



AMRO Annual Consultation Report

Cambodia – 2025

ASEAN+3 Macroeconomic Research Office (AMRO)

August 2025

Acknowledgments

1. This Annual Consultation Report on Cambodia has been prepared in accordance with the functions of AMRO to monitor and assess the macroeconomic status and financial soundness of its members; identify relevant risks and vulnerabilities; report these to member authorities; and if requested, assist them in mitigating these risks through the timely formulation of policy recommendations. This is being done in accordance with Article 3 (a) and (b) of the AMRO Agreement.
2. This Report is drafted on the basis of the Annual Consultation Visit of AMRO to Cambodia from April 21–30, 2025 (Article 5 (b) of AMRO Agreement). The AMRO Mission team was headed by Dr Jinho Choi, Deputy Group Head and Principal Economist. Members included Ms Chunyu Yang, Desk Economist for Cambodia; Dr Heung Chun (Andrew) Tsang, Senior Economist, Mr Paolo Hernando, Senior Economist; Ms Zhan (Bella) Guo, Associate Economist; Mr Vansopheaktra Odorn Tep, Associate; and Mr Kuchsa Dy, Associate. Former AMRO Director Dr Kouqing Li and Chief Economist Dr Hoe Ee Khor also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on Cambodia for 2025 was peer-reviewed by a group of economists from AMRO's Country Surveillance, Financial Surveillance, and Fiscal Surveillance teams; endorsed by the Policy and Review Group; and approved by Dr Dong He, AMRO Chief Economist.
3. The analysis in this Report is based on information available up to July 16, 2025.
4. By making any designation of or reference to a particular territory or geographical area, or by using the term “member” or “country” in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.
5. On behalf of AMRO, the Mission team wishes to thank the Cambodian authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

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Executive Summary

1. Cambodia's economy is facing increased uncertainties, mainly driven external factors, alongside emerging challenges within the domestic financial sector. The most immediate and pressing concern is the uncertainty over the duration and magnitude of the high US tariffs on Cambodia, which are currently set at 36 percent starting from August 2025.

2. Before Cambodia was hit by the US tariff shock in early April, its economic growth was strong, having accelerated to 6.0 percent year-on-year (yoy) in 2024 from 5.0 percent in 2023. The garment sector rebounded strongly, serving as a key driver of growth. The services sector also grew, albeit at a slower pace than in 2023. Meanwhile, growth in the construction and real estate sectors remained subdued.

3. Cambodia's growth outlook is highly sensitive to the magnitude of the tariffs, consumers' price elasticity and spillover effects. This is because Cambodia's exports to the U.S. is large and accounts for about 1/3 of nominal GDP, even as the domestic value-added embodied in final demand from the US accounts for only around 10 percent of nominal GDP.

- In the baseline scenario, in which the US high tariffs take effect from August 2025, Cambodia's growth is expected to slow to 5.2 percent in 2025 and 4.7 percent in 2026.
- In an upside scenario, where a timely global agreement is reached, Cambodia's growth could range between 5.2 and 5.8 percent in 2025, and between 4.7 and 6.0 percent in 2026.
- In contrast, a downside scenario—characterized by a higher price elasticity of demand, or a tariff rate on Cambodia exceeding 36 percent—would further dampen growth, pushing it to about 4 percent or less in both 2025 and 2026.

4. Inflation has been trending down but remains highly volatile. The headline consumer price index (CPI) inflation fell sharply in 2024, averaging 0.8 percent, but showed significant volatility throughout the year, and that continued into early 2025. The volatility was mainly driven by fluctuations in food prices, particularly in fruits and vegetables. Core inflation has consistently mirrored the headline inflation trend, driven by rapid spillover effects from food prices. Going forward, the headline CPI inflation is expected to rise to 2.5 percent in 2025 due to the base effect, before moderating to 2.3 percent in 2026, aligning with pre-pandemic trends.

5. Cambodia's external position remained relatively strong. The current account balance registered a surplus of 0.5 percent of GDP in 2024, smaller than in 2023, mainly due to a wider trade deficit. FDI inflows remained robust at 9.2 percent of GDP.¹ Moving forward, the current account is projected to register a deficit of 3.5 percent of GDP in 2025 and 5.4 percent in 2026, mainly due to a continued widening of the trade deficit. The riel exchange rate has been relatively stable. The riel appreciated slightly against the US dollar in 2024, while fluctuating in line with seasonal demand.

6. Credit growth remained historically low, while asset quality in the banking sector continued to deteriorate. Credit growth has been weak since 2023, reflecting both stricter credit standards by banks and subdued demand amid a sluggish recovery. The non-performing loan (NPL) ratio for banks² continued to rise to 7.8 percent at end-March 2025. These trends could weaken bank profitability and capital adequacy. Meanwhile, subdued real estate market

¹ The 2024 nominal GDP figure is based on AMRO staff estimates.

² This includes commercial banks and specialized banks.

activity may weaken the financial positions of some real estate developers, further heightening credit risks.

7. As Cambodia grapples with the fallout from escalating global trade tensions, a multifaceted policy response is urgently needed to enhance economic resilience. The government's swift decision to reduce tariffs on US goods was a constructive initial step that helped de-escalate tensions. In the short term, targeted fiscal support and flexible monetary policies—carefully calibrated—can sustain economic activity. Strengthening regional cooperation will also be key to improving bargaining power and fostering intra-regional trade. Over the medium term, export diversification and improvements in domestic competitiveness should be prioritized.

8. Fiscal policy must remain agile and responsive in the short term, while a balanced approach to fiscal sustainability and development goals will be essential over the medium term. The authorities should begin preparing contingency plans in case the tariffs are permanent, or in the event the trade war escalates. Over the medium term, Cambodia should continue to pursue gradual fiscal consolidation. Meanwhile, the revenue shortfalls in 2023-2024 highlight the urgent need for swift implementation of the new revenue mobilization strategy. In addition, stronger alignment between policy objectives and budgeting, along with more efficient public spending, is critical.

9. The NBC's accommodative policy stance should be maintained to support the economy amid a lower growth outlook. At the same time, the current regulatory forbearance measure to allow more time for banks to address the NPL problem should be time-bound to avoid moral hazard, and the authorities should adopt a proactive approach to enhance NPL management. Besides, the authorities should strengthen financial stability by enhancing the macroprudential policy framework and establishing frameworks for the deposit insurance scheme, banking resolution, crisis management, and emergency liquidity assistance in the near term.

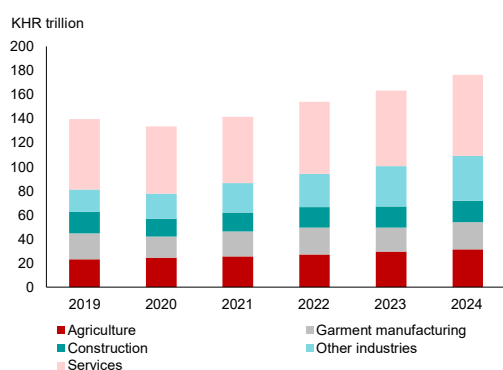
10. Effective policy implementation is key to advancing structural reforms. The authorities' commitment to fostering high-quality, sustainable, and inclusive growth is commendable. Equally important as introducing new policies and roadmaps is the effective execution of existing strategies, which requires stronger management capacity. Going forward, two areas are particularly important. First, improving inter-ministerial coordination is crucial, especially when priorities across ministries diverge. Second, strengthening data collection is critical to help formulate an evidence-based decision making.

A. Recent Developments and Outlook

A.1 Real Sector Developments and Outlook

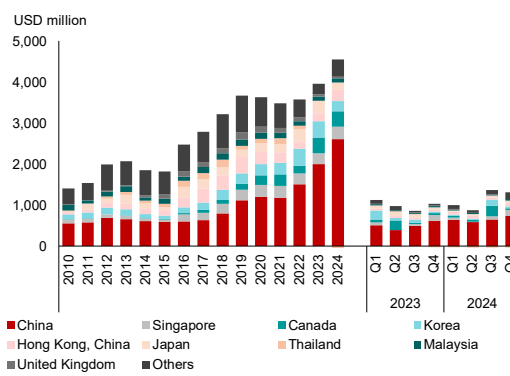
1. Cambodia’s economic growth accelerated but the recovery remained uneven (Figure 1). Growth improved to 6.0 percent in 2024 from 5.0 percent in 2023, with the garment sector serving as a key driver of growth, underpinned by strong demand from the US and the EU. Non-garment manufacturing and agriculture sector also saw solid growth. However, the services sector grew at a slower pace than in 2023. Notably, the recovery in tourism was sluggish (see Annex 1 “Challenges in the Post-pandemic Recovery in Cambodia’s Inbound Tourism: Slow Return of Chinese Tourists”). Meanwhile, the construction and real estate sectors remained subdued.

Figure 1. Real GDP by Sector



Source: National Institute of Statistics (NIS)

Figure 2. FDI Inflow by Economy



Source: National Bank of Cambodia (NBC); AMRO staff calculations

2. Faced with a surprisingly high tariff rate to the US, Cambodia’s economy is expected to grow at a weaker pace. The tariffs³ announced by the US on July 7 will make Cambodia’s growth to slow to 5.2 percent in 2025 and 4.7 percent in 2026 (see Annex 2 “Potential Impact of US High Tariffs on Cambodia’s Economy: A Value-Added Perspective”). The garment sector is expected to be hit the hardest and grow only modestly in 2025 and 2026, at less than half the pace of growth seen in 2024.⁴ The non-garment manufacturing sector is also likely to experience lower growth than expected, as FDI inflow is likely to be weighed down in anticipation of higher tariffs and weaker global growth (Figure 2). Notably, the negative impact on the trade sector is expected to be more pronounced in 2026, as the higher tariffs would have been in effect for the full year by then. In the non-trade segment, the tourism recovery, driven by increased flight connectivity and the return of foreign visitors, will support growth in the services sector. However, the construction and real estate sectors are expected to remain weak.

3. Inflation fell sharply in 2024 but remained highly volatile throughout the year and into early 2025. The headline consumer price index (CPI) inflation dropped steeply in Q1 2024, hovering at around 0–1 percent, before rising to above 3 percent by end-2024 and remaining elevated through April 2025. This volatility was mainly driven by fluctuations in food prices, particularly of fruits and vegetables (see Box A “Imported Inflation and Volatility in Cambodia’s Food Prices”). Energy prices remain subdued, reflecting global oil price trends, to which Cambodia’s fuel prices are closely linked.⁵ Core inflation has consistently mirrored the headline inflation trend, driven by rapid spillover effects from food prices. Going forward, the

³ On April 2, US announced a 49 percent tariff on Cambodian goods. Following negotiations, on July 7, the US notified Cambodia of revised tariff rates at 36 percent to take effect August 1, 2025.

⁴ More than half of the exports to US are from the garment sector. This sector grew by 15.2 percent in 2024.

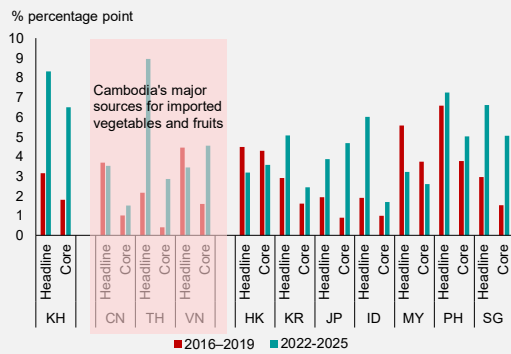
⁵ Cambodia’s fuel prices are determined every 10 days—on the 1st, 11th, and 21st of each month—based on a formula that uses the Mean of Platts Singapore (MOPS) as a benchmark.

headline CPI inflation is expected to rise to 2.5 percent in 2025 due to the base effect, before moderating to 2.3 percent in 2026, aligning with pre-pandemic trends.

Box A. Imported Inflation and Volatility in Cambodia’s Food Prices⁶

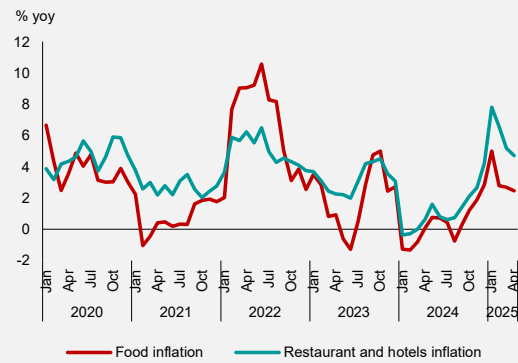
Cambodia’s inflation has exhibited a highly volatile trend in recent years, largely driven by food prices. While many economies experienced increased inflation volatility following the pandemic, Cambodia stands out (Figure A1). A key contributor to this volatility is food inflation, which accounts for nearly half of the CPI basket. Food prices also indirectly influence core inflation—excluding food and energy—especially through the “restaurants and hotels” component (Figure A2), a major driver of core inflation that includes many informal street food vendors. These structural features—a large share of food in the CPI and a broad definition of services prices—enable food price movements to quickly pass through to core inflation, thereby amplifying its volatility (Figure A3).

Figure A1. Headline and Core Inflation Volatility for Selected ASEAN+3 Economies



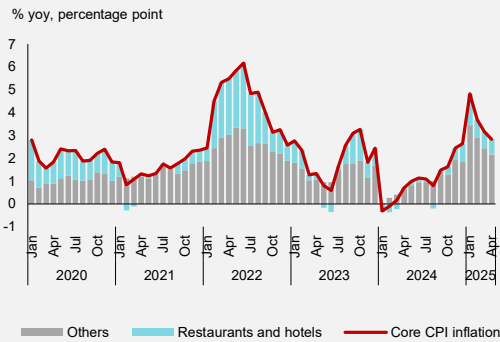
Source: World Bank; NIS; AMRO staff calculations
Note: 1) Inflation volatility is measured by the range of inflation, defined as the difference between the maximum and minimum monthly inflation values of the economies over the specified time period. 2) Data for 2025 include January to April.

Figure A2. Co-movement of Food and Restaurants & Hotel Inflation



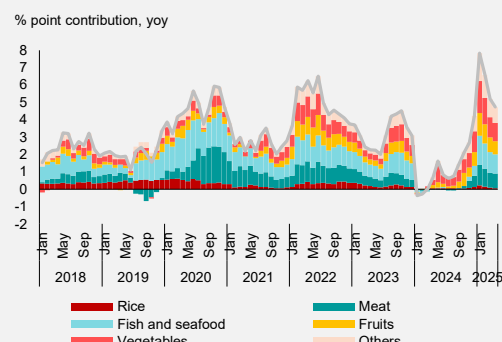
Source: NIS; AMRO staff calculations

Figure A3. Core CPI Inflation by Contribution



Source: NIS; AMRO staff calculations

Figure A4. Food Inflation Breakdown



Source: NIS; AMRO staff calculations

Within the food category, vegetable and fruit prices have contributed the most to inflation volatility through imported inflation, despite their relatively limited weights in the CPI basket.⁷ Meat and livestock have historically played a larger role, but since 2022, vegetable and fruit prices have surged more sharply, becoming the dominant driver of food inflation—a trend that has continued into early 2025 (Figure A4). This shift appears to be largely driven by supply-side factors. Cambodia imports 70 percent of its domestic vegetable consumption (Ito et al., 2023), and a significant share of fruits is also imported.⁸ Indeed, growing volumes of vegetables and fruits have been imported from

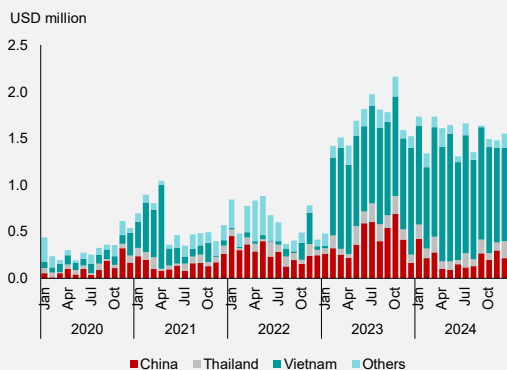
⁶ Prepared by Chunyu Yang, Economist.

⁷ Within food prices, the weights are 13.8 for rice, 21.6 for meat, 20.8 for fish and seafood, 10.6 for fruits, 10.8 for vegetables, and 22.5 for others.

⁸ According to a local news report (<https://kiripost.com/stories/demand-for-imported-fruits-triggers-concerns>), the surge in demand for imported fruits raised concerns in Cambodia’s domestic market in 2022.

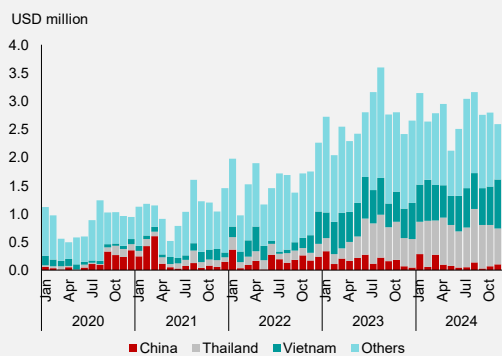
neighboring countries in recent years (Figures A5 and A6), and CPI data shows that domestic vegetable and fruit prices move closely in line with import price trends (Figures A7 and A8).

