment. The final section summarizes the key findings and provides policy recommendations that prioritize spending better, improving teacher effectiveness, and strengthening foundational learning.

By addressing these critical aspects of Cambodia's education system, the Special Focus aims to contribute to the ongoing effort to provide quality education for all Cambodian children. Investing in human capital through education is not only essential for individual well-being but also for the country's long-term economic growth and development. As Cambodia continues to navigate challenges such as uneven resource allocation, limited teacher effectiveness, and gaps in foundational learning, within the broader context of competing priorities for limited resources and limited implementation capacity at the systemic level, it is more important than ever to ensure that the education system is resilient, equitable, and responsive to the needs of its learners.

Access and Equity in Education

Ensuring access to education and promoting equity are cornerstones of a well-functioning education system. Cambodia has made significant progress in expanding access to education, particularly at the primary level, over the past two decades. However, disparities in educational opportunities and outcomes persist across regions, socioeconomic groups, and gender. Addressing these inequities is crucial for ensuring that all children have the chance to learn, grow, and reach their full potential, regardless of their background or circumstances.

Over the past decade (2009–19/2020), there have been significant strides in increasing enrollment rates across various educational levels, particularly in secondary education. Primary school net enrollment saw an 8-percentage-point increase, reaching 90 percent. More notably, enrollment in lower secondary schools surged by 16 percentage points to 47 percent, while upper secondary schools experienced a 13-percentage-point rise, achieving a 30 percent enrollment rate. These improvements are highlighted in figure S.1, showcasing the encouraging progress made in educational access and participation. Despite progress, however, enrollment in secondary schools remains low.

Figure S.1. Net enrollment rate by school level

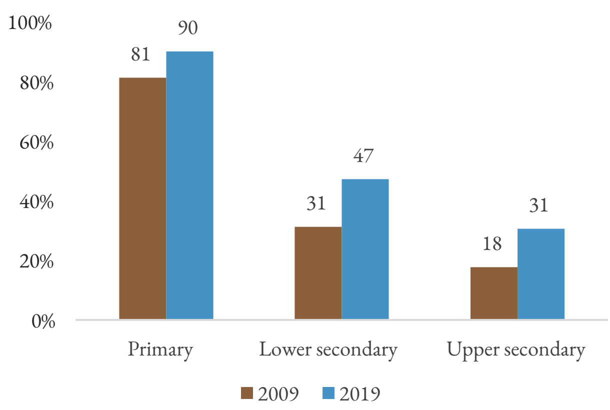
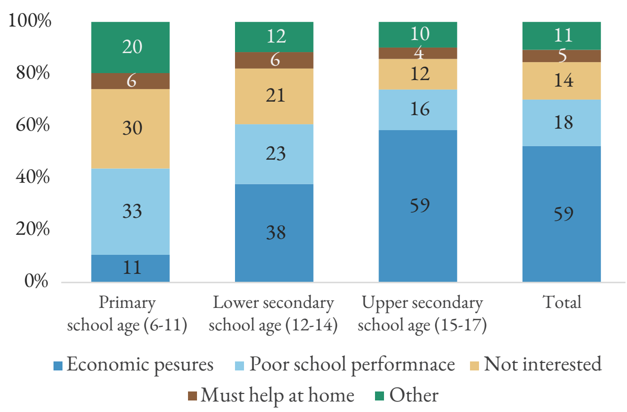


Figure S.2. Reasons for not being enrolled in school

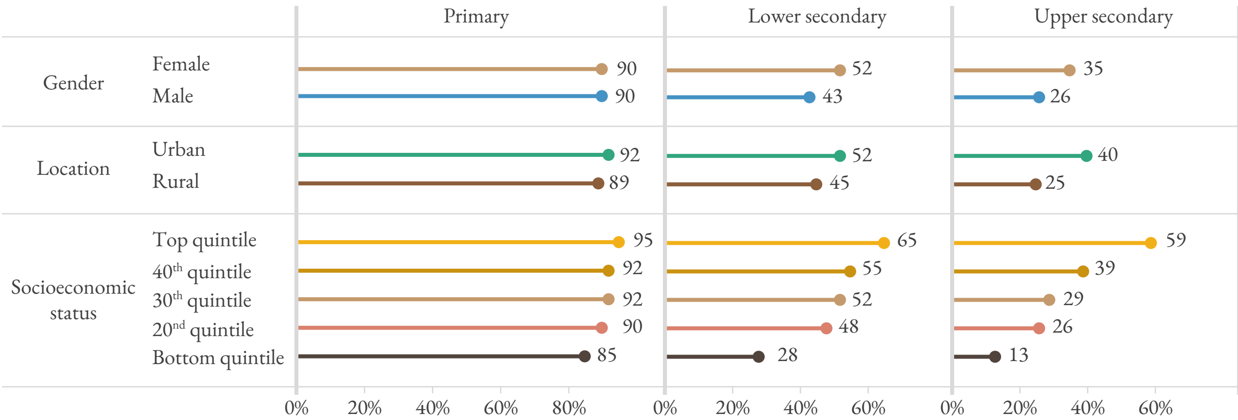


Source: World Bank staff estimates based on CSES 2009 and 2019/20.

Financial constraints are the primary barrier to secondary school enrollment in Cambodia. Fifty-nine percent of upper secondary school-age children and 38 percent of lower secondary level students cite economic pressures as the reason for not attending school (figure S.2). Economic hardship plays a lesser role in hindering primary school enrollment. Among primary school-age children who are not enrolled, the leading causes are poor academic performance, accounting for 33 percent, and a general lack of interest in education, cited by 30 percent. The disproportionate impact of financial hardship on secondary education highlights the need for targeted interventions to alleviate the economic burden on families, ensuring that children can continue their education beyond the primary level.

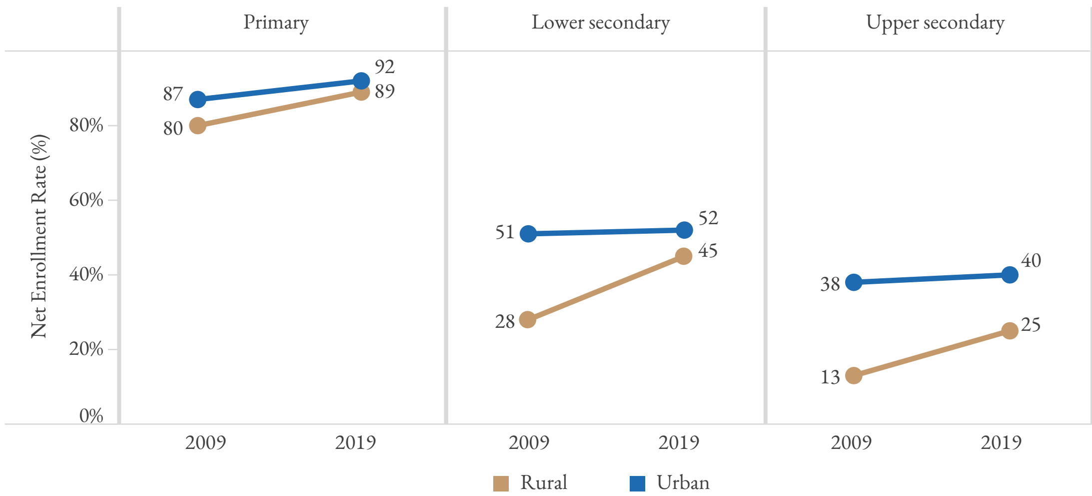
The Cambodia Socio-Economic Surveys (CSESs) have illuminated the pronounced disparities in enrollment rates between urban and rural areas, particularly in secondary education. In 2019, urban areas reported a net enrollment rate of 92 percent for primary education, slightly higher than the 89 percent observed in rural areas (figure S.3). This urban-rural divide becomes more marked at higher educational levels. For lower secondary education, the net enrollment rate in urban areas was 52 percent, in contrast to 45 percent in rural areas, indicating a 7 percent gap. The disparity is even more substantial at the upper secondary level, where urban children have a 60 percent higher enrollment rate than their rural counterparts, revealing a significant gap in access to education beyond the primary level.