Figure A5. Vegetable Imports by Source Country



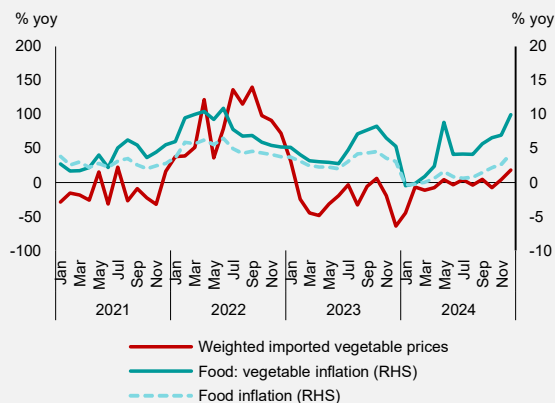
Source: GDCE; AMRO staff calculations

Figure A6. Fruits Imports by Source Country



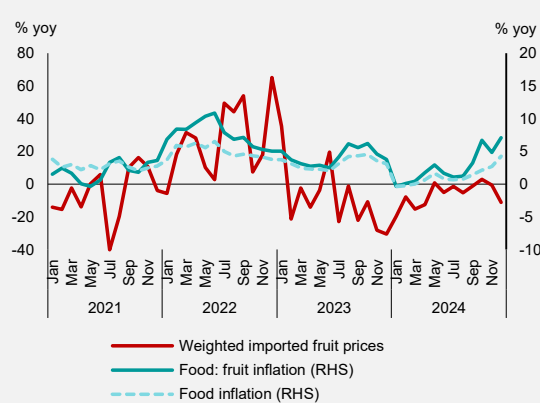
Source: GDCE; AMRO staff calculations

Figure A7. Co-movement of Imported Vegetable Prices and Vegetable CPI Inflation



Source: NIS; GDCE; AMRO staff calculations
Note: The weights are based on the relative shares of vegetable imports from China, Thailand and Vietnam.

Figure A8. Co-movement of Imported Fruit Prices and Fruit CPI Inflation



Source: NIS; GDCE; AMRO staff calculations
Note: The weights are based on the relative shares of fruit imports from China, Thailand and Vietnam.

In this context, the strong pass-through from import prices to domestic fruit and vegetable prices suggests that tracking trade unit values could enhance near-term inflation forecasting. The close alignment between import prices and food CPI also underscores the importance of monitoring external food prices and trade-related disruptions—particularly from major suppliers such as Thailand and Vietnam. Any supply shock, export restriction or climate-related event in these countries could have an immediate impact on inflation in Cambodia. Strengthening high-frequency monitoring of these indicators would support more timely and accurate inflation assessments.

At the same time, further diversification of supply sources for key food items could help mitigate price volatility. Policies aimed at boosting domestic agricultural production and broadening import sources would enhance food supply resilience. In addition, investments in cold-chain logistics and cross-border trade facilitation could play a critical role in stabilizing food prices by easing supply bottlenecks.

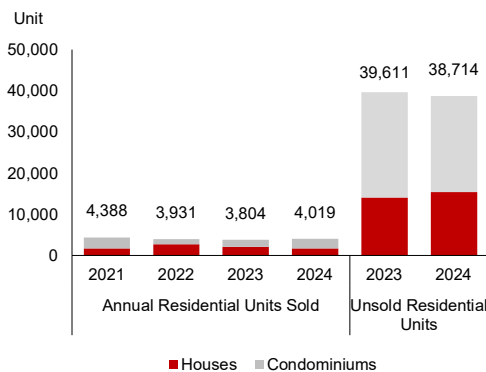
References

Ito, K., T. Yoshida, B. Ung, and M. Hamano (2023). "Challenges and Prospects for Increasing Vegetable Production in Cambodia." *International Journal of Environmental and Rural Development*, 14-2, pp.107-116.

4. The real estate sector remained weak in 2024 and will take more time to fully resolve. Both the residential and commercial property segments remained subdued in 2024. In the residential segment, new project launches fell to a historic low in 2024, with only five

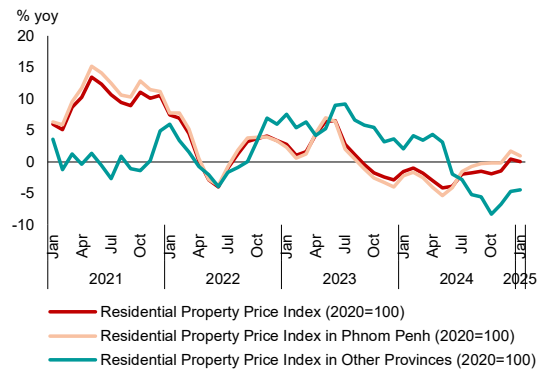
condominiums and eleven Borey developments launched.⁹ While residential units sales increased by 5.7 percent (yoy) to 4,019 units in 2024 and newly launched condominiums were relatively well absorbed,¹⁰ overall housing demand remained sluggish, with the stock of unsold residential units still elevated at 38,714 as of year-end (Figure 3). This weakness in the housing market was also reflected in a 5 percent (yoy) decline in mortgage loans in 2024, along with a continued decrease in the NBC’s residential property price index (RPPI) since September 2023 (Figure 4). In the commercial segment, although new project completions were limited in 2024, vacancy rates for office and retail spaces remained high.¹¹ Amid cautious local sentiment and subdued market activity, developers continued to face liquidity pressures.

Figure 3. Residential Property Market: Annual Sales and Unsold Inventory



Sources: Non-Bank Financial Services Authority (NBFS); AMRO staff calculations

Figure 4. Residential Property Price Index



Sources: NBC; AMRO staff calculations

A.2 External Sector and the Balance of Payments

5. Cambodia’s external position remained relatively strong. The current account balance registered a surplus of 0.5 percent of GDP in 2024, smaller than in 2023, due mainly to a wider trade deficit (Figure 5). Nevertheless, the primary income deficit narrowed significantly, supported by higher interest earnings from overseas investments. On the financial account, FDI inflows remained robust, though other investments continued seeing net outflows. Gross international reserves stood at USD24.8 billion in April 2025, covering 8.7 months of imports. Moving forward, the current account is projected to register a deficit of 3.5 percent of GDP in 2025 and 5.4 percent in 2026, mainly due to a continued widening of the trade deficit. Meanwhile, FDI inflows are expected to decline slightly in 2025 compared to 2024, reflecting more cautious investor attitude, before picking up again in 2026.

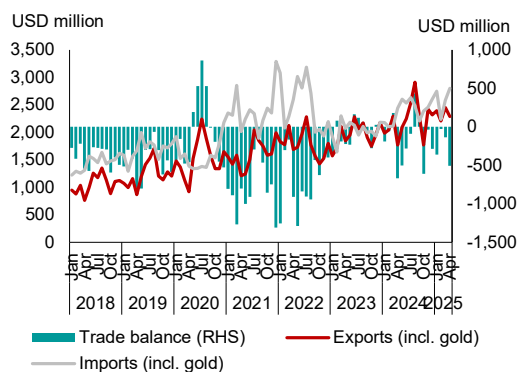
6. The riel appreciated slightly against the US dollar in 2024, while fluctuating in line with seasonal demand (Figure 6). The riel followed typical seasonal patterns in H1 2025, appreciating from January to April, driven by increased demand for riel liquidity for tax payments and holiday spending, before depreciating in May and June. However, appreciation pressures re-emerged in H2, pushing the exchange rate to KHR4,025 per US dollar by year-end. This appreciation of the riel was driven by additional factors beyond the seasonal demand for riel during the harvest season in Q4 – namely, a reduced riel supply due to the government’s spending cuts and a weakening US dollar. In response, the National Bank of Cambodia (NBC) injected riel liquidity into the system during Q4 2024 to Q1 2025, while the riel continued to strengthen, reaching KHR4,010 per US dollar at end-June 2025.

⁹ According to data from the CBRE Fearless Forecast 2025 Report.

¹⁰ According to Knight Frank’s H2 2024 Report, newly launched condominiums in Phnom Penh achieved a launch sales rate of 29 percent in H2 2024, up from 12 percent in H2 2023 and approaching the peak level of 30 percent recorded in H1 2019. The launch sales rate refers to the proportion of available units sold within the first quarter following their launch.

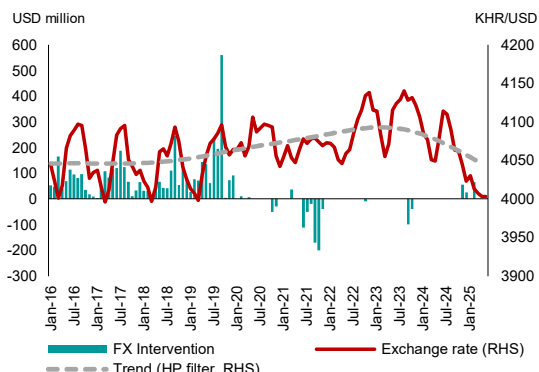
¹¹ According to Knight Frank’s H2 2024 Report, occupancy rates in Cambodia stood at 61.4 percent for the office sector and 64.5 percent for the retail sector.

Figure 5. Exports, Imports, and Trade Balance



Source: GDCE; AMRO staff calculations

Figure 6. Exchange Rate and FX Intervention



Source: NBC; AMRO staff calculations

Note: A positive FX intervention means buying USD from the market, and negative intervention means selling USD in the market.

A.3 Monetary Condition and Financial Sector

7. Credit growth remained historically low, despite ample liquidity supported by strong deposit growth. Credit growth¹² has been weak since 2023, reflecting both stricter credit standards by banks and subdued demand amid a sluggish recovery. It fell to 3.7 percent in March 2025, down from 4.2 percent in 2023 and 19.0 percent in 2022 (Figure 7). This decline has been seen across most sectors—particularly in sectors in which the recovery is lagging, such as real estate, wholesale and retail trade, and other services. Nevertheless, liquidity in the banking sector remains abundant in both riel and US dollars, with banks and microfinance deposit-taking institutions (MDIs) reporting liquidity coverage ratios (LCRs) of 204.9 percent and 167.3 percent, respectively in March 2025. Meanwhile, excess reserves for banks and MDIs continued to remain well above the reserve requirement, partly due to the 17.6 percent growth in deposits.

8. Asset quality and profitability in the banking sector continued to decline in 2024, but capital buffers remained adequate. Amid a slower-than-expected post-pandemic economic recovery, the non-performing loan (NPL) ratio for banks continued to rise to 7.8 percent at end-March 2025 (Figure 8).¹³ As a result, banks increased their specific provisions for NPLs, although the provision coverage ratio stayed only around 70 percent.¹⁴ Meanwhile, net interest income also fell, pressured by high funding costs—driven by elevated US dollar interest rates—and slower credit growth. Thus, banks experienced a weakening in profitability. Nevertheless, the banking sector remains well-capitalized. Capital adequacy ratios (CARs) for total capital and Tier 1 capital exceeded 20 percent and 15 percent respectively, with several large banks strengthening their capital and some foreign banks receiving capital injections from their parent institutions.

9. The NBC reintroduced a forbearance measure for loan restructuring, along with initiatives to ensure adequate liquidity in the banking sector. In August 2024, the NBC announced a measure allowing banks to restructure loans for customers facing temporary financial difficulties without requiring additional provisions, effective till end-2025, aiming to provide the customers with the necessary flexibility and time to recover which, in turn, help to

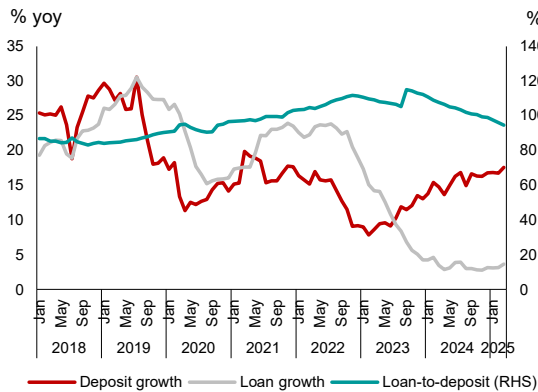
¹² Credit data includes total loans from banks and MFIs, but excludes those to financial institutions.

¹³ The largest shares of NPLs by sector as of February 2025 were observed in retail trade (21 percent of total NPLs), real estate activities (10.3 percent), agriculture (10.2 percent), mortgage (9.6 percent), and construction (8.8 percent).

¹⁴ The ratio of specific provisions to NPLs rose from 59.7 percent in Q4 2022 to 60.3 percent in Q4 2024. General provisions are estimated as 1 percent of normal loans (i.e., total loans minus NPLs). In total, the provision coverage ratio—defined as total provisions (general and specific provisions) divided by total NPLs—stayed at 73.5 percent in Q4 2024, significantly below 95.5 percent in Q4 2022.

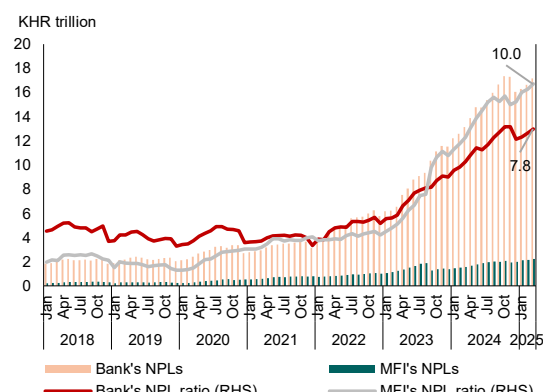
mitigate the broader impact of increasing NPLs on both banks and customers. To provide more liquidity into the market, the NBC maintained RRRs for both local and foreign currencies at 7 percent and allowed banking and financial institutions (BFIs) to keep the capital conservation buffer (CCB) at 1.25 percent until end-2025, postponing a return to pre-pandemic levels.¹⁵ Meanwhile, the NBC also lowered the reference rate—the 7-day liquidity-providing collateralized operation (LPCO)—starting in December 2024.¹⁶ To improve banks’ flexibility in managing riel liquidity, the NBC lowered the daily reserve asset holding requirement for riel to 30 percent in January 2025 and increased allotment of LPCO in each auction.¹⁷

Figure 7. Loan and Deposit Growth, Loan to Deposit Ratio



Source: NBC; AMRO staff calculations
Note: Loan data covers total loans from banks and MFIs, but excludes those to financial institutions. Deposit data includes total deposits held by banks and MDIs.

Figure 8. Non-performing Loans



Source: NBC; AMRO staff calculations

A.4 Fiscal Sector

10. The fiscal deficit narrowed to 2.1 percent of GDP in 2024, down from 3.9 percent in 2023, as substantial spending cuts more than offset weak tax collection.¹⁸ While tax collection expanded by 2.7 percent (yoy), it reached only 87.5 percent of the budget (Figure 9). An uneven economic recovery, particularly with weak activity in the real estate, financial and services sectors, combined with more generous tax incentives, weighed heavily on domestic tax revenue. Non-tax revenue, on the other hand, grew by 8.2 percent, supported by a gradual recovery in tourism-related fees (including casino revenues), higher mining royalties and increased postal and telecommunication revenue. In response to weak revenue collection, the government reduced expenditure in 2024 by 6.3 percent (yoy) through a one-time expenditure rationalization measure, cutting nearly 2.5 percent from its approved budget, with about 65 percent of the spending cuts coming from current expenditure and 35 percent

¹⁵ Before the pandemic, the RRRs were set at 8 percent for local currency and 12.5 percent for foreign currencies, while the CCB was fully implemented at 2.5 percent. In 2023, the NBC had planned to gradually raise the RRR for foreign currencies back to 12.5 percent by 2024 and restore the full CCB at 2.5 percent. However, in the second half of 2023, the NBC announced a reduction of the foreign currency RRR to 7 percent and decided to maintain the CCB at 1.25 percent until the end of 2024. In the second half of 2024, the NBC further extended these measures through the end of 2025.

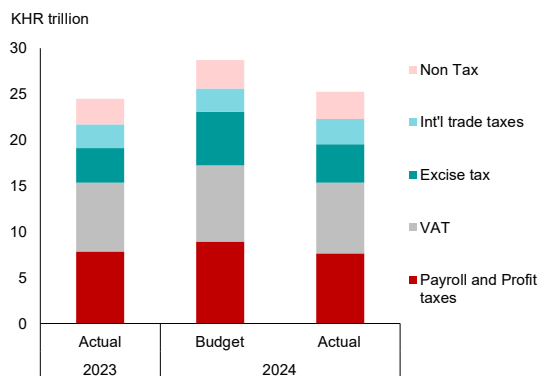
¹⁶ The NBC reduced the 7-day LPCO minimum bidding rate—its reference rate for monetary operation—from 3.75 percent to 3.5 percent on December 9, 2024, and further to 3.0 percent on March 20, 2025, while the marginal lending facility (MLF) rate was also reduced to 5 percent.

¹⁷ The NBC issued two Prakas (regulations) on the Maintenance of Minimum Reserve Requirement for Banks and Financial Institutions in May 2024 and January 2025 to reduce the daily threshold for the riel-denominated reserve asset holdings. The threshold was reduced from 80 percent of the minimum reserve requirement in the reserve requirement account to 50 percent in May 2024, and further to 30 percent in January 2025. Meanwhile, the daily threshold for US dollar-denominated reserves remained unchanged at 80 percent.

¹⁸ Based on AMRO staff calculations, which closely adhere to the Government Finance Statistics (GFS) definition. Using the authorities’ definition, the fiscal deficit narrowed to 2.47 percent of GDP in 2024, down from 5.61 percent in 2023.

from capital expenditure (Figure 10).¹⁹ The spending cuts helped offset weak revenue collection, resulting in a narrower fiscal deficit of 2.1 percent of GDP in 2024, down from 3.9 percent in 2023. However, despite this improvement, the fiscal deficit remains well above pre-pandemic levels. Meanwhile, public debt fell to 26.1 percent of GDP in 2024, down from 26.6 percent in 2023, mainly due to higher economic growth.