Figure S.3. **Net enrollment rate across gender, location, and socioeconomic status by school level, 2019**



Source: World Bank staff estimates based on CSES 2019/20.

Figure S.4. **Net enrollment rate by location, 2009–19**

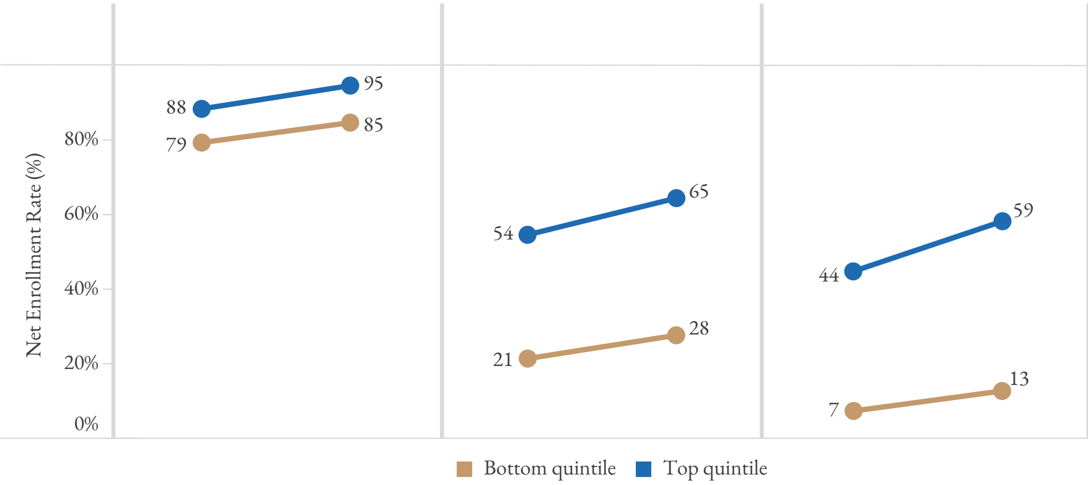


Source: World Bank staff estimates based on CSES 2009 and CSES 2019/20.

While significant disparities in secondary school enrollment between urban and rural areas continue to persist, there has been a notable reduction in these gaps in recent years. For instance, the urban-rural gap in lower secondary school enrollment was 6 percent in 2019, a marked decrease from the larger gap of 23 percent observed in 2009 (figure S.4). This improvement indicates progress in bridging the educational divide across regions.

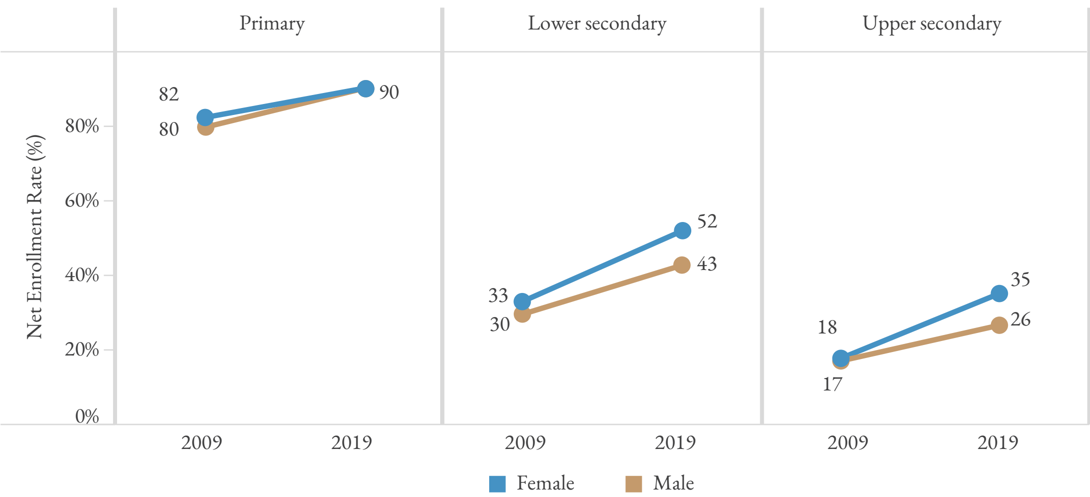
Socioeconomic status also plays a crucial role in determining children's educational opportunities. Children from the poorest households are significantly less likely to be enrolled in school compared to their peers from the richest households. According to CSES 2019 data, the net enrollment rate for primary education was 85 percent among children from the poorest quintile, compared to 95 percent for those from the richest quintile (figure S.5). These disparities widen further in secondary education, with the enrollment gap reaching 37 percentage points at the lower secondary level and an even more pronounced 46 percentage points at the upper secondary level. Furthermore, disparities in primary and secondary enrollments between the poorest and wealthiest groups of students have persisted across the years. This gap in access to education based on household wealth perpetuates intergenerational cycles of poverty and inequality, as children from disadvantaged backgrounds are less likely to acquire the skills and

Figure S.5. Net enrollment rate by wealth quintile (Top and Bottom), 2009–19



Source: World Bank staff estimates based on CSES 2009 and CSES 2019/20.

Figure S.6. Net enrollment rate by gender, 2009–19



Source: World Bank staff estimates based on CSES 2009 and CSES 2019/20.

knowledge needed to break free from poverty and achieve upward social mobility.

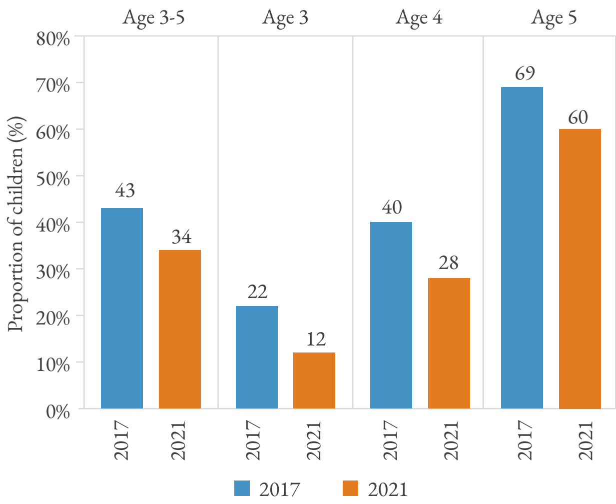
While gender parity has been achieved in primary education over time, new challenges have emerged at higher levels of education, with males lagging behind females. In 2019, female enrollment was 52% at the lower secondary level, compared to 43% for males, resulting in a gap of 9 percentage points. This gap is more pronounced at the upper secondary level, where female enrollment stands at 35%, while male enrollment is 26%, creating a gap of 9 percentage points (figure S.6). Based on 2022 World Development Indicator data, there is a notable gender disparity in completion rates. Specifically, the completion rate for females stands at 67 percent, surpassing that of males, which is approximately 57 percent. These data indicate a reversal in the traditional gender gap, with males falling behind females in both enrollment and completion rates.