Figure 9. Government Revenue



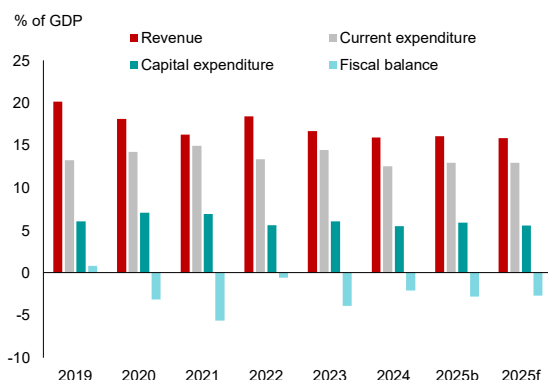
Source: Ministry of Economy and Finance (MEF); AMRO staff calculations

Figure 10. Current and Capital Expenditures



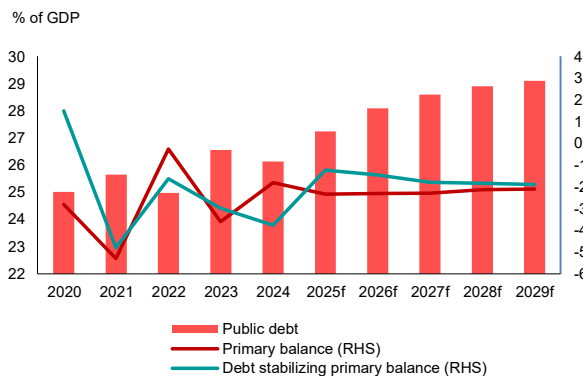
Source: MEF; AMRO staff calculations

Figure 11. Fiscal Balance



Source: MEF; AMRO staff calculations
Note: b = budget; f = forecast.

Figure 12. Public Debt



Source: MEF; AMRO staff calculations
Note: f = forecast. The debt stabilizing primary balance is defined as the primary balance required to keep the debt ratio constant relative to the previous year.

11. The fiscal deficit is projected to widen in 2025 due to the government's ongoing efforts to normalize public spending following the significant expenditure reduction in 2024. The budgeted fiscal deficit is projected to widen to 2.8 percent of GDP in 2025, from 2.1 percent in 2024 (Figure 11). Despite the short-term increase in the fiscal deficit, the government remains committed to a gradual fiscal consolidation over the medium-term. Total revenue is projected to grow by 8.4 percent (yoy), a target that remains broadly in line with historical performance despite revenue shortfalls in both 2023 and 2024. However, AMRO's revenue forecast is lower due to moderating GDP growth in 2025, as well as the continued implementation of tax relief measures to support the business environment. On the

¹⁹ Most of the expenditure cuts were concentrated on current spending, particularly targeting non-essential items to minimize the impact on public service delivery. Operational budgets of several line ministries were reduced through cuts in the purchase of goods and services, as well as reductions in meeting-related expenses and per diem allowances. In contrast, capital expenditures were largely preserved to safeguard ongoing government programs and long-term development priorities. While some capital spending cuts were implemented, these mainly involved the postponement or cancellation of small-scale projects.

expenditure side, total spending is expected to rise by 9.4 percent, reflecting government's continued efforts to spend on strategic priorities. AMRO staff projects the fiscal deficit to widen to 2.7 percent of GDP in 2025 amid the anticipated growth slowdown caused by high US tariffs, with public debt increasing to 27.2 percent of GDP (Figure 12). The fiscal stance in 2025 is assessed to be expansionary relative to 2024, with a projected widening of the deficit.

12. The government's Medium-Term Fiscal Framework (MTFF) 2025–2027 outlines a path of gradual fiscal consolidation. The year 2025 also marks the first year of implementation of MTFF in conjunction with Medium-Term Budget Framework (MTBF), through the preparation of Budget Strategic Plans (BSPs). These plans are currently being drafted and will be incorporated in the MTBF in preparation for the Budget Law for 2026, which will be approved by parliament for the first time in the program budgeting format. AMRO's debt sustainability analysis—which incorporates latest developments, including a significant shift in the economic outlook for 2025-2026 due to higher tariffs imposed by the US—shows public debt is projected to rise and reach 29.1 percent of GDP by 2029. This is on account of sustained primary deficits above the 2 percent of GDP that are needed to stabilize debt. In addition to existing fiscal rules,²⁰ such as the debt ceiling, the MTFF has introduced an operational rule that limits the fiscal deficit to below 5 percent of GDP.

13. Cambodia continued to roll out tax incentives and infrastructure investment plans to boost economic growth, support the private sector, and promote sustainability. Key tax measures for 2025 either extended or added new tax relief measures provided in 2024, including stamp duty exemptions, capital gains tax deferrals, and tax holidays for MSMEs, priority sectors, and green energy initiatives. To boost competitiveness and improve connectivity, major infrastructure projects are currently under construction.²¹

B. Risks, Vulnerabilities and Challenges

14. As a small open economy, Cambodia's economy is facing increased uncertainties, mainly driven external factors, alongside emerging challenges within the domestic financial sector, while long-term structural challenges also persist (Figure 13).

- The most immediate and pressing concern is the uncertainty over the duration and magnitude of high US tariffs on Cambodia. In addition, a reassessment by the EU of Cambodia's Everything But Arms (EBA) eligibility could hinder exports. Slower growth in major economies will become more likely and pronounced if ongoing trade protectionism escalates, further weighing on Cambodia through investment and trade channels. Given high inflation volatility and rapid pass-through from commodity prices, a surge in global commodity prices could intensify inflationary pressures.
- Domestically, a continued deterioration in loan asset quality amid subdued credit growth may weaken bank profitability and capital adequacy, while the weak financial positions of

²⁰ Prior to the MTFF document, Cambodia's fiscal rules were through setting ceiling values for five key indicators to help guide fiscal policy over the medium-term: (1) Present Value of Total Public and Publicly Guaranteed (PPG) Debt to GDP ratio at 55 percent; (2) Present Value of PPG External Debt to GDP ratio at 40 percent; (3) Present Value of PPG External Debt to Exports ratio at 180 percent; (4) PPG External Debt Service to Exports ratio at 15 percent; and (5) PPG External Debt Service to Revenue ratio at 18 percent. The publication of the MTFF document in 2024 added a rule that the total budget deficit must not exceed -5.0 percent of GDP to help guide fiscal policy during the preparation of the annual budget framework.

²¹ These include the USD30 billion the Comprehensive Intermodal Transport and Logistics System Master Plan 2023-2033, the Phnom Penh Development Master Plan 2035, and strategic projects such as the Funan Techo Canal, new expressways, and the Techo International Airport.

some real estate developers could further heighten credit risks. If left unaddressed, these financial strains could spill over into the real economy.

- In the long term, risks include common structural challenges such as geoeconomic tensions, climate change, and cyber threats, along with country-specific risks, particularly slow adaptation to the least developing countries (LDC) graduation.

Figure 13. Cambodia Risk Map



Source: AMRO staff

Note: The Country Risk Map captures those risks and challenges that could derail the country’s macro-stability. These are in relation to: (1) the growth and inflation outlook, (2) financial stability concerns, and (3) other key long-term challenges. The risks and challenges are divided into two categories; (1) short-term risks (these are conjunctural risks, up to 2 years, where the risks represent scenarios that could materially alter the baseline path), and (2) long-term risks (these are more persistent or secular trends and/or challenges, including perennial risks).

B.1 Near-term Risks to the Macro Outlook

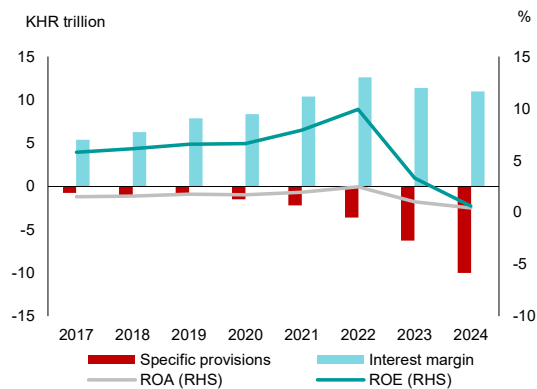
15. External uncertainty and turbulence, mainly triggered by reciprocal tariffs imposed by the US, pose significant risks to Cambodia’s short-term growth outlook. The uncertainty surrounding the tariff outlook reflects the unpredictable outcome over the duration and the magnitude of the tariffs, even after the US announced the 36 percent tariff in early July. The baseline scenario assumes that the high tariffs on Cambodia that have been announced, along with those on other countries, will become effective from August, with both the Cambodian and global economies gradually adjusting to a new steady state after absorbing the initial shock. However, growth could deviate from this path, with both upside and downside risks, depending on how various scenarios unfold (see Annex 2 “Potential Impact of US High Tariffs on Cambodia’s Economy: A Value-Added Perspective”).

16. Inflation in Cambodia remains highly vulnerable to spikes in global commodity prices, with its dynamics more sensitive to such fluctuations than in most ASEAN economies. Given Cambodia’s high dependence on imported fuel, a spike in global oil prices—potentially triggered by escalating geopolitical tensions and shipping disruptions—would quickly drive transportation costs up, potentially exerting upward pressure on food prices, as inventory and storage systems remain underdeveloped. Similarly, if extreme weather events, climate-related disruptions, or border closures due to geopolitical conflicts push up imported food prices, domestic food inflation could heighten. Furthermore, as seen in the historical co-movement between core inflation and food and energy inflation, strong second-round effects can cause

rising costs to spill over into core inflation. This, in turn, can amplify overall inflation volatility, and weigh on household incomes and domestic demand.

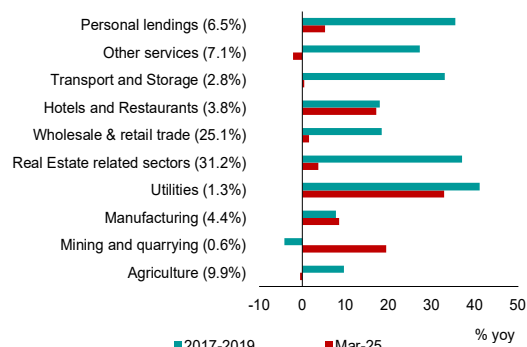
17. A rise in NPLs and a weakening real estate sector could heighten credit risks in the banking sector. The rising NPL ratio over the past two years has led banks to raise loan loss provisions and tighten credit standards. If high NPL levels persist or worsen, the resulting loan losses could further undermine banks' profitability (Figure 14) and capital adequacy. Meanwhile, prolonged weakness in the real estate market has continued to weigh on banks' asset quality and earnings. With real estate-related loans accounting for nearly one-third of total bank lending (Figure 15),²² the financial health of developers and home buyers is closely tied to the performance of banks.²³ Moreover, as real estate assets are commonly used as collateral for other types of loans, a correction in property prices could erode collateral values, heighten credit risks, and potentially trigger covenant breaches.²⁴

Figure 14. Profitability



Source: NBC via Haver Analytics/ IMF FSI database; AMRO's staff calculations
Note: Data include banks and MDIs.

Figure 15. Credit Growth by Sectors, Latest Growth versus Pre-pandemic Growth



Source: NBC; AMRO staff calculations
Note: 1) Numbers in parenthesis are the share of each sector to total credit of banks and MFIs, excluding credit to financial institutions. 2) Real estate-related sectors include credit to construction, real estate activities and mortgage from banks and MFIs.

18. Tighter-than-expected global financial conditions could exacerbate risks in Cambodia's banking sector. Although the US Federal Reserve began cutting policy rates in September 2024, recent US economic indicators—such as a tight labor market and rising core inflation—have raised concerns about sustained inflation and a prolonged period of high interest rates. Meanwhile, policy changes under the new US administration, such as sharp increases in import tariffs, could lead to higher costs and prices and increase stagflation risks. A resurgence in inflation could result in higher interest rates and tighter global financial conditions. Cambodian banks' interest margins have been compressed in the Fed tightening cycle since 2022 as funding costs increased sharply while lending rates were relatively unchanged. The slower decrease in US interest rate will keep high funding cost for the Cambodian banks. Consequently, with high NPL ratios, weak loan growth, and compressed interest margins, the profitability of Cambodian banks is expected to remain under pressure.

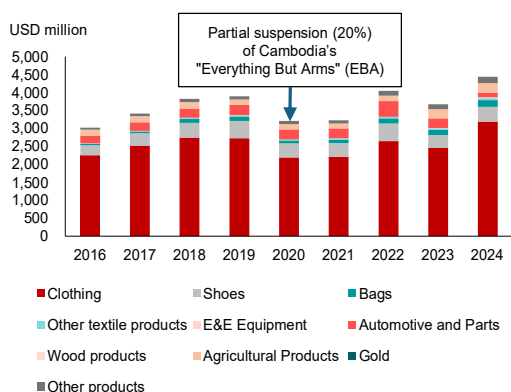
²² Loans to construction, real estate, and mortgages accounted for about 31.2 percent of total bank lending as of March 2025.
²³ Specifically, real estate activities contributed the second largest share of NPLs (10.3 percent) according to available data in February 2025, following retail trade (21 percent). Furthermore, growing financial distress among developers could contribute to heightened credit risks within the banking sector.
²⁴ According to S&P, several Cambodian banks breached covenants with external institutional lenders in 2024. See <https://www.spglobal.com/ratings/en/research/articles/240912-your-three-minutes-in-cambodian-banking-covenant-breaches-point-to-a-survival-of-the-fittest-13247641>.

B.2 Longer-term Challenges and Vulnerabilities

19. Unless managed pre-emptively, Cambodia’s scheduled graduation from LDC status in 2029 could lead to a loss of preferential status, reduce its export competitiveness, and increase borrowing costs. Cambodia is scheduled to graduate from LDC status by end-2029, marking a significant achievement in its socio-economic progress following decades of rapid growth. However, the transition also brings challenges, including the withdrawal of preferential trade agreements and concessional financing, like those faced by other countries on graduation.²⁵

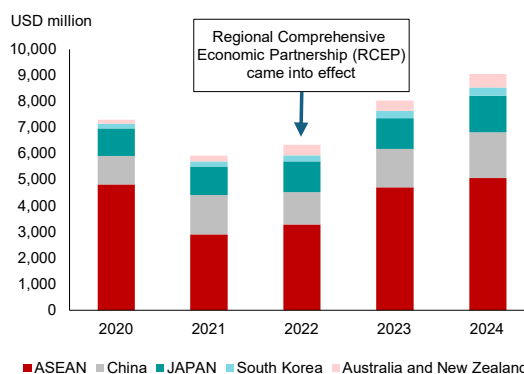
- **The graduation would have a significant impact on garment, footwear, and travel goods (GFT) exports to the EU** (Figure 16), which currently account for 14.4 percent of Cambodia’s total exports. Upon graduation, Cambodia will transition from the EBA trade regime²⁶ to the EU’s Generalized Scheme of Preferences (GSP), either under the GSP Plus or standard GSP arrangement. While GSP Plus maintains zero tariffs for GFT products, it imposes stricter rules of origin. In contrast, standard GSP applies tariffs of over 9 percent on garments and 6 percent on footwear, though with less stringent rules of origin. Without access to either GSP arrangement, Cambodia would face tariffs under the Most Favoured Nation (MFN) regime—exceeding 10 percent for both garments and footwear.²⁷

Figure 16. Exports to EU27 by Category



Source: GDCE; AMRO staff calculations

Figure 17. Exports to RCEP Economies



Source: GDCE; AMRO staff calculations

- **Cambodia may face higher borrowing costs once it graduates from LDC status.** This shift could increase debt servicing burdens, reduce fiscal space, and constrain the government’s ability to finance critical investments in infrastructure and human capital. Although Cambodia may lose access to the most concessional loans upon LDC graduation, it can still access financing options that offer more favorable terms than commercial borrowing.

C. Policy Discussions and Recommendations

20. As Cambodia grapples with the fallout from escalating global trade tensions, adopting a multifaceted policy response to strengthen resilience is essential and high-

²⁵ See United Nations (2023), “Potential Impacts of LDC Graduation: Cambodia, Comoros, Djibouti, Senegal and Zambia”, Policy Note, February 2023. <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/2023-cdp-policy.pdf>.

²⁶ The EBA provides duty-free access to the EU market with relatively flexible rules of origin requirements.

²⁷ See TAFTAC and Eurocham Cambodia (2024), “Cambodia Garment, Footwear and Travel Goods (GFT)”, Sector Brief: Issue 3, September 2024. <https://asiagarmenthub.net/resources/2024/cambodia-gft-sectoral-brief-issue-3.pdf>.

priority. The government's swift decision to reduce the tariff on 19 categories of US goods from 35 percent to 5 percent was a constructive initial step that helped de-escalate tensions.

- In the short run, targeted fiscal support could be required to support sectors most affected by tariffs, notably the garment industry. Flexible monetary policies, as well as targeted liquidity measures, could be adopted with careful calibration to smooth volatility and sustain economic activity. Strengthening regional cooperation through a unified response or a coordinated strategy could improve bargaining power and foster increased intra-regional trade.
- Over the medium term, efforts should focus on reducing reliance on the US market by further liberalizing trade with other partners, including ASEAN+3, through deepening existing FTAs (Figure 17), actively negotiating new agreements, and advancing trade in services. Enhancing economic diversification and domestic competitiveness remains critical, with priorities including deeper integration into the global value chain, improving the business environment, upgrading infrastructure, streamlining regulatory processes, and investing in education and vocational training.

C.1 Balancing Fiscal Sustainability and Development Goals

21. Given US-imposed tariffs could have significant adverse effects on Cambodia's economic growth, fiscal policy must remain agile and responsive. Given the prevailing uncertainty over the duration and magnitude of the new tariffs, a cautious and flexible fiscal stance is warranted (AMRO, 2025).²⁸ The authorities should begin preparing contingency plans in case the tariffs are permanent or if retaliatory measures by other countries intensify global trade tensions further. With fiscal reserves having declined from their pre-pandemic peak, it is crucial to preserve remaining buffers (Figure 18).²⁹ Any fiscal support should therefore be judicious, well-targeted, and focused on the most affected sectors and vulnerable workers, to mitigate economic and social impacts without undermining fiscal sustainability. Equally important is clear and transparent communication of the scale, scope, and expected duration of fiscal measures, so that public confidence and policy credibility are maintained.

22. Over the medium term, Cambodia should remain committed to gradual fiscal consolidation, as articulated in the MTFF. The authorities should continue to pursue efforts to rationalize expenditure and strengthen public financial management while preserving fiscal flexibility to respond to evolving risks. Once key risk factors subside and macroeconomic stability is restored, the authorities should revert to a path of gradual fiscal consolidation, adjusting the pace as needed, and in line with updated fiscal targets under the MTFF. The MTFF includes a fiscal deficit ceiling of 5 percent of GDP. Although this ceiling allows room for development spending, the associated structural debt-stabilizing primary deficit of 4.0 percent and public debt-to-GDP ratio of around 65 percent are relatively high. A lower fiscal deficit ceiling of below 3.5 percent of GDP would correspond to a structural debt-stabilizing primary deficit of 2.8 percent and limit the long-term public debt-to-GDP ratio to approximately 45 percent (Figure 19).

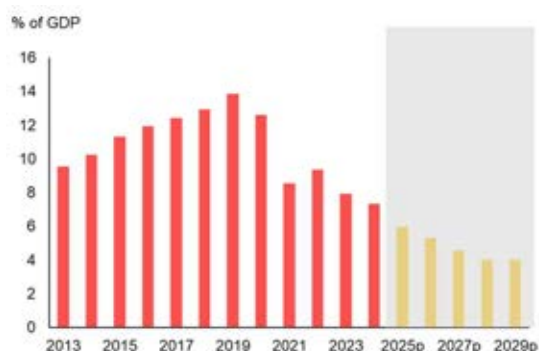
23. As public debt is projected to rise moderately over the medium term, fiscal authorities must remain vigilant. (see Appendix 5 "Debt Sustainability Analysis") A persistent upward trend in the public debt ratio could gradually erode fiscal flexibility, heighten debt-servicing obligations, and increase vulnerability to economic or external shocks. To

²⁸ See AMRO (2025). "ASEAN+3 Fiscal Policy Report 2025: Navigating Fiscal Strategy Through Uncertainty." *ASEAN+3 Fiscal Policy Report 2025*, pp.13–16.

²⁹ Meanwhile, the post-pandemic erosion of fiscal buffers is also attributable to revenue underperformance, which compelled the authorities to finance the fiscal deficit by drawing down government deposits in order to preserve priority spending.

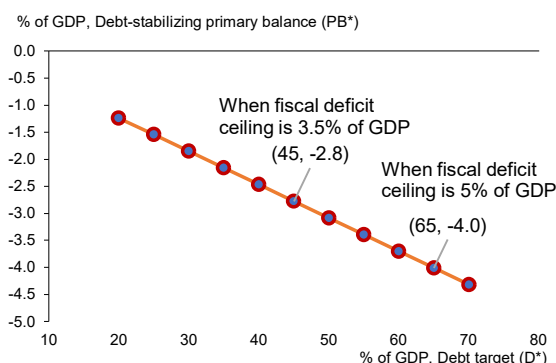
address these risks, the primary deficit should be narrowed in alignment with Cambodia’s ongoing fiscal consolidation efforts, aiming to stabilize debt levels over the medium-term. Therefore, maintaining fiscal prudence while ensuring adequate resources for development expenditures will be essential. Such an approach would ensure adequate fiscal space (see Annex 3 “Assessment of Cambodia’s Fiscal Space”), necessary to maintain a strong fiscal position and support Cambodia’s highly dollarized monetary policy regime.³⁰ In addition, for the MTFE and the MTBF to be effectively implemented, it is crucial to enhance forecasting capacity to ensure the macroeconomic and revenue projections are credible, which is essential for effective fiscal planning.

Figure 18. Government Savings



Source: MEF; AMRO staff calculations and projections
Note: 1) Government savings are projected as the difference between the projected current revenue and planned current expenditure less planned domestic public investment; 2) 2025-2029 figures are based on AMRO staff projections.

Figure 19. Debt-stabilizing Primary Balance Implied by Public Debt Level



Source: MEF; AMRO staff estimation
Note: 1) Structural debt-stabilizing primary balance is the primary balance required to maintain the debt ratio at a specific level over the long term and is calculated from the debt dynamics equation $pb^* = \left(\frac{r^* - g^*}{1 + g^*}\right) \times d^*$ as in Cheng et al. (2018).
 $g^* = 6.0$, representing the long-term economic growth; $r^* = -0.5$, representing the long-term real interest rate; and pb^* means primary balance. This chart is illustrative and simplified, as it does not fully incorporate interactions between macroeconomic and fiscal variables. It assumes fixed long-term real interest (r^*) and growth (g^*) rates. However, these rates can vary with the debt level and fiscal balance in a full DSA model.

24. Revenue collection underperformed in 2023 and 2024, highlighting the urgent need to implement the new revenue mobilization strategy. The adoption of the Revenue Mobilization Strategy (RMS) III in early 2025 is an important step forward, but its timely and decisive execution will be essential to unlock the full potential of revenue mobilization. Given persistent revenue shortfall and the decline in tax buoyancy (Figure 20), Cambodia must fast-track medium- to long-term tax policy reforms, particularly in the areas of excise taxes,³¹ personal income tax (PIT),³² and property tax.³³ These reforms will not only broaden the tax base but also ensure a more equitable and sustainable revenue system. However, the large informal sector, that could be as large as 35 percent of GDP, remains a major obstacle to revenue mobilization.³⁴ Addressing this will require the authorities to prioritize formalization efforts, leveraging simplified tax regimes, tax registration incentives, and digital solutions, to bring

³⁰ Cheng, H., and I. Pitterle, 2018, “Towards a More Comprehensive Assessment of Fiscal Space.” DESA Working Paper No. 153, Department of Economic and Social Affairs, United Nations, New York.

³¹ The ongoing review of the excise tax system should be expedited, as rate adjustments will help preserve their real value and align with fiscal, health and environmental objectives.

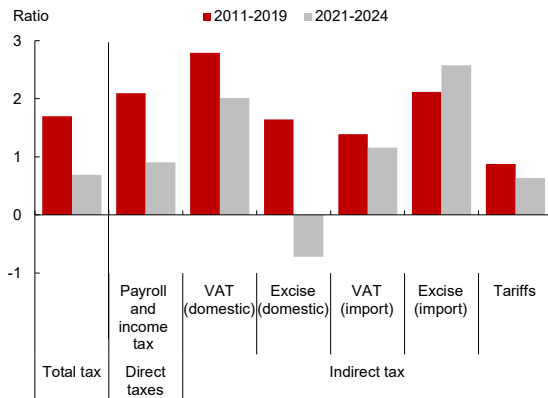
³² Implementing a comprehensive PIT system with a dual tax structure—progressive rates on labor and business income and flat rates on capital gains—can enhance revenue generation, equity, and economic efficiency. Additionally, the introduction of simplified tax return procedures and careful consideration of thresholds and rates are emphasized as vital for ensuring compliance and minimizing administrative burdens (see AMRO Annual Consultation Report on Cambodia 2023 – Annex 2 by Monineath El).

³³ Property taxation remains underutilized, and strengthening valuation, coverage, and enforcement could significantly boost revenue. In addition, introducing progressive property tax rates could further enhance fairness. Cambodia’s current property tax rate stands at 0.1 percent of the assessed value of immovable property exceeding 100 million riels (approximately USD 25,000).

³⁴ Chongvilaivan, A., and A. Chooi. 2021. “A Comprehensive Assessment of Tax Capacity in Southeast Asia.” Asian Development Bank, Manila, Philippines.

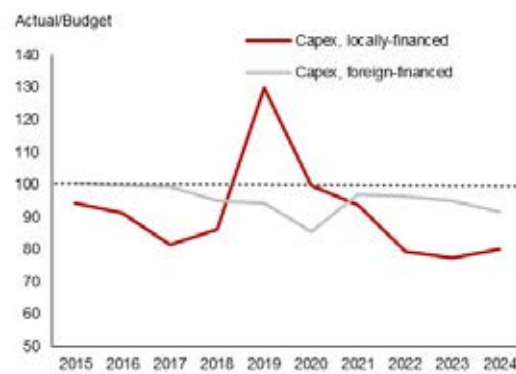
more businesses into the formal economy. Moreover, it is recommended that a review of existing tax relief measures be conducted to evaluate their continued relevance in supporting economic recovery. Based on these findings, authorities should formulate a clear timeline and criteria for gradually phasing out relief measures whose economic justification has weakened.

Figure 20. Tax Buoyancy



Source: MEF; AMRO staff calculations
Note: Tax buoyancy is defined as the responsiveness of tax revenue to GDP growth, and for each year is calculated by dividing the percentage change in tax revenue by the percentage change in the relevant tax base (GDP, consumption, or imports). A simple average is used to compute buoyancy for the two periods, 2011–2019 and 2021–2024, with outliers removed for the 2011–2019 period.

Figure 21. Capital Expenditure Utilization



Source: MEF; AMRO staff calculations
Note: A value of more than 100 indicates overspending, while a value of less than 100 indicates underspending vs budget.

25. Enhancing the management of tax incentives is essential to support Cambodia’s development goals and safeguard fiscal revenue. The successful implementation of the 2021 Law on Investment has attracted significant investment.³⁵ With the legal framework in place, the focus should now shift to ensuring tax incentives are effectively managed, aligned with national development goals, and safeguard revenue. The formation of a tax expenditure working group to gather data is a welcome step. Once collected, this information should be published in regular tax expenditure reports detailing beneficiary sectors and associated fiscal costs. A rigorous monitoring system is also needed to track projects receiving tax incentives and assess their alignment with development objectives.³⁶ Periodic institutionalized assessments should determine whether incentives are maintained, modified, or phased out. Furthermore, the introduction of sunset clauses for all tax incentives, the establishment of a ceiling on total tax expenditures, and the requirement of ex-ante feasibility study for new proposals would significantly strengthen the governance and effectiveness of tax incentive management.

26. Strengthening the link between policy and budgeting, alongside improving spending efficiency, is essential to enhance development outcomes and boost long-term growth potential. Cambodia has made notable progress in public financial management, particularly in enhancing transparency and accountability in the budget process.³⁷ As reforms advance, greater emphasis should be placed on aligning budget allocations with national policy priorities and improving spending effectiveness. Looking ahead, public investment and social spending, particularly in infrastructure, education, and healthcare, should remain core priorities, given their central role in promoting inclusive and

³⁵ The new investment law offers more generous incentives than the previous law, including the extension of VAT and excise tax exemptions to imports of production equipment and construction materials, an increase of up to three additional years in the maximum period of income tax exemption, and a special depreciation allowance that is five times larger.

³⁶ See Andriansyah, Hong, and Nam (2021), “Policy Considerations in Using Tax Incentives for Foreign Investment”, AMRO Policy Perspectives Paper, (PP/21-01).

³⁷ A strong foundation has been laid with the promulgation of the 2023 Public Financial System Law, and the initial implementation of the MTFP and MTBF, in preparation for the transition to a program-based format in the 2026 Budget Law.

sustainable growth. However, challenges remain, including the need to better align medium-term planning with actual budget allocations, enhance the use of performance benchmarks in setting budget ceilings, and build capacity within line ministries to effectively apply planning and budgeting tools. This is particularly critical for locally financed capital expenditure projects, which have historically experienced budget under-execution (Figure 21). In this context, strengthening program performance assessments will be critical in ensuring that public expenditure generates measurable outcomes aligned with national development objectives.

27. Rebuilding fiscal buffers is essential to safeguard Cambodia's economic stability and enhance its capacity for countercyclical fiscal policy. Following the substantial reduction in government savings during the pandemic, restoring fiscal buffers has become a key priority. In this regard, the planned establishment of a new Fiscal Reserve Fund by 2027 presents an important opportunity to set up a well-managed fiscal reserve mechanism with strong governance. However, for this initiative to be effective, the purpose of various government funds needs to be clearly defined to ensure efficient and transparent fiscal management. At present, the government maintains its deposits at the NBC, and the account has historically served primarily as a liquidity buffer for routine budget management. However, the deposits had grown quite large over time as a result of fiscal prudence and became a form of fiscal reserves that were drawn down during the pandemic. The establishment of a dedicated fiscal reserves fund with a similar purpose raises questions about the rationale for maintaining two parallel funds. To avoid inefficiencies and potential governance risks, the roles and objectives of these two funds should be clearly delineated. Moreover, the Fiscal Reserve Fund should be supported by a robust legal and institutional framework that defines its operational rules, including regular allocation mechanisms, escape clauses to suspend contributions during downturns, and transparent procedures for drawdowns.

28. A forward-looking and diversified public debt management strategy is essential to secure long-term fiscal sustainability. Cambodia has maintained prudent public debt management, keeping debt levels low relative to the region, and relying primarily on highly concessional loans. The government's medium-term debt strategy, which reinforces this sound management, is highly commendable. However, as Cambodia seeks to expand borrowing for growth-enhancing investments and prepares to graduate from LDC status in 2029, a more forward-looking debt management approach will be needed to safeguard long-term fiscal sustainability. In this context, it remains beneficial for the authorities to continue borrowing on concessional or semi-concessional terms from multilateral development banks and bilateral development partners, whenever feasible. Such financing plays a crucial role in containing borrowing costs. In addition, strengthening the capacity to issue and manage debt at commercial interest rates will be crucial for diversifying financing sources. Given the nascent stage of Cambodia's domestic bond market, further deepening the market and establishing a well-defined yield curve will enhance investor confidence and facilitate more efficient pricing of government debt. Cambodia could also start to lay the groundwork for a sovereign bond issuance by enhancing institutional capacity and should consider securing a solicited sovereign credit rating.

29. The effective management of long-term fiscal challenges is key to safeguarding debt sustainability and supporting structural reforms. Addressing contingent liabilities deriving from state-owned enterprises (SOEs) and public-private partnerships (PPPs) is crucial in preventing potential fiscal shocks.³⁸ Strengthening risk assessment and regular

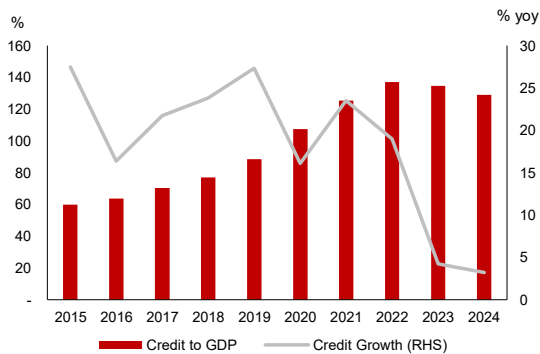
³⁸ SOE debt as of end-2024 stood at 6.1 percent of GDP, while the capital stock of PPPs is around 40 percent of GDP as of end-2023. A DSA stress test indicates that the realization of contingent liabilities is the most severe shock, resulting in the increase in public debt to 46.5 percent of GDP by 2029.

reporting of contingent liabilities across the public sector will improve debt transparency and enable the early identification of potential risks. In this regard, institutionalizing regular fiscal risk reporting on SOEs, PPPs, and other financing instruments will enhance government accountability and support debt sustainability. Additionally, Cambodia will need to integrate climate-related spending into fiscal and debt management frameworks, as growing adaptation and mitigation expenditure needs will require efficient resource allocation while maintaining fiscal discipline.

C.2 Ensuring Financial Soundness and Strengthening Regulatory Framework

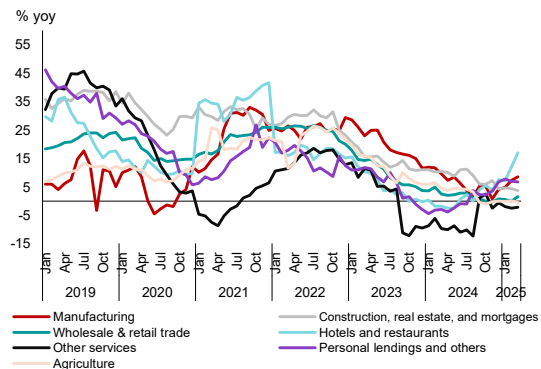
30. The NBC should maintain its accommodative policy stance to support the economy amid a lower growth outlook. The NBC has maintained an accommodative policy stance³⁹ in an environment of weak loan growth (Figure 22). The policy stance is assessed as appropriate to support the economy, which is still recovering. However, the ample liquidity could not help support credit growth due to increased credit risks from high NPL ratios, while the transmission of the NBC’s easing policy into actual liquidity injection in the economy remains limited. The NBC could consider implementing other measures, such as liquidity incentives in the form of RRR discounts,⁴⁰ to encourage lending to key priority sectors (Figure 23).⁴¹ Looking ahead, as uncertainties increased amid escalating global trade tensions, it is crucial that this accommodative stance continues in the near term.