Early childhood education (ECE) and primary schooling form the foundation upon which children's lifelong learning and development are built. Investing in these critical stages of education yields significant long-term benefits for individuals and society. In Cambodia, however, the progress made in expanding access to ECE and primary education has been hindered by, among other factors, limited resources, uneven quality, and the impact of the COVID-19 pandemic.

Despite the recognized importance of ECE, enrollment rates in Cambodia have declined in recent years. The share of children aged three to five enrolled in ECE programs fell from 43 percent in 2017 to 34 percent in 2021, with the most significant drops observed among three-year-olds, whose enrollment rates plummeted from 22 percent to just 12 percent over the same period (figure S.7). This decline can be attributed to a combination of factors, including the COVID-19 pandemic; inadequate access to quality ECE programs, particularly in rural areas; low awareness among parents about the value of early education; and financial constraints faced by families.

The COVID-19 pandemic has further exacerbated the challenges in ECE, with prolonged school closures and economic hardships disproportionately affecting young children from disadvantaged backgrounds. To address these issues and boost ECE enrollment, Cambodia

Figure S.7. **Early childhood enrollment by age**



Source: World Bank 2024f.

must prioritize investments in infrastructure, teacher training, and learning materials, while also developing a comprehensive policy framework that emphasizes equity, quality, and sustainability in the provision of ECE services.

Education Spending and Outcomes

Over the past decade, Cambodia has consistently increased its investment in education, recognizing the vital role that education plays in fostering human capital development and driving economic growth. Despite this surge in spending, the country continues to grapple with persistent challenges in improving learning outcomes across both primary and secondary education levels.

Chapter 2 of the Cambodia Public Finance Review, on education,[30] underscores the increase in education expenditure as a percentage of GDP, rising from 2.0 percent in 2011 to 3.0 percent in 2021 (figure S.8). This growth primarily stems from heightened salaries for the expanding education workforce, which grew by 6 percent between 2014 and 2020, reaching 114,170 employees. As a result, wage expenditure now constitutes nearly 80 percent of total education spending (figure S.9).

Given that learning is cumulative, when children lack foundational skills, they will have difficulty making effective use of later learning opportunities and attaining higher education and technical skills, including digital proficiency

30 World Bank 2024e.

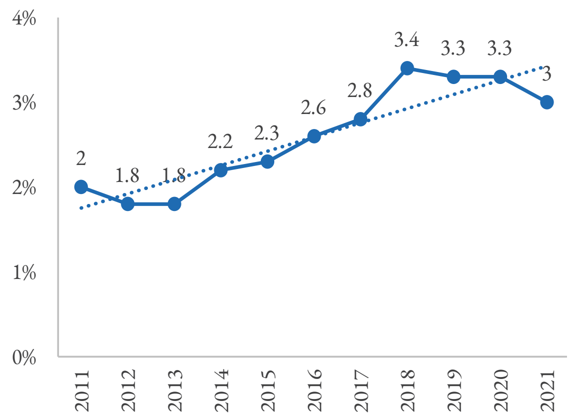
that is increasingly necessary in the modern world. This means they will lose out on economic benefits and opportunities throughout their lives, while Cambodia, more broadly, will continue to face constraints in acquiring skilled workers and improving labor productivity—key factors for economic transition. In short, for Cambodia to develop a highly skilled workforce, it needs to start early by building foundational skills in pre-primary and primary schools.

Despite the substantial increase in education spending, Cambodia's learning outcomes remain a concern. Primary school students perform relatively poorly in both mathematics and reading compared to their Southeast Asian peer countries. According to the Southeast Asia Primary Learning Metrics (SEA-PLM) 2019 report, only 19 percent of Cambodian children achieved proficiency in mathematics, significantly below the regional average of 35 percent (figure S.10, panel A). Similarly, Cambodia lags behind in reading proficiency, with only 11 percent of children reaching proficiency, well below the regional average of 29 percent (figure S.10, panel b).

This underperformance in foundational skills hinders progression in and completion of secondary education. The share of children that have completed lower secondary school (typically those aged 12 to 15) is among the lowest in Cambodia compared to similar countries.[31]

At the secondary level, Cambodia continues to trail behind regional counterparts and faces challenges in achieving satisfactory learning outcomes. Despite some progress on PISA scores

Figure S.8. **Public expenditure on education (% of GDP), 2011–21**



Source: World Bank 2024e.

Figure S.9. **MoEYS spending by category (% of total MoEYS spending), 2011–21**

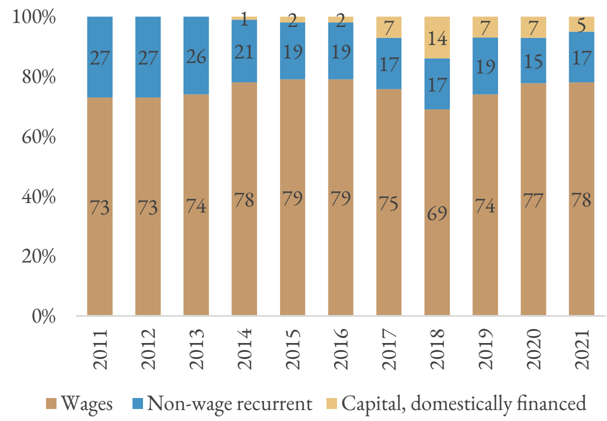
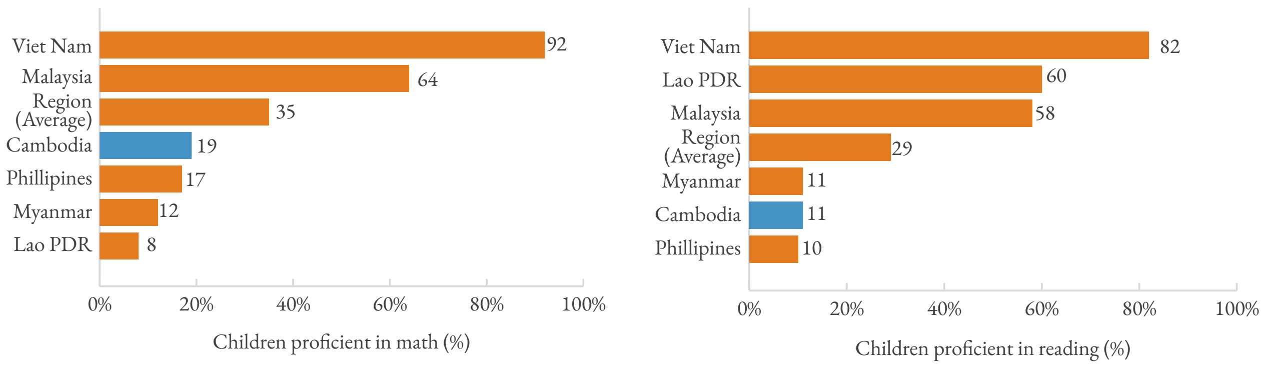


Figure S.10. **Share of fifth grade students proficient in math and reading, SEA-PLM 2019**

Panel A. Children's math proficiency

Panel B. Children's reading proficiency



Source: World Bank estimates based on SEA-PLM 2019.

31 World Bank 2024e.

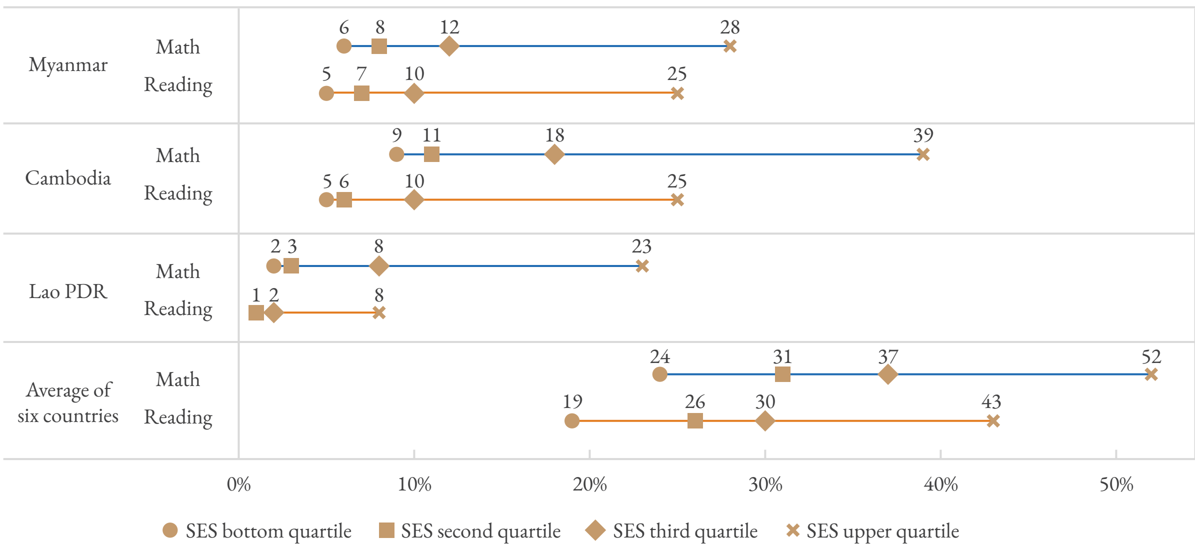
from 2017 to 2022, Cambodia remained among the lowest-performing countries on the latest (2022) PISA assessment, ranking as the worst performer across all three tested domains: reading, mathematics, and science. This places Cambodia behind peers like Guatemala and the Philippines, which also participated in the assessment.[32]

Compounding these concerns are the substantial disparities in learning outcomes observed across socioeconomic, gender, and geographic backgrounds, exacerbating educational inequality. The SEA-PLM 2019 results underscored significant gaps in learning outcomes among socioeconomic groups. For instance, reading proficiency among children from the wealthiest households was 25 percent, in stark contrast to a mere 5 percent among children from the poorest households (figure S.11). Similarly, while 39 percent of fifth-grade students from affluent families demonstrated proficiency in math, only 9 percent from economically disadvantaged backgrounds achieved the same level. Notably, the disparity in learning outcomes across socioeconomic backgrounds appears to be more pronounced in Cambodia compared to other countries that participated in the SEA-PLM assessment.[33]

Furthermore, the SEA-PLM 2019 report highlighted a gender gap in reading proficiency, with female fifth-grade students significantly outperforming their male counterparts: 14 percent of females were proficient in reading compared to only 8 percent of males. However, gender disparities were minimal in math proficiency.[34] The 2022 PISA assessment also revealed disparities based on geographic location, with students in urban schools consistently outperforming their counterparts in rural schools across reading, mathematics, and science. However, this urban-rural gap has narrowed compared to findings from the 2017 PISA for Development (PISA-D) assessment.[35]

The COVID-19 pandemic has further exacerbated these challenges, underscoring the urgency for strategic education spending. Prolonged school closures and the adoption of remote learning have led to significant learning losses, particularly among disadvantaged students. One study[36] estimates that the learning-adjusted years of schooling in Cambodia could decrease by 1.3 to 2.3 years due to the pandemic.

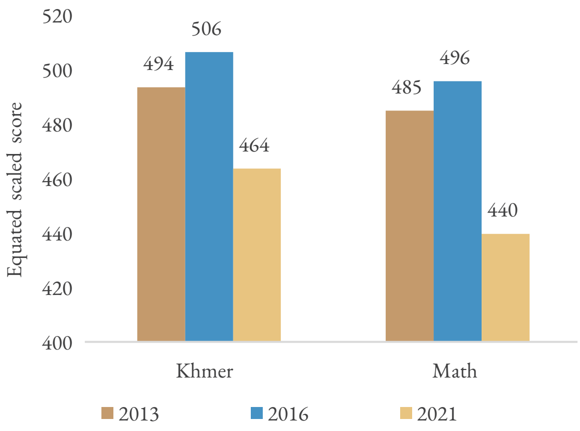
Figures S.11. **Percent of fifth grade students proficient in reading and math as revealed in the Socio-Economic Survey (SES)**



Source: SEA-PLM 2019.

32 OECD 2022.
33 SEA-PLM 2019.
34 SEA-PLM 2019.
35 OECD 2022.
36 Azevedo, Hasan, and Goldemberg 2022.

Figure S12. Student test scores at the national level (National Learning Assessment, Grade 6), 2013–21



Source: Bhatta et al. 2024.

The pandemic's impact on learning outcomes is evident in the National Learning Assessment (NLA) results. Prior to the pandemic, learning outcomes for Grade 6 students, as assessed by the NLA in mathematics and Khmer, were on a positive trend. However, this trend was reversed due to the pandemic, with scaled scores decreasing by 8 percent in mathematics and 11 percent in Khmer from 2016 to 2021 (figure S.12). This decline was consistently observed across various demographics, including gender, regions, and socioeconomic status.[37] Similarly, the proportion of Grade 8 students performing below basic proficiency levels increased for mathematics and physics between 2017 and 2022.[38]

Teacher Effectiveness

Improving the quality of teaching is a prerequisite for ensuring access to quality education and improving learning outcomes.[39] Cambodia faces significant challenges in ensuring an adequate supply of well-trained, motivated, and equitably distributed teachers across the country. Addressing these challenges requires a comprehensive approach to teacher management that encompasses recruitment, training, deployment, and ongoing professional development.

Although Cambodia has a relatively low proportion of teachers (0.8 education personnel per 100 inhabitants), it spends a comparatively large share of the education budget on salaries at 80 percent, compared to 69 percent for low-income countries.[40] While competitive salaries are essential for attracting and retaining qualified teachers, the high wage bill raises concerns about the sustainability of education financing and the lack of connection between increased spending and improved learning outcomes.

One of the critical areas that require attention is the preservice teacher training system. Despite their best intentions, many teacher training programs in Cambodia struggle to fully prepare prospective teachers for the realities of the classroom. A common issue is the limited exposure to student-centered pedagogies during the training process. Often, teacher candidates enter these programs having experienced rote learning and teacher-centered approaches throughout their own education.[41] As a result, they may find it challenging to adopt the more modern, interactive teaching methodologies advocated by the new curriculum. Their courses frequently involve lectures and copying from the board, remaining highly theoretical, with limited practice applying concepts to the classroom.[42]

During teaching practicums, a key avenue for candidates to practice instructional skills, trainees may not observe effective practices being modeled, as the in-service teaching of mentor teachers tends to lack student-centered pedagogical approaches. The MoEYS has increased the practicum duration from 14 weeks to 22 weeks in four-year teacher education programs. However, challenges persist, including insufficient training for cooperating teachers, communication gaps between Teacher Education Colleges and practicum schools, and limited opportunities for observation visits and feedback.[43] This lack of consistent support and feedback during the practicum contributes to a disconnect that undermines the potential for these experiences to effectively bolster teaching skills.