Figure 22. Credit Growth and Credit to GDP Ratio



Source: NBC; NIS; AMRO staff calculations. Data include banks and MDIs.

Figure 23. Credit Growth by Sectors



Source: NBC; AMRO’s staff calculation. Data include banks and MDIs.

31. The reintroduction of the regulatory forbearance measure (Table 1) may provide short-term relief, particularly given heightened economic uncertainties, but it should be time-bound and strong oversight is needed. This forbearance measure will give banks more time to work with borrowers to improve their balance sheets and repayment capability, particularly in view of downside risks to the growth outlook. However, the measure also poses a moral hazard as it can delay the resolution of the underlying NPL issue.⁴² Therefore, the NBC should not extend the forbearance measure beyond its scheduled expiration at the end of 2025. Additionally, the NBC should ensure that banks do not exploit the measure by relaxing lending standards, avoiding the emergence of zombie firms, and preventing a future increase in NPLs.

³⁹ The NBC’s policy measures include postponing the rewinding RRRs, delaying full implementation of the CCB, lowering the LPCO rate, and reducing banks’ daily riel reserve asset holding requirement that allows flexibility in riel liquidity management.

⁴⁰ For example, Bank Indonesia provides incentives in the form of RRR discounts for banks that lend to selected sectors, such as downstreaming, housing, tourism, and MSMEs (See <https://amro-asia.org/amros-2023-annual-consultation-report-on-indonesia>).

⁴¹ The Pentagonal Strategy – Phase 1 identified economic diversification and competitiveness enhancement as one of the major strategies, including development of key sectors and new sources of economic growth. Aligning with this strategy, the Council for the Development of Cambodia (CDC) currently identifies seven priority sectors: agri-food, automotive, electronics, textile and apparel, bikes and parts, and furniture, veneer, and plywood products.

⁴² After the expiry of pandemic forbearance in 2022, bank NPL ratios rose from below 3 percent to 7.3 percent by the end of 2024.

Table 1. Comparison of NBC's Forbearance Measures Since 2020

Policy Announcement Time	Forbearance Period	Restructuring Times Allowed	Eligible Sectors	Loan Classification	Provisions Requirements
Mar 2020 - Dec 2021	Extended several times to June-2022	<ul style="list-style-type: none"> – Vary from once to up to three times – For borrowers that are in quarantine areas loans can be restructured as many times as possible – Starting from Jan 2022, only loans that have not been restructured before can apply for restructuring 	<ul style="list-style-type: none"> – Initially for four sectors: garments, tourism, transportation and construction – It was extended to all sectors in Nov 2020 	<ul style="list-style-type: none"> – Initially, the classifications did not require changing – From Jan 2022, all loans restructured by end-2021 shall be classified accordingly, except for loans in the assessment period 	<ul style="list-style-type: none"> – Initially, no additional provisions are required. – From July 2021, it was required to gradually provide provisions when restructured loans are impaired – From Jan 2022, institutions are required to make provisions for all loans restructured by end-2021 accordingly, except for loans in the assessment period
Nov 2023	Until end-2024	Up to twice	Tourism sector in Siem Reap	<ul style="list-style-type: none"> – Classification change was not required – Classification can be upgraded after at least a three-month period of evaluation for short-term loans and a six-month period for long-term loans 	Gradually provide provisions when restructured loans are impaired
Aug 2024	Until end-2025	Up to twice	All sectors	<ul style="list-style-type: none"> – Classification change was not required – Classification can be upgraded after at least a three-month period of evaluation 	Gradually provide provisions when restructured loans are impaired

Source: NBC, AMRO staff compilation

32. The authorities should adopt a proactive approach to enhance NPL management and resolution. Given the rapid rise in NPLs and potential risks to financial stability, the NBC should ensure accurate loan classification of loan quality and adequate provisioning. While banks employ various recovery measures at their own discretion,⁴³ establishing an asset management company (AMC), alongside broader structural reforms, could enhance their capacity to offload distressed assets. However, designing and operating AMCs poses significant challenges, particularly in terms of funding, legal, and governance frameworks, and a comprehensive feasibility study should be conducted (see Annex 4 “Exploring Policy Options for NPL Resolution in Cambodia”). Additionally, strengthening loan monitoring and institutional capacity will be essential for tailoring effective AMC mandates.⁴⁴

33. The NBC should continue to safeguard the soundness of the banking system by ensuring timely compliance with the new CAR framework. AMRO commends the NBC's recent initiatives to enhance the banking supervisory framework, including the full implementation of the new CAR framework at the end of 2024 with a one-year grace period,⁴⁵ despite the capital and liquidity buffers remaining adequate amid high NPL ratios. In particular, the revised framework explicitly includes requirements for Tier 1 and Common Equity Tier 1 (CET1) ratios, ensuring banks hold sufficient high-quality core capital to absorb losses without disrupting operations. However, the NBC should ensure banks fulfill these requirements within the stipulated timeline, without extending the grace period. Meanwhile, the NBC's issuance of

⁴³ Banks commonly adopt recovery measures like rescheduling, restructuring, collections, arbitration, and litigation to recover overdue debts.

⁴⁴ In general, an AMC's mandate includes its legal status, funding structure, business scope, governance framework, time horizon, and asset resolution methodologies.

⁴⁵ During 2023–2024, the NBC issued for the new CAR framework a set of five new regulations ('Prakas' in Khmer) on i) credit risk, ii) market risk, iii) operational risk, iv) regulatory capital, and v) CAR, to update solvency ratio requirements for deposit-taking institutions, aligning Cambodia's regulatory framework more closely with Basel III standards. In particular, the Prakas on CAR, issued in December 2024, sets the minimum CAR requirement and prescribes rules for its calculation. The Prakas expands the scope of risk assessment to explicitly include the minimum requirement for the Tier 1 ratio at 11 percent, and for the Common Equity Tier 1 (CET1) ratio at 8 percent, as well as supporting risk-based supervision by taking operational and market risks into account, alongside credit risks. While the regulations took effect at the end of 2024, banks and financial institutions may request to extend implementation until the end of 2025.

a new regulation in December 2024 to supervise banks' crypto-related transactions and business activities marks a step toward embracing digital finance while maintaining regulatory oversight and financial stability.⁴⁶ Given the high risks of associated with crypto-related activities, the NBC should take a more prudent approach to supervising these activities.

34. The NBC should continue regular and risk-based on-site inspections to evaluate banks' credit exposures and provisioning levels, while providing guidance in risk assessment. The NBC should be vigilant about banks' significant exposure to the weakening real estate sector. Meanwhile, the NBC additionally required banks and MDIs to report financial results using the Cambodian International Financial Reporting Standards (CIFRS 9)—which provides a more accurate measure of provisions and performance⁴⁷—should be carried out as scheduled.⁴⁸ In addition, the NBC should ensure banks maintain adequate capital buffers under the new CAR framework by implementing policy measures that limit discretionary spending, support capital raising, and restrict dividend payouts, particularly in light of anticipated asset quality deterioration and declining profitability.⁴⁹

35. The establishment of a macroprudential policy framework and the enhancement of the financial stability framework should be prioritized. Together, these measures can facilitate effective monitoring and mitigation of systemic risks. The implementation of macroprudential policy tools—including loan-to-value (LTV), debt-to-income (DTI) ratios, a dynamic differentiated RRR,⁵⁰ and lending caps for the real estate sector⁵¹—can significantly mitigate the risks related to high NPLs and prevent systemic risk. To enhance the financial stability framework, the deposit insurance scheme,⁵² banking resolution framework, crisis management framework, and emergency liquidity assistance (ELA) facility should be set up in the near term.

36. AMRO commends the Non-Bank Financial Services Authority's (NBFSA's) ongoing efforts to strengthen the regulatory framework and enhance oversight capacity across all sub-sectors.⁵³ The NBFSA has made progress in drafting a new law to regulate real estate development and has actively engaged in technical assistance projects (Table 2) to enhance its capacity in data management and financial surveillance. These efforts aim to support the publication of a comprehensive financial stability report on the non-banking sector. By further

⁴⁶ The NBC has previously banned all cryptocurrency transactions. The new regulation allows transactions of tokenized traditional assets and stablecoins under supervised regulation.

⁴⁷ Compared with the existing Cambodian Accounting Standard (CAS), banks' earnings performance will be more timely and accurate under CIFRS 9 with a comprehensive treatment on provisions.

⁴⁸ CIFRS 9 is expected to replace the existing Cambodian Accounting Standard (CAS) by the end of 2025, aiming to enhance the treatment of provisions, thereby providing a more timely and accurate reflection of banks' performance. In 2009, the National Accounting Council (NAC) announced that public accountable entities must prepare their financial statements in accordance with the CIFRS from January 1, 2012. The BFIs could postpone the adoption of the CIFRS until January 1, 2016, and subsequently until January 1, 2019, following a request from the NBC. On February 15, 2019, the NBC issued a notification regarding the preparation of financial statements for BFIs to adopt the CIFRS. During the transition period, individual bank reports published on the NBC website continued to be based on the CAS. The delay resulted from banks' insufficient capacity to implement the new accounting standard, primarily due to a lack of expertise needed to understand and apply its complex format.

⁴⁹ To address profitability pressures, particularly NIM pressures, banks could diversify lending away from collateral-heavy real estate toward risk-based lending using credit scores and project-based lending, encouraging healthier credit expansion.

⁵⁰ Across the region, several central banks have adopted differentiated RRR based on banks' credit portfolio or other indicators. An example is in China. From 2011, the People's Bank of China rolled out a scheme of "dynamic differentiated RRR". Under the scheme, the RRR for an individual bank varies on a quarterly or monthly basis, taking into consideration its credit growth, implementation of the government credit policy and other prudential indicators, such as provisioning, leverage ratio and capital adequacy (<https://www.bis.org/publ/work360.pdf>).

⁵¹ In June 2008, the NBC implemented a sectoral asset-side macroprudential tool by putting a cap on bank lending to the real estate sector at 15 percent of the loan portfolio. This measure was lifted in 2009 when the impact of the GFC subsided.

⁵² See AMRO Annual Consultation Report on Cambodia – 2023 (Annex 3 "Establishing a Deposit Protection Scheme in Cambodia") for our staff's recommendation at <https://amro-asia.org/amros-2023-annual-consultation-report-on-cambodia/>.

⁵³ The non-bank financial sectors under the NBFSA's supervision include: (i) the insurance sector; (ii) the real estate and pawnshop sector; (iii) the securities sector; (iv) the trust sector; (v) the social security sector; and (vi) the accounting and audit sector.

strengthening the regulatory framework and addressing data gaps in underregulated areas,⁵⁴ the NBFSA can improve risk monitoring, better identify interlinkages within the non-banking sector and with the banking sector,⁵⁵ and help mitigate potential systemic risks to ensure financial stability.

Table 2. Technical Assistance Projects Provided by AMRO to NBFSA

No.	Duration	Main Objective	Status
1	September 2023 - March 2024	Delivered a Situation Analysis Report for the non-bank financial sector in Cambodia	Completed
2	January 2025 - Ongoing	Provision of support for the drafting of a financial stability review report	Ongoing
3	January 2025 - Ongoing	Feasibility Study and Report on the non-bank fintech sector	Ongoing
4	February 2025 - Ongoing	Provision of support for the drafting of a macroeconomic outlook report for the non-bank financial sector.	Ongoing

Source: AMRO

37. Stronger collaboration among key stakeholders is required to address underlying risks in real estate-related shadow banking activities.

- Authorities should collaborate closely and share data to strengthen regulatory oversight and ensure effective financial stability surveillance. The Credit Bureau of Cambodia (CBC) and the NBFSA are currently working together to assess the quality of real estate sector loans with more granular insights into developers' financial health. Meanwhile, the NBFSA should continue its cooperation with the NBC and other authorities to enhance capacity and work effectiveness through joint inspections, consumer education, promotion of formal banking transactions, development of risk assessment frameworks, and the establishment of a robust legal system.
- The collaboration between the NBC and the Ministry of Land Management, Urban Planning and Construction (MLMUPC) to facilitate the transfer of customer loans from real estate developers to BFIs—under consideration since early 2025—should be approached cautiously, with closer coordination on risk management. While commercial bank lending should remain market-driven, the initiative has some merits. It seeks to improve land title registration by expediting the transfer process from soft titles to hard titles (Table 3), enabling qualified home buyers with hard titles to access bank loans at lower interest rates and longer terms, potentially alleviating liquidity pressures on both developers and customers. Nevertheless, the NBC should ensure that banks are retaining autonomy in loan transfer decisions, supported by thorough risk assessments.

Table 3. Key Differences Between Hard and Soft Land Titles in Cambodia

Feature	Hard Title	Soft Title
Definition	Official land ownership certificate registered at a national level	Letter of possessory rights recognized at the local administrative level
Issuing Authority	Ministry of Land Management, Urban Planning and Construction (MLMUPC)	Sangkat (commune) or Phum (village).
Legal Status	Fully registered and recognized under national law	Not formally recognized under the national registry system
Ownership Security	High — most secure form of ownership	Moderate — may be subject to disputes or competing claims.

⁵⁴ Shadow banking activities expanded prior to 2022, as home buyers increasingly turned to high-interest installment plans offered by developers instead of bank loans, which typically required stricter credit assessments. These activities took place outside the supervision of the NBC and posed risks of unreported credit exposure. When home buyers delayed repayments to developers—who often financed these informal lending schemes through bank loans—the credit risk could be transmitted to the banking sector, potentially contributing to a further rise in NPLs.

⁵⁵ Another example is the potential spillover risk from the investment activities of life Insurers, most of whose funds are placed with banks. The collective exposure of all insurers to a single bank could pose significant spillover risks in the event of that bank's failure, particularly given that a deposit protection scheme has not yet been implemented yet in Cambodia.

Mortgage Eligibility	Accepted by formal financial institutions as collateral	Generally not accepted for formal mortgage financing
Common Usage	High-value properties, villas, and formally developed residential land	Informal sales in peri-urban areas or unregistered secondary market plots
Transaction Process	Formal process involving registration, taxation, and transfer at the cadastral office	Informal process handled at the local level with limited documentation
Transfer Tax	A transfer tax of four percent applies	No mandatory transfer tax applies
Time to Process	Typically, 1-4 months.	Estimated 1-2 months

Source: Various media; AMRO staff compilation

C.3 Expediting Structural Policies for High-quality Growth

38. The authorities' commitment to fostering high-quality, sustainable and inclusive growth is highly commendable. To realize this vision, as outlined in the government's 2025-2028 economic program,⁵⁶ it is essential to implement targeted policies that support lagging sectors, strengthen competitiveness, and accelerate diversification. In preparation for graduation from LDC status, authorities should look to help exporters to meet the more stringent requirements on rules of origin, and the double transformation rule. Key challenges—strengthening capital investment, developing the labor force, and advancing technology with a focus on sustainability—should be addressed. Continued improvements in governance, supported by evidence-based policymaking and timely, reliable data, should underpin these efforts, ensuring that growth remains sustainable and broadly shared. These efforts will help Cambodia to reduce economic vulnerability and manage external challenges better.

39. Issues in infrastructure development should be addressed to accelerate capital investment, industry diversification, and to meet essential service needs. Cambodia's relatively weak infrastructure⁵⁷ continues to pose challenges for the government in promoting priority sectors such as high value-added manufacturing. For instance, logistics costs remain high, in part due to inadequate road, bridge, and transport infrastructure. These constraints impede the large-scale development of agri- and food-processing industries, which could otherwise boost rural incomes and create more opportunities for farmers. Similarly, high electricity costs and an unstable power supply hinder the upgrading of the manufacturing sector, impeding Cambodia's climb up the value chain, and ultimately limit income gains for factory workers.⁵⁸ In this regard, continued efforts to achieve the goals listed in the Intermodal Transport Master Plan 2022-2030 are commendable. Meanwhile, the government should accelerate efforts to scale up renewable energy adoption in a more cost-effective and reliable manner. In parallel, modernizing the national power grid is essential to improve transmission stability.

40. Continuing to build human capital is vital to unlock labor potential and to achieve inclusive growth. To support industry diversification and upgrading, targeted upskilling and reskilling of the labor force is urgently required to address skill shortages—particularly in sectors experiencing critical skills gaps, such as construction, electrical, manufacturing, mechanics, and tourism and hospitality.⁵⁹ Further strengthening and effectively utilizing instruments such as the Skills Development Fund (SDF) and the Technical and Vocational

⁵⁶ The program's full name is "Program to Promote Competitiveness, Increase Diversification, and Strengthen Resilience for Economic Growth in a Highly Uncertain Global Environment 2025–2028."

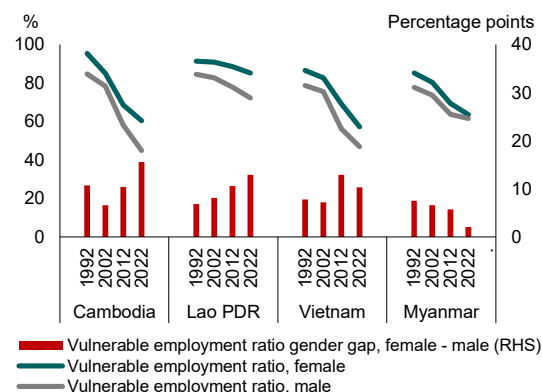
⁵⁷ Cambodia's infrastructure quality, as measured by the Global Competitiveness Index (GCI) of the World Economic Forum (WEF) 2019, is assessed to be low compared to the rest of the region, mainly due to low infrastructure endowment and investment in the country. When comparing infrastructure quality to infrastructure capital stock per capita, Cambodia exhibited the lowest efficiency in infrastructure investment in the region.

⁵⁸ One example is that high electricity costs make fabric production too expensive in Cambodia. However, if fabric is not produced domestically, garment products will struggle to meet rule of origin requirements after Cambodia graduates from LDC status, which could impact garment workers' welfare.

⁵⁹ See EuroCham Cambodia, "Skills Gap Assessment 2024", <https://www.eurocham-cambodia.org/uploads/782f9-final-report-skill-gap-assessment-report-digital-3.pdf>.

Education and Training (TVET) program is essential. Meanwhile, although progress has been made in advancing women’s economic empowerment in the garment sector, gender disparities persist—particularly in the agriculture and services sectors, where a significant share of women remain in vulnerable informal employment (Figure 24). While it is commendable that the government has taken various steps to advance gender equality, integrating a gender-sensitive approach into broader workforce development strategies—such as strengthening women’s capabilities in science, technology, engineering, and mathematics (STEM)—is essential. This will ensure women’s full participation in and benefits from Cambodia’s economic transformation.⁶⁰

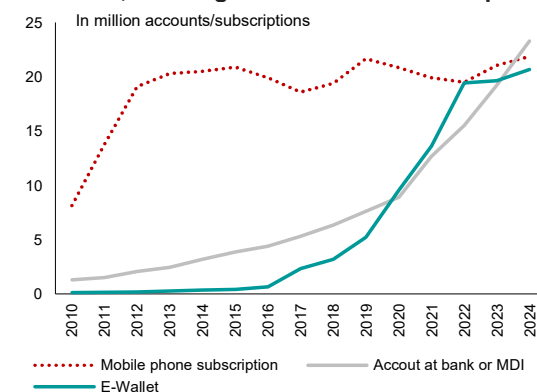
Figure 24. Vulnerable Employment and Gender Difference



Source: International Labour Organization (ILO); AMRO staff calculations.

Note: This is based on an ILO estimation model. Data are drawn from labor force surveys and household surveys, supplemented by official estimates and censuses for a small group of countries.

Figure 25. Number of Bank Accounts, E-wallet Accounts, and Registered Mobile Subscriptions



Source: NBC; World Bank and Telecommunication Regulator of Cambodia; AMRO staff calculations

41. Efforts to advance financial digitalization have made financial services more affordable and accessible, and further progress is encouraged. In particular, the NBC’s blockchain-based payment system, Bakong, promotes financial inclusion by expanding access to the unbanked population and encourages the use of the local currency in digital transactions. Specifically, between 2021 and 2024, the value of transactions through Bakong increased exponentially from KHR23.2 trillion to KHR605.6 trillion, with the share of riel use rising from 18 percent to 30.3 percent. Meanwhile, banks and financial institutions have made steady progress in digital transformation. At the same time, Cambodian consumers have increasingly embraced e-wallets (Figure 25) and digital payments, particularly in riel, which have grown at a faster pace in recent years. Moving forward, continued advancements in financial digitalization should be complemented by enhanced cybersecurity measures to safeguard operational resilience and mitigate reputational risks.

42. Cambodia is on the right track with its updated climate change strategy to support sustainable development. In August 2024, the authorities released the updated Cambodia Climate Change Strategic Plan 2024-2033,⁶¹ which emphasizes the country’s commitment to reducing climate change risks. The plan outlines a climate-smart development strategy aimed at achieving carbon neutrality and climate resilience through inclusive and sustainable practices, including the promotion of renewable energy, which is a welcome step. Meanwhile, the government is encouraged to continue its environmentally friendly agricultural initiatives and enhance renewable energy production, such as solar power and wind turbines. Moreover,

⁶⁰ See UNIDO, “Towards Gender-inclusive Industrialization in a Post-pandemic World.” <https://iap.unido.org/articles/towards-gender-inclusive-industrialization-post-pandemic-world>.

⁶¹ The plan is in addition to existing authorities’ firm commitments to reduce climate change risks: the Nationally Determined Contribution, Circular Strategy on Environment 2023-2028, and the Pentagonal Strategy’s vision on carbon neutrality.

stronger efforts to reduce deforestation⁶² are essential to meet the Pentagon Strategy's target of 60 percent forest cover by 2050. To finance these initiatives,⁶³ the government should seek sustainable financing options, improve regulatory framework, and attract FDI in renewable energy and green industries.

43. Effective policy implementation is key to advancing structural reforms. Equally important as introducing new policies and roadmaps is the effective execution of existing strategies, which requires stronger management capacity. In this regard, the establishment of a monitoring and evaluation framework for the Pentagon Strategy–Phase I is commendable.⁶⁴ Going forward, two areas are particularly important. First, improving inter-ministerial coordination is crucial, especially when priorities across ministries diverge. In such cases, open dialogue, a clear definition of national priorities, and mutual respect for each ministry's core mandate are essential for effective coordination and clear responsibilities. Second, strengthening data collection is critical to help formulate an evidence-based decision making. Data should be comprehensive, reliable, accessible, and timely.⁶⁵ Cambodia still faces significant data gaps, including incomplete coverage and infrequent reporting of GDP data, an outdated CPI basket, limited labor market statistics, and delays in publishing balance of payments data. Addressing and closing these gaps requires capacity building in key institutions such as the National Institute of Statistics (NIS).

⁶² Cambodia has been one of the most rapid deforestations of any country in the past two decades, losing 30 percent of forest cover. See World Bank (2023), "Cambodia Country Climate and Development Report."

⁶³ Currently, most climate change funding is from the government budget and international organizations. One example of international organization funding is the support from United Nations' Reducing Emissions from Deforestation and Forest Degradation program (UN-REDD program) since 2023, see <https://www.climateandforests-undp.org/news-and-stories/greening-cambodia-redd-programme-and-cambodias-circular-strategy-environment>.

⁶⁴ This was approved by the Council of Minister in September 2024.

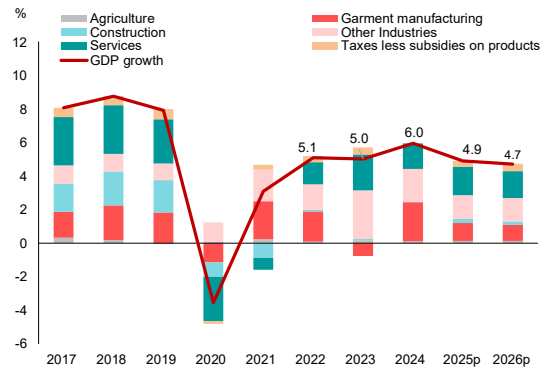
⁶⁵ See Netra, Hughes and Kimchoeun (2025), "Overcoming Constraints for Effective Policy Implementation", Cambodia's New Growth Strategy Background Paper 6, March 2025, CDRI (at <https://cdri.org.kh/publication/overcoming-constraints-for-effective-policy-implementation-background-paper-6>).

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

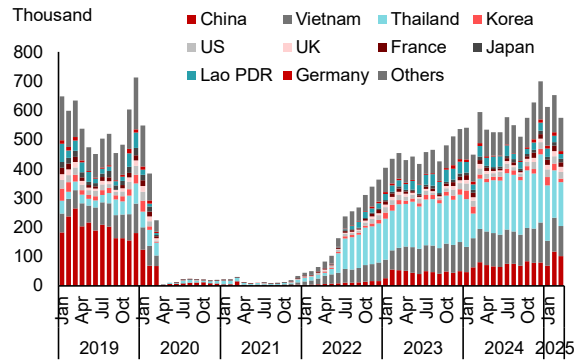
Figure 1.1. Real Sector

Real GDP growth accelerated in 2024 but is expected to grow at a weaker pace due to a high tariff rate.



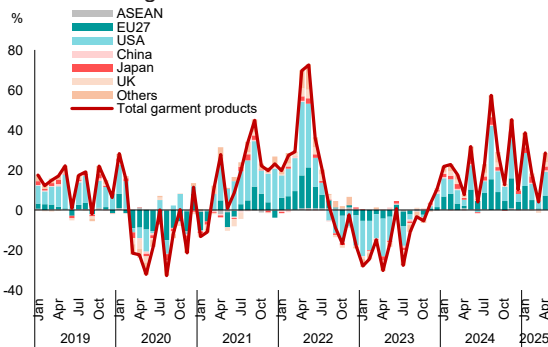
Source: NIS; AMRO staff calculations
Note: p = projection.

The arrival of international tourists has surpassed pre-pandemic levels.



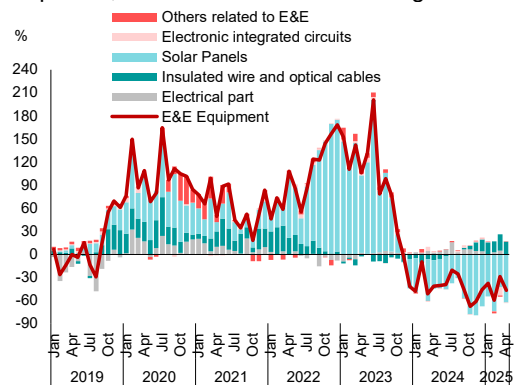
Source: Ministry of Tourism

Garment exports picked up strongly in 2024, driven by strong demand from the US and EU



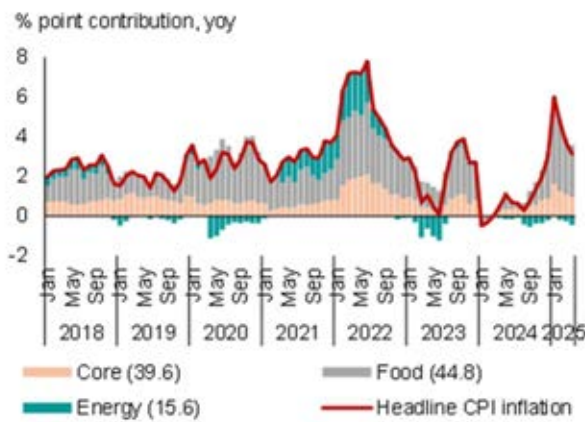
Source: GDCE

E&E exports declined sharply in 2024, particularly solar panels, due to the US countervailing duties



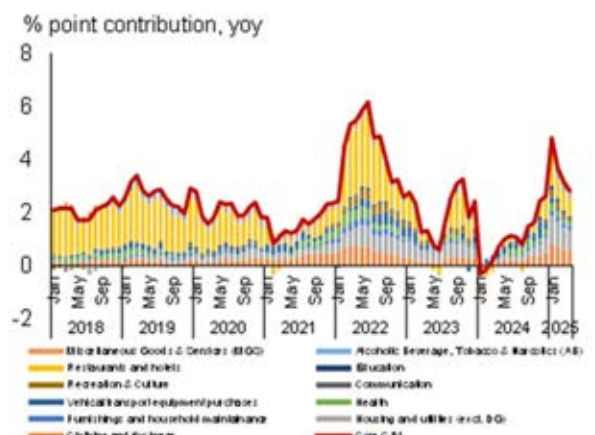
Source: NIS; AMRO staff estimation

Headline CPI inflation remains volatile.



Source: NIS; AMRO staff calculation
Note: Numbers in parentheses indicate the weights in the CPI basket.

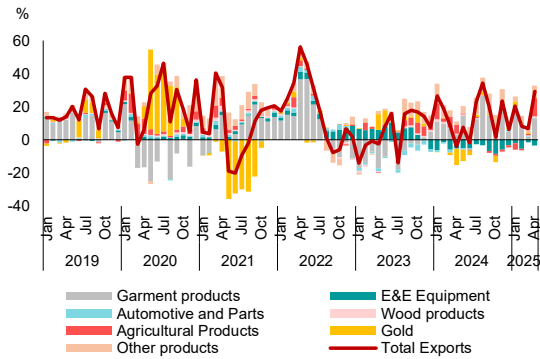
And core inflation closely tracking its trend.



Source: NIS; AMRO staff calculation

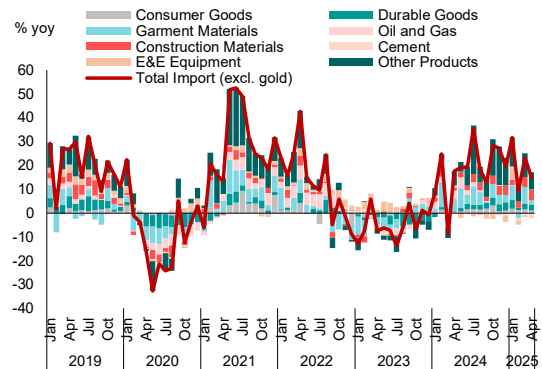
Figure 1.2. External Sector

Goods exports increased 13.6 percent (yoy) in 2024, driven by garment exports.



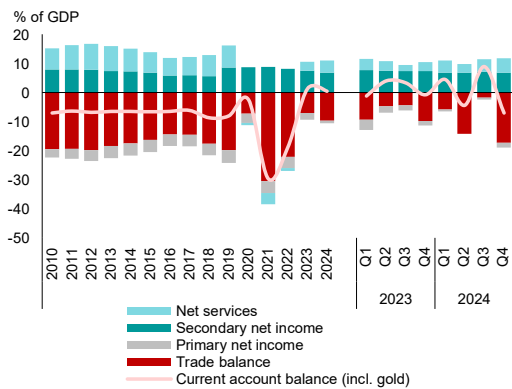
Source: GDCE; AMRO staff calculations

Imports grew by 17.6 percent (yoy) in 2024 with growth across most sectors, except E&E equipment.



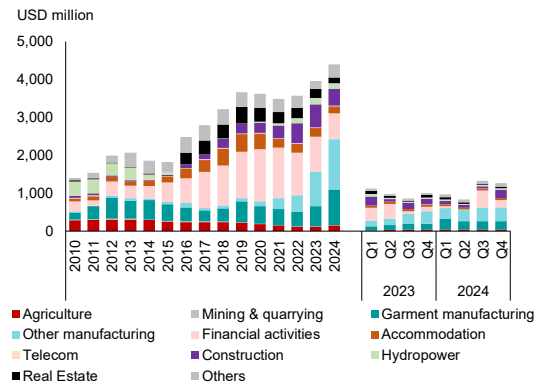
Source: GDCE; AMRO staff calculations

The current account surplus narrowed in 2024, mainly due to a wider trade deficit.



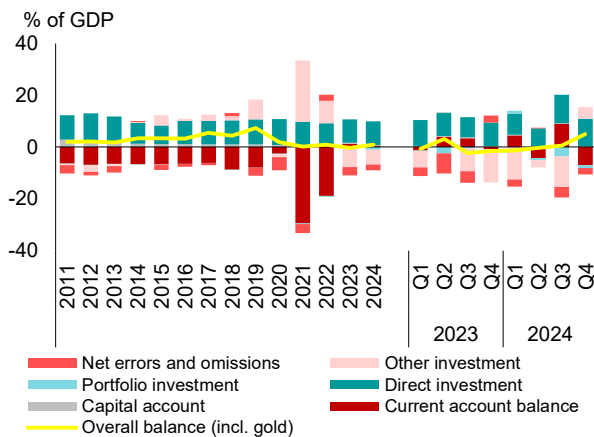
Source: GDCE, AMRO staff estimates
Note: Quarterly GDP figures are based on AMRO staff estimates.

FDI inflows remained robust in 2024, mainly given inflows to the manufacturing sector.



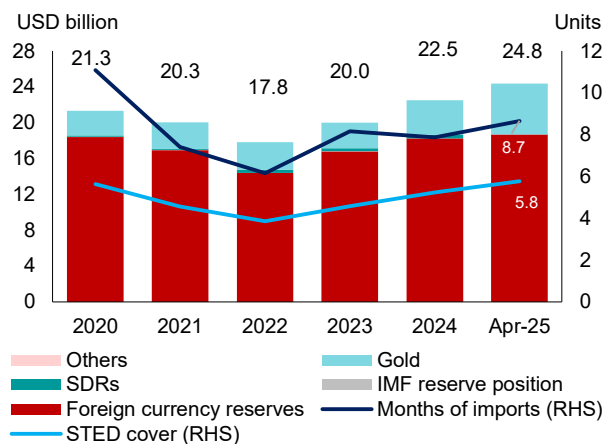
Source: NBC

The overall BOP balance registered a modest surplus in 2024, mainly driven by FDI inflows.



Source: NBC, AMRO staff calculations

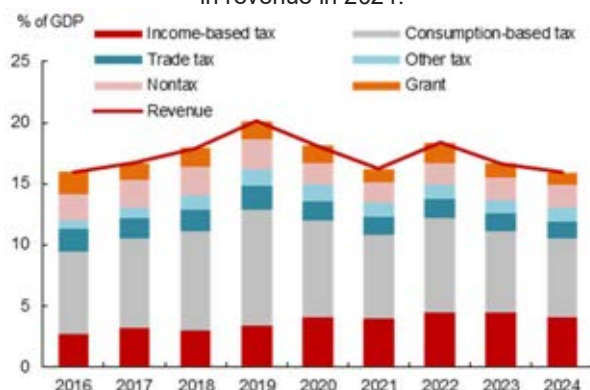
Cambodia's gross international reserves increased to USD24.8 billion as of April 2025, equivalent to 8.7 months of imports.