37 Bhatta et al. 2022.
38 World Bank 2024e.
39 World Bank 2023b.
40 International Monetary Fund 2016.
41 Bremner, Sakata, and Cameron 2023.
42 Lewin 2004.
43 Sok, Gondwe, and Wei 2022.

Adding to these challenges is the misalignment between the curriculums taught in preservice programs and the actual curriculums used in schools. The recent reform of the school curriculum was not well-coordinated with teacher training institutions, resulting in a mismatch between what prospective teachers are taught and the content they are expected to teach upon entering the classroom.

To address these gaps, a comprehensive overhaul of preservice training programs is necessary. These programs must be redesigned to provide a solid foundation in subject matter knowledge, child-centered pedagogy, and extensive practical classroom experience. Regularly updating teacher education curriculums to align with national standards, emphasizing practice-based learning, and strengthening partnerships between training institutions and schools can help bridge the gap between theory and practice, better preparing prospective teachers for the realities they will face.

However, effective teacher development does not end with preservice training. Continuous professional development is equally crucial for ensuring that in-service teachers remain up to date on new teaching methods, technologies, and best practices. Targeted in-service training programs that address specific skills gaps and cater to the needs of teachers in different contexts are essential. A comprehensive approach to teacher professional development should combine face-to-face workshops, school-based coaching, and online learning resources. Establishing a teacher performance evaluation system that provides regular feedback and supports continuous improvement is also crucial for identifying areas of strength and development needs. Fostering a culture of collaboration and peer learning among teachers through professional learning communities, teacher networks, and mentoring programs can provide opportunities for educators to share best practices, discuss common challenges, and learn from one another.

Alongside these efforts to enhance teacher training and professional development, addressing the uneven distribution of teachers across schools and regions is a pressing issue. Particularly concerning is the severe shortage of teachers in rural areas, especially in primary schools, due to the concentration of teachers in urban areas (figure S.13). This disparity is evident at the provincial level, with a surplus of teachers in Phnom Penh but persistent shortages in most other provinces, notably Siem Reap and Prey Veng.[44]

Several factors contribute to the uneven distribution of teachers, including limited incentives for teachers to work in rural or remote areas, insufficient housing and amenities, and teachers seeking opportunities for additional income through private tutoring in urban areas. Enhancing incentives for teachers to work in underserved areas is crucial for attracting and retaining qualified educators where they are needed most. This could include offering attractive compensation packages, housing allowances, transportation support, and opportunities for professional growth and advancement. Consistently enforcing teacher norms and standards across all schools and holding school leaders accountable for compliance can also help ensure a more equitable distribution of teachers.

Figure S13. Net teacher shortage/surplus by location

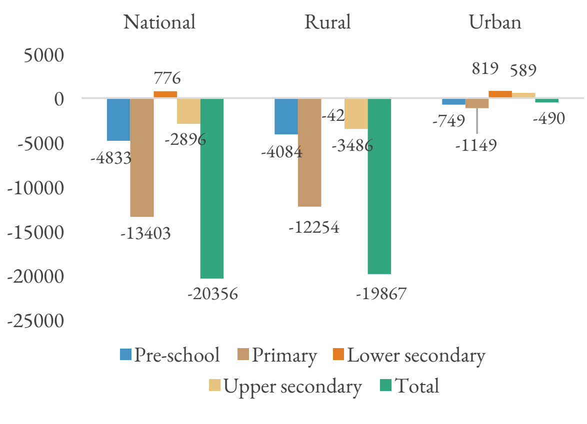
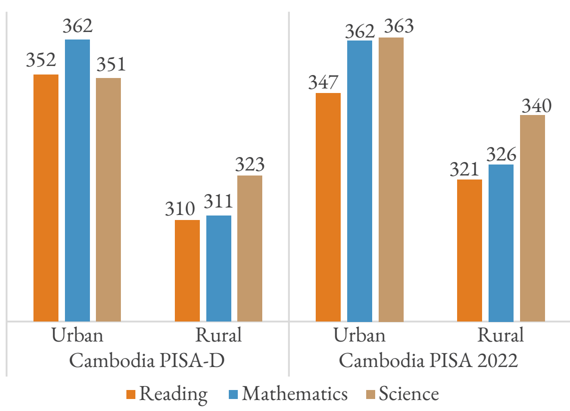


Figure S14. PISA results by location



44 World Bank 2024e.

The impact of these challenges on student performance is evident in the PISA results when comparing learning outcomes between urban and rural learners in Cambodia (Figure S14). In the 2017 PISA-D assessment, urban students significantly outperformed their rural counterparts across all subjects, with gaps of 42 points in reading, 51 points in mathematics, and 28 points in science. The 2022 PISA results show that while urban students still perform better, the gaps have narrowed to 26 points in reading, 36 points in mathematics, and 23 points in science. This suggests some progress in addressing educational disparities, but further efforts are needed to close the urban-rural divide.

Improving teacher effectiveness in Cambodia requires a sustained effort and a multifaceted approach that addresses gaps in preservice training, provides ongoing professional development opportunities, and ensures an efficient and equitable deployment of teachers across the country. By investing in these areas, Cambodia can build a skilled and motivated teaching workforce capable of delivering high-quality instruction and fostering meaningful learning experiences for all students.

However, these efforts must be complemented by broader investments in early childhood education, primary schooling, and equitable access to education. Continuous monitoring and evaluation are also essential to ensure that reforms are effectively implemented and achieving the desired impact on student learning outcomes. Ultimately, enhancing teacher effectiveness is not a stand-alone solution but rather a critical component of a comprehensive strategy to strengthen Cambodia's education system and unlock the full potential of its human capital.

Photo: DALL-E

RECOMMENDATIONS

Cambodia has made commendable progress in expanding access to education over the past decade. However, significant challenges remain in improving the quality of education and ensuring equitable learning opportunities for all children. To address these challenges and promote a more inclusive, effective, and resilient education system, a comprehensive and strategic approach is necessary. This section outlines key policy recommendations, emphasizing the need for prioritization, evidence-based interventions, and collaborative efforts involving all stakeholders.

1. **Prioritize Investment in Early Childhood Education and Primary Schooling.** Substantial evidence underscores the importance of early childhood education (ECE) and primary schooling in laying a strong foundation for lifelong learning and future success. Cambodia's spending on primary education as a percentage of total education spending is lower than its regional peers, such as Vietnam and Thailand.[45] Therefore, it is imperative to prioritize resource allocation toward ECE and primary education to ensure all children have access to quality early learning opportunities and can acquire foundational skills in literacy, numeracy, and socio-emotional development.

   - Specific actions could include:
     - Increasing budgetary allocations for ECE and primary education programs
     - Expanding access to quality ECE services, particularly in underserved areas. This should include more public ECE centers as well as Provincial Teacher Training Centers offering ECE teacher training programs
     - Implementing targeted interventions to improve learning outcomes in primary grades, such as structured pedagogy programs or teaching at the right level.