Source: NBC, AMRO staff calculations

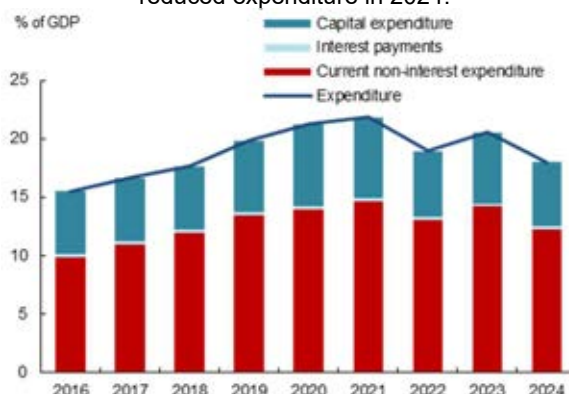
Figure 1.3. Fiscal Sector

Cambodia continued to experience a significant decline in revenue in 2024.



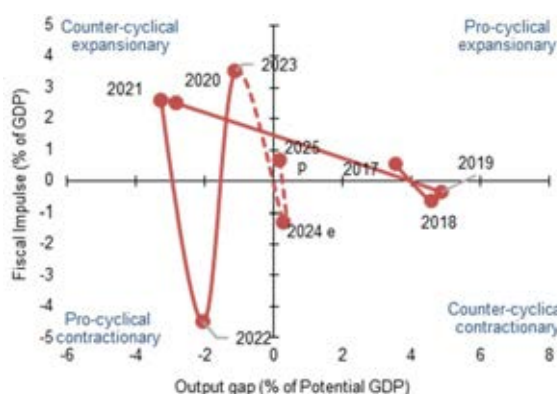
Source: MEF; AMRO staff calculations

In response to the revenue shortfalls, the government reduced expenditure in 2024.



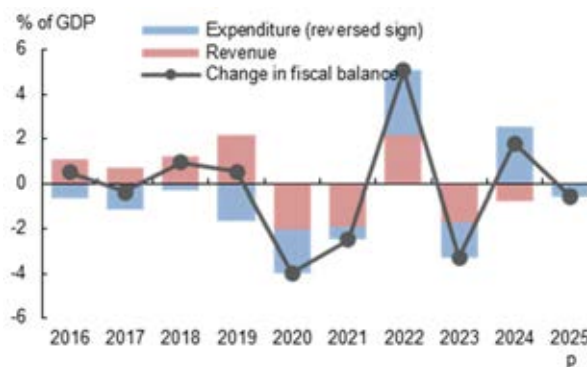
Source: MEF; AMRO staff calculations

Fiscal policy is projected to become expansionary in 2025, following a contractionary stance in 2024.



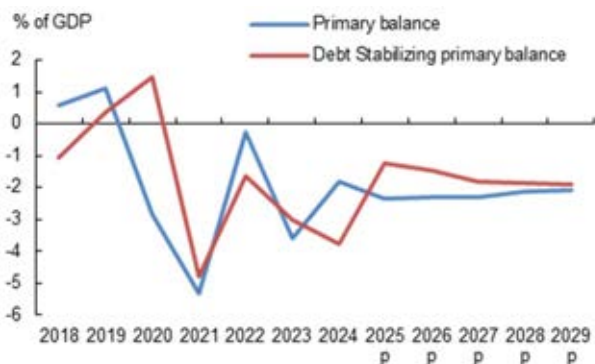
Source: MEF; AMRO calculations

The expansion of the deficit in 2025 is expected to be driven by normalizing spending after the cut in 2024.



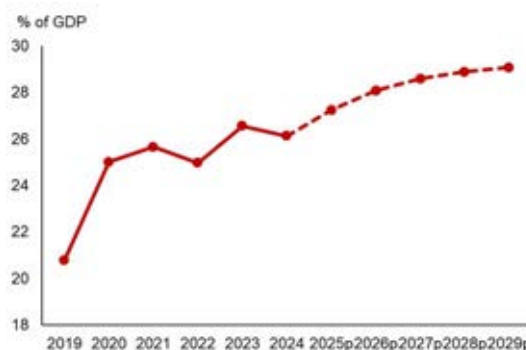
Source: MEF; AMRO staff calculations

The primary deficit is forecast to remain larger than the debt stabilizing level over the medium-term.



Source: MEF; AMRO staff projections

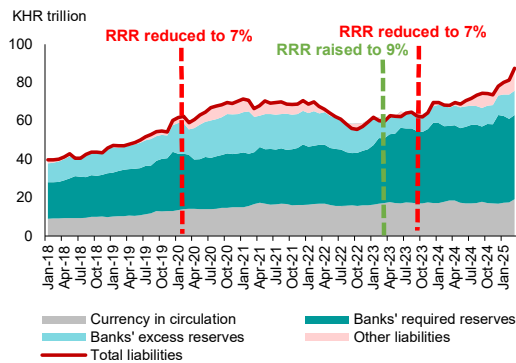
Public debt is projected to rise steadily, mainly due to sustained fiscal deficits.



Source: MEF; AMRO staff projections

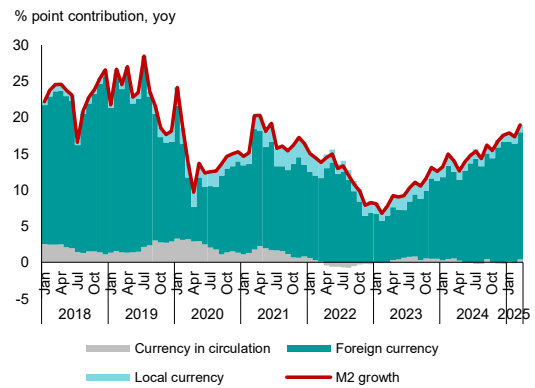
Figure 1.4. Monetary and Financial Sector

Although the RRR reduced to 7 percent in late 2023, bank reserves continued to increase, reflecting slow loan growth and faster deposit growth.



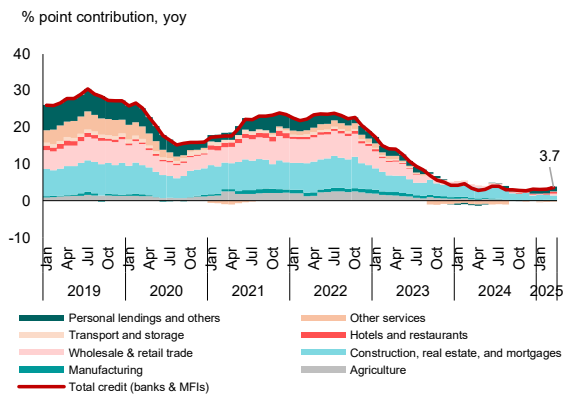
Source: NBC

Broad money (M2) growth has picked up steadily since early 2023, led by faster growth in foreign currency deposits.



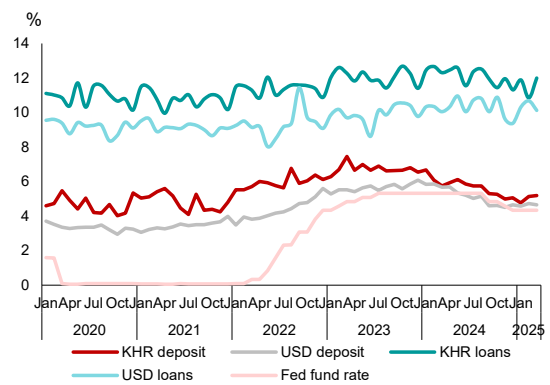
Source: NBC

Before a slight uptick in March 2025, weak credit growth was broad-based, with recent growth driven mainly by lending to real estate-related sectors.



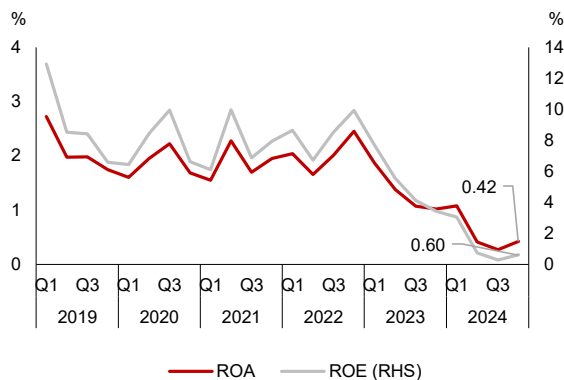
Source: NBC

Banks' deposit rates for USD and KHR (before the recent uptick for KHR rates) exhibited a downward trend, while lending rates were relatively stable in 2024.



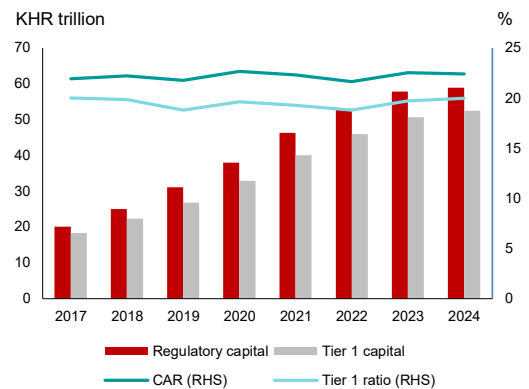
Source: NBC

The ROA and ROE for banks (including MDIs) dropped in 2023–2024 to 0.42 percent and 0.60 percent, respectively.



Source: NBC via Haver Analytics/IMF FSI database; AMRO's staff calculation.
Note: Data include banks and MDIs.

Banks and MFIs remained well-buffered with CARs above the regulatory requirement of 15 percent.



Source: NBC via Haver Analytics/ IMF FSI database; AMRO staff calculations. Data include banks and MDIs.

Appendix 2. Selected Economic Indicators for Cambodia

	2021	2022	2023	2024	Projections		
					2025	2026	
Real Sector and Prices	(In percent change, unless otherwise specified)						
Real GDP growth	3.1	5.1	5.0	6.0	5.2	4.7	
Agriculture	1.5	0.6	1.1	0.8	1.0	1.0	
Industry	8.4	8.4	5.3	10.2	6.6	5.9	
Services	-1.8	3.6	6.0	4.2	4.7	4.5	
GDP deflator	2.6	3.5	1.0	1.6	2.1	2.4	
CPI inflation (average)	2.9	5.3	2.1	0.8	2.5	2.3	
Core inflation (average)	2.1	2.7	2.1	0.7	2.2	1.7	
External Sector	(In USD millions, unless otherwise specified)						
Current account balance	-10,892.9	-7,582.0	552.3	222.1	-1,733.3	-2,815.0	
(Including gold, in percent of GDP)	-29.6	-19.0	1.3	0.5	-3.5	-5.4	
(Excluding gold, in percent of GDP)	-13.8	-8.4	-0.1	-0.2	-4.2	-5.9	
Trade balance	-11,205.3	-8,826.3	-2,986.2	-4,495.6	-5,587.3	-6,702.9	
Exports	19,520.9	23,178.9	23,564.4	26,751.7	29,379.4	30,811.7	
Imports	30,726.2	32,005.2	26,550.6	31,247.3	34,966.7	37,514.6	
Services, net	-1,432.4	-435.7	1,318.1	1,878.8	1,766.2	1,800.2	
Primary income, net	-1,489.5	-1,551.0	-953.4	-358.8	-1,309.5	-1,409.4	
Secondary income, net	3,234.3	3,230.9	3,173.9	3,197.7	3,397.3	3,497.1	
Financial account balance	12,056.4	6,806.6	515.8	1,122.3	2,817.9	3,004.2	
(In percent of GDP)	32.7	17.1	1.2	2.4	5.8	5.7	
Foreign direct investment, net	3,391.0	3,428.3	3,807.4	4,222.8	4,181.9	4,393.8	
Portfolio investment, net	-51.2	-126.1	-350.0	-489.5	-216.4	-276.5	
Other investment, net	8,716.6	3,504.3	-2,941.6	-2,611.1	-1,147.5	-1,113.1	
Capital account balance	204.2	209.3	139.5	125.6	250.0	285.0	
Error and omissions	-1,285.0	912.1	-1,134.4	-1,037.2	-1,100.0	-700.0	
Overall balance	82.7	345.9	73.2	432.8	234.6	-225.8	
(In percent of GDP)	0.2	0.9	0.2	0.9	0.5	-0.4	
Gross international reserves	20,265.2	17,805.2	19,998.4	22,511.3	22,745.9	22,520.1	
(In months of imports)	7.4	6.1	8.2	7.9	7.1	6.6	
(In months of imports, excluding gold)	9.0	7.1	8.2	7.9	7.1	6.6	
External debt	20,401.5	22,762.7	22,998.2	20,977.0	27,126.6	29,948.8	
(In percent of GDP)	55.4	57.1	54.3	45.3	55.4	57.1	
Fiscal Sector	(In percent of GDP)						
Revenue and grants	16.2	18.4	16.7	15.8	15.8	15.9	
Tax revenue	13.5	15.0	13.7	13.1	13.0	13.2	
Non-tax revenue	1.6	1.7	1.8	1.9	1.8	1.9	
Grants	1.1	1.7	1.1	0.8	1.0	0.9	
Expenditure	21.9	19.0	20.5	17.9	18.5	18.6	
Current non-interest expenditure	14.6	13.1	14.2	12.3	12.6	12.4	
Interest payments	0.3	0.3	0.3	0.3	0.3	0.3	
Capital expenditure	6.9	5.6	6.1	5.3	5.6	5.8	
Overall fiscal balance	-5.6	-0.6	-3.9	-2.1	-2.7	-2.7	
Primary balance	-5.3	-0.3	-3.6	-1.8	-2.4	-2.3	
Public debt	25.6	25.0	26.6	26.1	27.2	28.1	
Government saving (on a net basis)	8.5	9.4	7.9	7.3	6.0	5.3	
Monetary and Financial Sector	(In percentage change, end-period)						
Private sector credit	23.6	18.5	3.5	3.1	5.0	6.0	
Broad money	16.4	8.2	12.5	17.5	8.3	18.0	
Reserve money	10.2	-4.8	2.7	4.3	5.9	7.3	
Loan-to-deposit ratio (average, in percent)	127.3	138.1	126.9	111.3	107.9	97.0	
Non-performing loan ratio (average, in percent)	2.4	2.9	5.5	7.3	6.9	6.5	
Memorandum Items							
Nominal GDP (KHR billion)	150,792.7	164,059.1	174,027.1	187,447.0	201,166.9	215,733.5	
Nominal GDP (USD million)	36,790.2	39,994.5	42,335.6	46,050.1	48,975.3	52,446.5	
GDP per capita (USD)	2,162.9	2,325.3	2,433.1	2,502.7	2,524.5	2,570.9	
Exchange rate (KHR/USD, average)	4,098.7	4,102.0	4,110.7	4,070.5	4,107.5	4,113.4	
Exchange rate (KHR/USD, end of period)	4,113.5	4,118.0	4,085.0	4,025.0	4,081.9	4,087.7	

Source: National authorities; AMRO staff estimates and projections

Note: 1) Cambodia's balance of payments follows BPM6, and signs of financial accounts have been reversed. 2) Numbers in red denote AMRO staff estimate.

Appendix 3. Balance of Payments

	2018	2019	2020	2021	2022	2023	2024
	(In USD millions, unless otherwise specified)						
Current account	-2,896	-2,935	-348	-10,893	-7,582	552	222
Trade balance	-5,844	-7,255	-2,011	-11,205	-8,826	-2,986	-4,496
Exports, f.o.b.	12,963	14,986	19,055	19,521	23,179	23,564	26,752
of which, garment exports, f.o.b.	9,507	10,792	9,871	11,390	12,990	11,281	13,920
Imports, f.o.b.	18,806	22,242	21,066	30,726	32,005	26,551	31,247
Services, net	2,395	2,812	-257	-1,432	-436	1,318	1,879
Receipts	5,451	6,086	1,767	657	2,318	4,188	4,952
Payments	3,056	3,274	2,025	2,090	2,754	2,870	3,073
Primary income, net	-1,328	-1,645	-1,109	-1,490	-1,551	-953	-359
Receipts	580	651	610	331	346	488	609
Payments	1,908	2,296	1,718	1,820	1,897	1,442	968
Secondary income, net	1,881	3,153	3,029	3,234	3,231	3,174	3,198
of which: official transfer	579	532	449	510	479	494	443
Others	1,302	2,622	2,580	2,724	2,752	2,679	2,755
Capital and financial account	3,861	6,725	3,275	12,261	7,016	655	1,248
Capital account	326	355	259	204	209	140	126
Financial account (net)	3,535	6,370	3,016	12,056	6,807	516	1,122
Direct investment	3,064	3,561	3,498	3,391	3,428	3,807	4,223
Other investment	513	2,821	-385	8,717	3,504	-2,942	-2,611
Errors and omissions	480	-1,123	-2,290	-1,285	912	-1,134	-1,037
Overall balance	1,445	2,668	637	83	346	73	433
Memorandum items:							
Exports of goods and services	18,414	21,072	20,823	20,178	25,497	27,753	31,703
Imports of goods and services	21,863	25,516	23,091	32,816	34,759	29,421	34,320
Trade account (percent of GDP)	-17.6	-19.8	-5.8	-30.5	-22.1	-7.1	-9.8
Current account (percent of GDP)	-8.7	-8.0	-1.0	-29.6	-19.0	1.3	0.5
Capital and financial account (percent of GDP)	11.7	18.3	9.4	33.3	17.5	1.5	2.7
Overall Balance (percent of GDP)	4.4	7.3	3.4	0.2	0.9	0.2	0.9
International reserves (USD million)	14,629	18,763	21,334	20,265	17,805	19,998	22,511
In months of imports of goods and services	8.0	8.8	11.1	7.4	6.1	8.2	7.9
Nominal GDP (USD million)	33,146	36,685	34,818	36,790	39,995	42,336	46,050

Source: National authorities; AMRO staff estimates

Note: Cambodia's balance of payments follows BPM6, and signs of financial accounts have been reversed.