2. **Enhance Teacher Effectiveness through Comprehensive Teacher Management.** Teacher quality is a critical determinant of student learning outcomes. Efforts to enhance teacher effectiveness should encompass a holistic approach to teacher management, including:

   - Improving teacher recruitment and deployment:
     - Enhance incentives for teachers to work in underserved areas, such as attractive compensation packages, housing allowances, transportation support, and opportunities for professional growth
     - Consistently enforce teacher norms and standards across all schools and hold school leaders accountable for compliance to ensure a more equitable distribution of teachers.
   - Strengthening preservice and in-service teacher training programs:
     - Redesign preservice training to provide a solid foundation in subject matter knowledge, child-centered pedagogy, and extensive practical classroom experience
     - Implement targeted in-service training that addresses specific skills gaps. This is clear, doable, and rewarding, and provides sufficient in-classroom practice and feedback
     - Explore innovative teaching models and tools, such as the dual teacher model, structured lesson plans, targeted instruction, and educational technology.
   - Establishing a robust teacher performance evaluation system:
     - Develop a fair and transparent teacher evaluation framework that provides regular feedback and supports continuous improvement

45 World Bank 2023b.

- Use evaluation results to identify areas of strength and development needs, informing targeted professional development opportunities
- Foster a culture of collaboration and peer learning through professional learning communities, teacher networks, and mentoring programs.

3. **Ensure Equitable Distribution of Resources across Regions and Schools.** Disparities in education outcomes often stem from inequitable resource distribution. To address this, the government could:

   - Develop needs-based funding formulas to allocate resources based on school characteristics and student populations
   - Provide additional support and resources to disadvantaged regions and schools with high concentrations of vulnerable students
   - Implement targeted programs and interventions to support the most marginalized communities, such as scholarships, school feeding programs, and transportation assistance.

4. **Prioritize Evidence-Based, Cost-Effective Interventions.** Given limited resources, it is crucial to prioritize interventions that have proved to be cost-effective and impactful in improving student learning outcomes. The World Bank report on "Best Buys" in education provides compelling evidence on interventions such as structured pedagogy programs or teaching at the right level, which have demonstrated to be highly effective at relatively low cost.46

   By drawing upon such evidence-based "Best Buys" and rigorously evaluating the impact of interventions, Cambodia can ensure efficient use of resources and maximize returns on investment in education.

5. **Mitigate Learning Losses from COVID-19 and Enhance Resilience.** The COVID-19 pandemic has exacerbated learning gaps and highlighted the need for a resilient education system. Interventions to address learning losses could include:

   - Implementing remedial programs and targeted support for students who have fallen behind
   - Providing teacher training on effective remote learning practices and leveraging technology for distance education
   - Ensuring access to learning materials and digital resources for students in remote or disadvantaged areas.

6. **Strengthen Institutional Capacity and Governance.** Effective implementation of education reforms requires strong institutional capacity and governance at all levels. Specific actions could include:

   - Providing training and capacity building for education authorities on budget planning, execution, monitoring, and data analysis
   - Establishing robust accountability mechanisms to ensure efficient and effective use of resources
   - Promoting transparency and stakeholder engagement in decision-making processes.

7. **Foster Collaboration and Partnerships among Stakeholders.** Addressing the multifaceted challenges in education requires collaborative efforts and synergies among various stakeholders. The government should:

   - Establish coordination mechanisms and platforms for knowledge-sharing among government agencies, development partners, civil society organizations, and communities
   - Leverage the expertise and resources of various stakeholders to support priority interventions and education reform efforts

46 Banerjee et al. 2023; World Bank 2020.

- Promote community engagement in and ownership of education initiatives to enhance sustainability and impact.

8. **Implement and Monitor the Five Model Standards for Schools.** The Ministry of Education, Youth and Sport's recent introduction of five model standards for schools (encompassing student education, teaching and learning practices, community participation, operations and administration, and accountability) presents an opportunity to enhance the quality of education nationwide. Effective implementation and monitoring of these standards across all public schools, from kindergarten to the secondary level, will be crucial to achieving the desired improvements in teaching, learning, and student behavior.

While all these recommendations are important, a strategic prioritization and sequencing approach is necessary, given resource constraints. Investments in early childhood education and primary education should be prioritized as a foundational step, followed by efforts to enhance teacher effectiveness and ensure equitable resource distribution. Implementing evidence-based, cost-effective interventions and mitigating learning losses from COVID-19 should be parallel priorities. Strengthening institutional capacity, fostering collaborations, and monitoring school standards can be ongoing processes to support overall reform efforts.

Achieving Cambodia's vision of becoming an upper middle-income country by 2030 and unlocking the full potential of its human capital hinges on a well-educated and skilled population. Implementing these policy recommendations will require strong political will, sustained financial commitment, and effective coordination among all stakeholders. However, by prioritizing education reform, investing in quality and equity, and embracing evidence-based approaches, Cambodia can build a more inclusive, effective, and resilient education system that leaves no child behind.

ANNEX. CAMBODIA – SELECTED INDICATORS

CAMBODIA

SELECTED INDICATORS*	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 E	2024 F
INCOME AND ECONOMIC GROWTH															
GDP growth (annual %)	6.0	7.1	7.3	7.4	7.1	7.0	6.9	7.0	7.5	7.1	-3.1	3.0	5.2	5.4	5.8
GDP per capita growth (annual %, real)	4.4	5.5	5.8	5.8	5.7	5.5	5.5	5.6	6.2	5.8	-4.2	1.8	4.0	4.3	4.7
GDP per capita (US$, nominal)	810.0	889.6	949.4	1030.1	1105.1	1183.2	1281.3	1397.0	1527.3	1667.8	1584.0	1625.3	1738.9	1876.0	2010.6
Private Consumption growth (annual %)	8.8	10.4	4.6	5.8	4.5	9.4	5.8	3.7	6.8	5.9	-4.0	-0.7	33.0	-16.1	2.2
Gross Investment (% of nominal GDP)	16.2	16.0	17.4	18.7	20.9	21.4	21.7	21.9	22.6	23.4	23.5	39.3	53.4	37.3	31.2
Gross Investment - Public (% of nominal GDP)[2]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
MONEY AND PRICES															
Inflation, consumer prices (annual %, EOP or MRV)[1]	2.9	4.6	2.3	4.5	0.9	2.8	3.8	2.2	1.6	3.1	2.9	3.8	3.0	2.8	..
Inflation, consumer prices (annual %, period average)	2.6	5.5	3.0	2.9	3.9	1.2	3.0	2.9	2.5	1.9	2.9	2.8	5.5	2.1	2.8
Base Money (% of GDP)	41.6	39.1	50.1	55.5	67.1	72.4	79.2	88.2	100.7	116.3	143.3	130.7	89.7	83.0	84.0
Domestic Credit to the Private Sector (% of GDP)2	27.6	28.3	38.7	52.0	62.7	74.3	81.7	86.7	99.6	114.2	139.6	166.3	180.0	..	..
10 year interest rate (annual average)[1]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nominal Exchange Rate (local currency per USD)	4044.0	4016.0	4033.0	4027.0	4030.0	4025.0	4058.0	4062.0	4067.0	4070.0	4077.4	4100.0	4150.0	4110.0	4100.0
Real Exchange Rate Index (2015=100)	97.7	94.9	93.6	92.6	94.9	100.0	101.8	101.7	98.5	99.1	103.5	79.1	55.7	45.8	42.3
FISCAL															
Revenue (% of GDP)	17.7	17.6	17.7	18.2	20.0	19.7	20.9	21.9	23.8	27.0	24.1	22.0	23.4	21.4	20.7

CAMBODIA

SELECTED INDICATORS*	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 E	2024 F
Expenditure (% of GDP)	21.0	23.0	21.9	21.4	21.9	20.2	21.1	22.7	23.4	25.5	28.8	29.2	27.7	26.7	26.2
Interest Payments (% of GDP)	0.3	0.3	0.5	0.7	0.7	0.3	0.4	0.4	0.4	0.4	0.6	0.7	0.6	0.6	0.6
Non-Interest Expenditure (% of GDP)	20.7	22.7	21.4	20.7	21.2	19.9	20.7	22.3	23.0	25.1	28.2	28.5	27.2	26.2	27.4
Overall Fiscal Balance (% of GDP)	-3.3	-5.4	-4.2	-3.2	-1.9	-0.5	-0.2	-0.8	0.4	1.5	-4.7	-7.2	-4.4	-5.3	-5.5
Primary Fiscal Balance (% of GDP)	-3.0	-5.1	-3.7	-2.5	-1.2	-0.2	0.2	-0.4	0.8	1.9	-4.3	-6.5	-3.8	-4.7	-5.3
General Government Debt (% of GDP)	28.7	29.7	31.6	31.3	31.8	31.2	29.1	30.3	28.3	28.1	35.9	36.1	36.7	33.6	35.6
External Public Debt (% of GDP)[2]	28.7	29.7	31.6	31.7	31.8	31.2	29.1	30.3	28.7	28.1	33.9	35.2	32.5	35.2	35.6
EXTERNAL ACCOUNTS															
Export growth, G&S (nominal US$, annual %)	22.9	11.4	16.0	16.8	10.3	7.5	9.0	9.4	12.3	8.5	2.1	11.2	31.9	19.0	22.4
Import growth, G&S (nominal US$, annual %)	19.1	11.4	14.2	16.9	8.8	7.6	9.0	7.8	9.3	17.4	9.7	47.8	37.2	-20.6	11.9
Merchandise exports (% of GDP)	38.3	38.8	41.6	44.6	45.4	45.4	45.5	45.2	46.0	46.0	51.8	62.8	71.4	73.7	76.2
Merchandise imports (% of GDP)	50.4	50.5	53.7	57.5	57.5	57.3	56.9	55.6	55.1	54.6	65.7	92.4	93.0	73.9	74.7
Services, net (% of GDP)	6.8	6.3	7.3	7.8	7.7	7.5	7.0	7.0	7.4	1.8	1.4	-10.9	-33.2	-10.2	-1.6
Current account balance (current US$ millions)	-1165.3	-1309.3	-1390.7	-1489.3	-1899.7	-1680.6	-1756.6	-1634.4	-1540.5	-2155.0	-1938.3	-10711.1	-7437.5	551.6	924.0
Current account balance (% of GDP)	-10.0	-10.1	-9.9	-9.6	-11.3	-9.2	-8.8	-7.4	-6.3	-8.0	-7.5	-39.7	-25.5	1.7	2.7
Foreign Direct Investment, net inflows (% of GDP)	11.8	11.8	14.0	13.0	10.6	9.5	12.0	12.1	12.6	13.2	13.5	12.6	11.7	11.5	11.9
Multilateral debt (% of total external debt)[2]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
POPULATION, EMPLOYMENT AND POVERTY															
Population, total (millions)	14.4	14.6	14.8	15.0	15.2	15.4	15.6	15.8	16.0	16.2	16.4	16.6	16.8	16.9	17.1
Population Growth (annual %)	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.2	1.1	1.2	1.2	1.1	1.1	1.0
Unemployment Rate[2]	0.8	0.6	0.5	0.4	0.7	0.4	0.7	0.1	0.1	0.1	0.3	0.3	0.4	..	..

CAMBODIA

SELECTED INDICATORS*	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 E	2024 F
Inequality - Gini Coefficient[2]	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Life Expectancy[2]	67.7	68.4	68.9	69.3	69.7	69.9	70.2	70.5	70.6	70.7	70.4	69.6	..	..	..
OTHER															
GDP (current LCU, millions)	47047985.2	52068692.7	56616800.5	62219524.1	67740449.6	73422701.6	81241866.0	89830524.8	99544274.8	110014048.2	105899309.1	110548038.2	121006210.9	130652522.2	141145762.6
GDP (current US$, millions)	11634.0	12965.3	14038.4	15450.6	16809.0	18241.7	20020.2	22114.9	24476.1	27030.5	25972.0	26962.9	29158.1	31788.9	34425.8
GDP per capita LCU (real)	2102966.9	2219138.4	2347166.9	2484050.4	2624532.8	2769713.7	2922496.8	3086269.9	3276522.2	3468153.5	3322017.5	3382908.7	3519610.8	3671316.0	3844388.1
Human Development Index Ranking[3]	149	150	150	151	151	150	150	149	150	150	149	147	148	..	..
CPIA (overall rating)[2]	3.4	3.4	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.6	..	..
Economic Management[2]	4.0	3.8	3.8	3.8	3.8	4.0	4.0	4.0	4.2	4.2	4.2	4.2	4.2	..	..
Structural Policies[2]	3.3	3.5	3.7	3.7	3.7	3.5	3.5	3.3	3.3	3.3	3.3	3.5	3.5	..	..
Policies for Social Inclusion and Equity[2]	3.4	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.6	3.8	..	..
Public Sector Management and Institutions[2]	2.7	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.6	2.6	2.7	2.8	2.8	..	..

Notes: ".." indicates not available. E = estimate, F = forecast. Data from MFMOD unless otherwise noted.
1/ World Bank GEM database; MRV = Most recent value.
2/ World Development Indicators Database and World Bank Staff Estimates.
3/ The HDI ranking in 2001 is in relation to 175 countries and in 2010 in relation to 169 countries. Methodological enhancements in HDI calculations have resulted in notable improvements in the countries' rankings.
Sources: MFMOD Database, World Bank WDI and GEM databases, IMF.

BIBLIOGRAPHY

Angkor Enterprise. 2024. "Monthly Revenue from Angkor Entrance Fees 2024." Angkor Enterprise, Phnom Penh. https://www.angkorenterprise.gov.kh/.

Azevedo, J. P., A. Hasan, and D. Goldemberg. 2022. "Learning losses from COVID-19 school closures in Cambodia: Simulation results." World Bank, Washington, DC.

Banerjee, A., T. Andrab, R. Banerji, S. Dynarski, R. Glennerster, S. Grantham-Mcgregor, K. Muralidharan, B. Piper, J. S. Chanduvi, H. Yoshikawa, S. Ruto, and S. Schmelkes. 2020. "COST-EFFECTIVE APPROACHES TO IMPROVE GLOBAL LEARNING What does recent evidence tell us are 'Smart Buys' for improving learning in low- and middle-income countries? Recommendations of the Global Education Evidence Advisory Panel." World Bank, Washington, DC, October.

Bhatta, S. D., S. Katwal, T. Pfutze, V. Ros, Y. N. Wong, F. No. 2022. "CAMBODIA Learning Loss in Cambodia and the Use of EdTech during COVID-19." World Bank, Washington, DC.

Boy, V., and T. Water. 2023. "Challenges of teaching English as an additional language in high schools in Cambodia." *Cambodian Journal of Educational Research* 3 (1): 44–75. https://doi.org/10.62037/cjer.2023.03.01.03.

Bremner, N., N. Sakata, and L. Cameron. 2023. "Teacher Education as an Enabler or Constraint of Learner-Centred Pedagogy Implementation in Low-to Middle-Income Countries." *Teaching and Teacher Education* 126 (May).

Cambodia National Institute of Statistics. 2014. "Cambodia Socio-Economic Survey Report 2014." https://nis.gov.kh/index.php/km/.

———. 2019. "Cambodia Socio-Economic Survey Report 2019." https://nis.gov.kh/index.php/km/.

———. 2021. "Cambodia Socio-Economic Survey Report 2021." https://nis.gov.kh/index.php/km/.

Cambodia Socio-Economic Survey Reports. 2014. https://nis.gov.kh/index.php/km/.

Cambodia Socio-Economic Survey Reports. 2019/20. https://nis.gov.kh/index.php/km/.

Carranza, Luis. 2002. "Current Account Sustainability." International Monetary Fund, Washington, DC. https://www.elibrary.imf.org/display/book/9781589060944/ch05.xml#:~:text=variable%20for%20policymakers.-,Deficits%20in%20the%20external%20current%20account%20are%20the%20result%20of,unsustainable%20in%20the%20long%20run.

Devadas, S., and N. Loayza. 2018. "When Is a Current Account Deficit Bad?" *Research & Policy Briefs, From the World Bank Malaysia Hub*, No. 17, October. World Bank, Washington, DC. https://documents1.worldbank.org/curated/en/507731538487989157/pdf/130415-BRI-PUBLIC-ADD-SERIES-When-is-a-current-account-deficit-bad.pdf.

Food and Agriculture Organization of the United Nations. 2022. Rome. https://www.fao.org/faostat/en/#data.

International Monetary Fund. 2016. "Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges." Volume 2016, Issue 047. International Monetary Fund, Washington, DC. https://doi.org/10.5089/9781498345774.007.

———. 2024. "Cambodia: 2023 Article IV Consultation" Press Release and Staff Report. International Monetary Fund, Washington, DC. https://www.imf.org/en/Publications/CR/Issues/2024/01/29/Cambodia-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-544276.

Lewin, K. 2004. "The Pre-Service Training of Teachers: Does It Meet Its Objectives and How

Can It Be Improved?" UNESCO UNESDOC Digital Library. Background paper prepared for the Education for All Global Monitoring Report 2005. https://unesdoc.unesco.org/ark:/48223/pf0000146658.

Ministry of Agriculture, Forestry and Fisheries. 2023. "Annual report for 2023 and target for 2024." Ministry of Agriculture, Forestry and Fisheries, Phnom Penh.

Ministry of Economy and Finance. 2024a. *Public Debt Statistical Bulletin*, Volume 21, February. Ministry of Economy and Finance, Phnom Penh. https://gdicdm.mef.gov.kh/en/2024/02/16/11166.html.

———. 2024b. Government Finance Statistics (GFS) and Tableau des Opérations Financières de l'Etat (TOFE). Ministry of Economy and Finance, Phnom Penh. https://mef.gov.kh/documents-category/publication/tofe/.

Ministry of Planning. 2014. Cambodia Socio-Economic Survey (CSES) 2014. National Institute of Statistics, Ministry of Planning, Ministry of Planning, Phnom Penh.

———. 2019. Cambodia Socio-Economic Survey 2019. National Institute of Statistics Ministry of Planning, Phnom Penh.

———. 2021. Cambodia Socio-Economic Survey 2021. National Institute of Statistics, Ministry of Planning, Phnom Penh.

———. 2022. National Accounts 2022. Ministry of Planning, Phnom Penh.

———. 2024. Monthly Consumer Price Index 2024. Ministry of Planning, Phnom Penh.

Ministry of Tourism. 2023. "Cambodia Tourism Statistics Report, 2023." Ministry of Tourism, Phnom Penh.

———. 2024. "Monthly Cambodia Tourism Statistics Report," February 2024. Ministry of Tourism, Phnom Penh.

National Bank of Cambodia. 2023a. "Annual Report, 2023." National Bank of Cambodia, Phnom Penh. https://www.nbc.gov.kh/download_files/publication/annual_rep_kh/Annual_Report_2023_KHM.pdf.

———. 2023b. Cambodia Balance of Payments Fourth Quarter 2023. National Bank of Cambodia, Phnom Penh. https://www.nbc.gov.kh/english/economic_research/balance_of_payment_data.php.

———. 2024. Monetary and Financial Statistics Data 2024. National Bank of Cambodia, Phnom Penh. https://www.nbc.gov.kh/english/economic_research/monetary_and_financial_statistics_data.php.

Royal Government of Cambodia. 2022. The 2022 Budget Settlement Law. Royal Government of Cambodia, Phnom Penh. http://www.treasury.gov.kh/document/5.

———. 2024. The 2024 Annual Budget Law. Royal Government of Cambodia, Phnom Penh. https://mef.gov.kh/documents-category/law-and-regulation/.

SEA-PLM 2019 (Southeast Asia Primary Learning Metrics 2019 report). 2019. https://www.seaplm.org/PUBLICATIONS/regional%20results/SEA-PLM%202019%20Main%20Regional%20Report.pdf.

Sok, S., F. Gondwe, and L. Wei. 2022. "Implementation of Teaching Practicum for Primary School Teachers: China, Cambodia and Malawi Case Studies." African Journal of Teacher Education 11: 190–217.

United States Federal Reserve. 2024. "Federal Reserve issues FOMC statement," Press Release, March 20, Washington, DC. https://www.federalreserve.gov/newsevents/pressreleases/monetary20240320a.htm

World Bank. 2016. Enterprise Survey for Cambodia. World Bank, Washington, DC. https://microdata.worldbank.org/index.php/catalog/2802.

———. 2019. "*Cambodia Economic Update – November 2019: Upgrading Cambodia in Global Value Chains" (English)*. Washington, DC: World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/707971575947227090.

———. 2020. "Lasting Scars of the COVID-19 Pandemic." *Global Economic Prospects*, June 2020. Washington, DC: World Bank. https://elibrary.worldbank.org/doi/epdf/10.1596/978-1-4648-1553-9_ch3.

p1773400c74b8e06308c8a00ff3a41dd50c.

———. 2023a. Enterprise Survey for Cambodia. World Bank, Washington, DC. https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Cambodia-2023.pdf.

———. 2023b. "Making Teacher Policy Work." World Bank, Washington, DC.

———. 2024a. *Global Economic Prospects, January 2024*. Washington, DC: World Bank. https://www.worldbank.org/en/publication/global-economic-prospects.

———. 2024b. *East Asia and Pacific Economic Update, April 2024: Firm Foundations for Growth*. Washington, DC: World Bank. https://openknowledge.worldbank.org/server/api/core/bitstreams/9bf0f0aa-bd08-4c91-b665-caee561fb5d3/content.

———.2024c. *Commodity Markets Outlook*. Washington, DC: World Bank, April 25. https://www.worldbank.org/en/research/commodity-markets.

———. 2024d. *Firm Foundations of Growth. East Asia and Pacific Economic Update, April*. Washington, DC: World Bank.

———. 2024e. "Cambodia Public Finance Review (PFR) – From Spending More to Spending Better," Chapter 2. World Bank, Washington, DC.

———. 2024f. "Cambodia: Second-Generation Systematic Country Diagnostic Update." World Bank, Washington, DC. https://www.worldbank.org/en/country/cambodia/publication/cambodia-systematic-country-diagnostic-update.

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP
East Asia & Pacific