Appendix 4. Statement of General Government Operations

	2020	2021	2022	2023	2024	2025BL
	(In percent of GDP)					
Total Revenue and Grants	18.1	16.2	18.4	16.7	15.8	16.1
Total Domestic Revenue	16.7	15.1	16.8	15.7	15.1	15.4
Central Govt	15.2	13.6	15.2	14.3	13.9	14.1
Local Govt	1.5	1.5	1.5	1.4	1.2	1.3
Current Revenue	16.6	15.1	16.7	15.5	14.9	15.1
Total Tax Revenue	14.9	13.5	15.0	13.7	13.1	13.1
Tax Revenue Central	13.6	12.3	13.8	12.6	12.0	12.0
<i>Domestic Taxes</i>	12.0	10.8	12.2	11.1	10.6	11.0
Direct Taxes	4.1	3.9	4.5	4.5	4.0	4.4
Indirect Taxes	8.0	6.9	7.7	6.6	6.6	6.6
VAT	4.6	4.0	4.5	4.3	4.2	4.0
Excise	3.4	2.9	3.3	2.3	2.4	2.5
<i>Trade Taxes</i>	1.6	1.4	1.6	1.5	1.5	1.1
Tax Revenue Local	1.4	1.2	1.2	1.1	1.0	1.1
Non-tax revenue Central	1.5	1.3	1.4	1.5	1.7	1.8
Non-tax revenue Local	0.3	0.3	0.3	0.3	0.2	0.1
Grants	1.4	1.1	1.7	1.1	0.8	0.7
Total Expenditure	21.3	21.9	19.0	20.5	17.9	18.9
Current Expenditures	14.2	14.9	13.4	14.5	12.6	13.0
Wages and Salaries	6.1	5.6	5.4	5.6	5.4	5.3
Non-wages	7.1	8.1	6.7	8.0	6.1	6.6
Interest Payment	0.3	0.3	0.3	0.3	0.3	0.3
Domestic	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.3	0.3	0.3	0.3	0.3	0.3
Other current expenditure	1.0	1.2	1.3	0.9	1.0	1.1
Capital Expenditures	7.0	6.9	5.6	6.1	5.3	5.9
Domestic Financed	3.4	3.4	2.1	2.7	2.3	2.5
Foreign Financed	3.6	3.5	3.5	3.4	3.0	3.4
Current Balance (excl. grant)	3.4	1.0	4.5	2.3	2.4	2.2
Primary Balance (excl. grant)	-4.3	-6.4	-1.9	-4.6	-2.5	-3.2
Fiscal Balance (incl. grant)	-3.2	-5.6	-0.6	-3.9	-2.1	-2.8
Fiscal Balance (excl. grant)	-4.6	-6.7	-2.3	-5.0	-2.9	-3.5

Sources: National authorities; AMRO staff calculations

Note: 2024 GDP share is based on AMRO's projection. BL = Budget Law.

Appendix 5. Debt Sustainability Analysis⁶⁶

1. Cambodia's public debt-to-GDP ratio is projected to remain low at under 30 percent in the medium term. The debt ratio is expected to rise moderately from 2025 to 2029 but at a decelerating pace, as Cambodia's gross financing needs (GFN) are expected to narrow due to fiscal consolidation and improving growth prospects.

- Economic growth is expected to remain modest at around 6 percent, below the pre-pandemic levels, as tourism recovers gradually and the real estate sector remains stagnant.
- The effective interest rate is expected to remain low at below 2 percent, reflecting Cambodia's continued access to highly concessional loans. This favourable financing condition is likely to persist at least until 2029, when the country is scheduled to graduate from LDC status.
- The fiscal deficit is expected to widen to 2.7 percent of GDP in 2025 from 2.1 percent in 2024, and stabilize at a range of 2.5–2.7 percent of GDP during the projection period. Despite the narrowing of the fiscal deficit, it will remain slightly above what is required to stabilize the debt, resulting in a gradual and steady rise in public debt over the projection period. The elevated deficit reflects both relatively weak revenue performance and higher expenditure needs. Revenue mobilization will remain challenging amid modest economic growth, particularly for the first half of the projection period. On the expenditure side, rising costs are driven by expanded social protection and human development programs, including the Family Package Program, vocational and skills training, and improved healthcare services.

A combination of fiscal consolidation and improved growth prospects during the second half of the projection period is expected to gradually slow the pace of debt increase, but it will continue to gradually rise, albeit from a low base (Table 5.1 and Figure 5.1). With public debt projected to increase only moderately to 29.1 percent of GDP by 2029, it will continue to remain well below the threshold of 68 percent of GDP for Cambodia.⁶⁷ The GFN fell to 3.3 percent of GDP in 2024, reflecting a significant reduction in expenditures. It is projected to rise to 3.9 percent in 2025, before gradually declining to 3.8 percent by 2029 as the government pursues a policy of gradual fiscal consolidation while carefully maintaining critical development spending (Figure 5.2).

2. Stress test results indicate that Cambodia's public debt sustainability is assessed to be at a low level of risk. Cambodia's public debt-to-GDP and GFN-to-GDP remain well below the threshold when subject to simulated shocks in 2026-2027.⁶⁸

- Stress test results indicate that Cambodia's debt dynamics are most sensitive to growth shocks. Given a one standard deviation shock to growth for two consecutive years, public debt rises by 2.7 and 3.1 percentage points in 2026 and 2027, respectively, with debt reaching 35.8 percent of GDP by 2029. Meanwhile, the combined macro shock on growth, primary balance, interest rate, and exchange rate results in public debt rising to 40.5

⁶⁶ Prepared by Paolo Hernando, Senior Economist

⁶⁷ Cambodia has a medium debt carrying capacity according to the Composite Indicator (CI) developed by the IMF and World Bank, with an indicative threshold of 55 percent for the present value (PV) of debt-to-GDP ratio. This has been adjusted to nominal terms equivalent to 68 percent of debt-to-GDP ratio, considering the concessional nature of Cambodia's public debt. The public debt has an average maturity of 23 years, an average grace period of 8 years, and an average interest rate of 1.45 percent, which translates to a grant element of 35 percent using the standard discount rate of 5 percent applied by the World Bank.

⁶⁸ The scenarios for the stress tests are as follows: 1) Real GDP growth shock: one standard deviation or –3.6 percentage points shock to 2026 and 2027; 2) Primary balance shock: one standard deviation or –2.1 percent of GDP shock to 2026 and 2027; 3) Interest rate shock: +2 percentage points shock from 2026; 4) Exchange rate shock: +5 percentage points depreciation shock in 2026 and 2027; 5) Combined macro shock: combination of growth, primary balance, interest rate and exchange rate shocks; 6) Contingent liability shock: realization of 14 percent of GDP contingent liability, which is 35 percent of the outstanding capital stock of PPP as of end-2023.

percent of GDP by 2029. Meanwhile, the one-time realization of contingent liabilities shifts up public debt trajectory to 42.1 percent of GDP in 2026, and to 43.5 percent of GDP by 2029. Even under these extreme shocks, public debt remains well below the threshold of 68 percent of GDP for the entire forecast period (Figure 5.3).

- Meanwhile, the GFN is sensitive to shocks to the primary balance and growth. A one standard deviation shock causes the primary deficit to rise to 5.9 and 6.1 percent of GDP in 2026 and 2027, respectively; however, the shock is short-lived as the primary deficit normalizes thereafter. This contrasts with the impact of the shock on growth, which raises the primary deficit to 4.8 percent of GDP in 2026 and is kept elevated at around 5.6 percent of GDP until 2029. Meanwhile the combined macro shock scenario causes the primary deficit to spike to 5.0 percent of GDP in 2026 and further to 6.5 percent of GDP in 2029. Meanwhile, a spike in public debt stock from the realization of contingent liabilities causes GFN to increase to 5.3 percent of GDP in 2029 due to increased debt servicing costs. However, the GFN-to-GDP ratio remains below the benchmark of 14 percent despite the shocks (Figure 5.4).

Even in such extreme circumstances (combined shock scenarios), the fiscal reserves—estimated at around 6.0 percent of GDP as of end-2024—would be sufficient to cover a significant portion of the GFN. These reserves were drawn down from a high of 13.9 percent of GDP in 2019, primarily reflecting measures taken to mitigate the economic impacts of several shocks, notably the COVID-19 pandemic. Around 99 percent of public debt is external, sourced mainly from bilateral and multilateral lenders, characterized by low interest rates (Figure 5.7a). This significantly reduces immediate rollover and repayment pressures. (Figure 5.5 and 5.6). Additionally, Cambodia has minimal short-term debt exposure (Figure 5.7c). While external financing needs temporarily rose in 2021-2022 due to increased gold imports, conditions have now stabilized (Figure 5.7d). Cambodia likewise has a smooth maturity profile (Figure 5.8)—and a public debt-to-GDP ratio that is well below the threshold under all stress scenarios. These combination of factors means the overall public debt sustainability risk is low. However, as the public debt is projected to rise moderately in the medium term due to sustained primary deficits at above 2.0 percent of GDP that exceed the debt-stabilizing threshold, the fiscal authorities need to remain vigilant. Maintaining fiscal prudence is crucial, while ensuring that adequate resources are allocated for development spending.

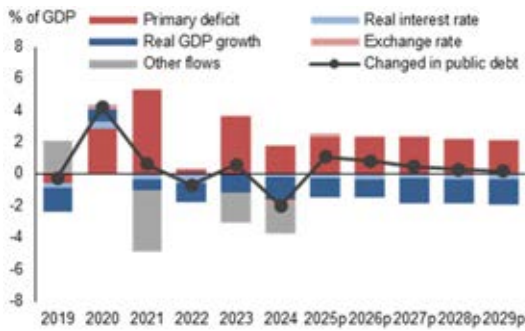
Table 5.1. Macroeconomic and Fiscal Indicators

	2018	2019	2020	2021	2022	2023	2024	2025p	2026p	2027p	2028p	2029p
Macroeconomic indicators (Percent)												
Real GDP growth	8.8	7.9	-3.6	3.1	5.1	5.0	6.0	5.2	4.7	6.0	6.0	6.0
GDP deflator	3.8	2.8	-0.8	2.6	3.5	1.0	1.6	2.1	2.4	2.4	2.4	2.6
Effective interest rate	1.44	1.57	1.56	1.41	1.35	1.17	1.12	1.29	1.35	1.40	1.43	1.45
Fiscal indicators (Percent of GDP)												
Revenue	18.0	20.1	18.1	16.2	18.4	16.7	15.8	15.8	15.9	16.0	16.1	16.2
Expenditure	17.6	19.3	21.3	21.9	19.0	20.5	17.9	18.5	18.6	18.7	18.7	18.7
Fiscal balance	0.3	0.8	-3.2	-5.6	-0.6	-3.9	-2.1	-2.7	-2.7	-2.7	-2.5	-2.5
Primary balance	0.6	1.1	-2.8	-5.3	-0.3	-3.6	-1.8	-2.4	-2.3	-2.3	-2.1	-2.1
Public debt	21.0	20.8	25.0	25.6	25.0	26.6	26.1	27.2	28.1	28.6	28.9	29.1
Gross financing needs	0.2	-0.2	3.9	6.4	1.5	5.0	3.3	3.9	3.9	4.1	3.8	3.8

Source: MEF; National Institute of Statistics (NIS); AMRO staff estimates

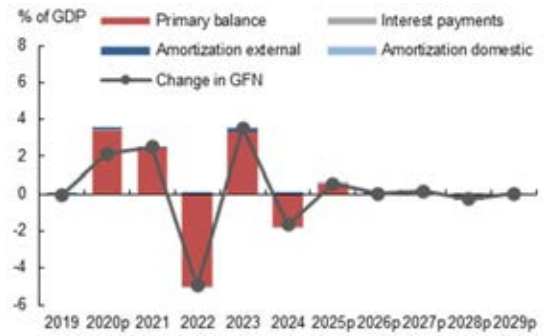
Note: The macroeconomic and fiscal indicators for 2025-2029 are based on AMRO staff estimates and projections.

Figure 5.1. Public Debt Dynamics



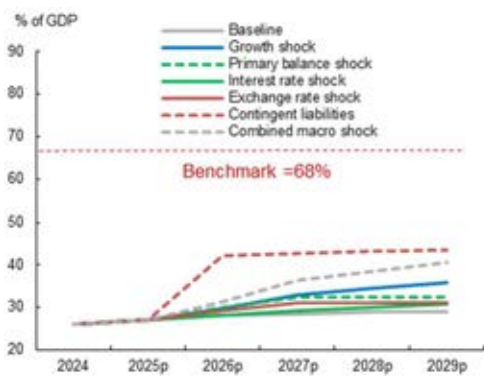
Sources: MEF; AMRO staff estimates

Figure 5.2. Changes in Gross Financing Needs



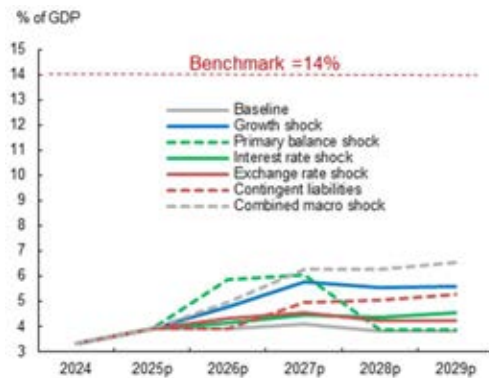
Sources: MEF; AMRO staff estimates

Figure 5.3. Public Debt Stress Test



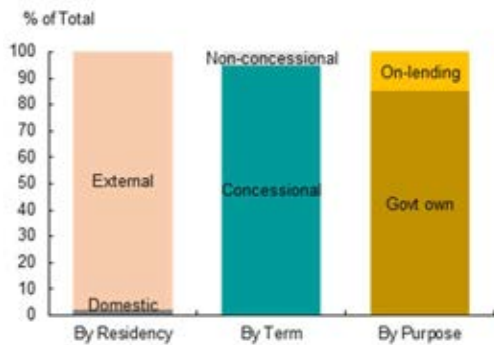
Sources: MEF; AMRO staff estimates

Figure 5.4. GFN Stress Test



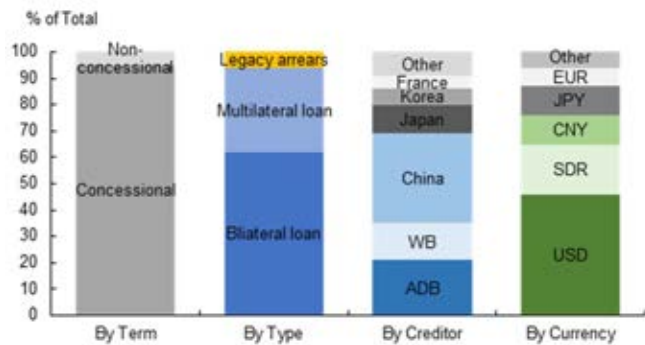
Sources: MEF; AMRO staff estimates

Figure 5.5. Public Debt Structure (end-2024)



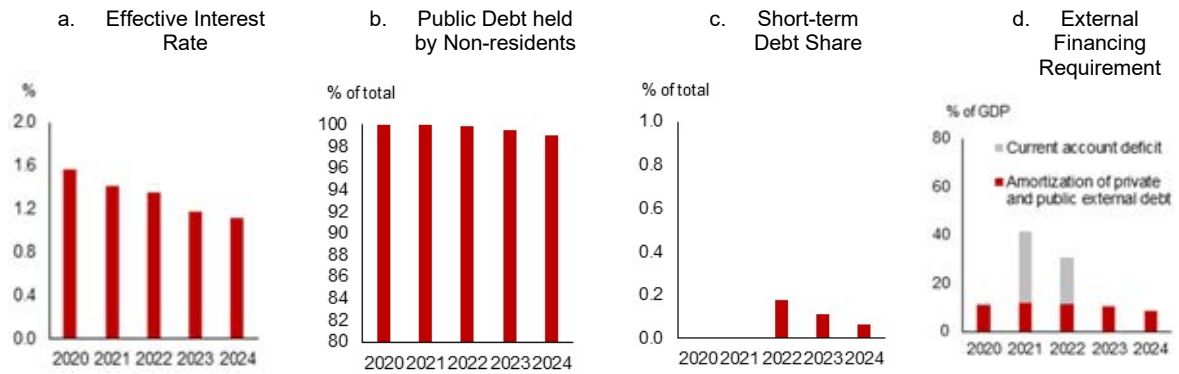
Source: MEF; AMRO staff estimates

Figure 5.6. Public External Debt Structure (end-2024)



Source: MEF; AMRO staff estimates

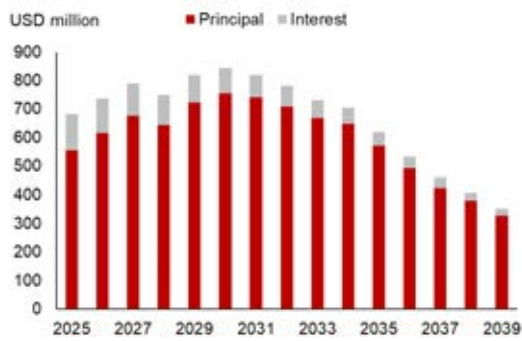
Figure 5.7. Debt Profile Vulnerabilities



Source: MEF; AMRO staff estimates

Note: 1) Public debt held by non-residents is based on the jurisdiction of issuance; 2) Short-term debt is based on the original maturity; 3) External financing requirements = current account deficit + amortization of public external debt + amortization of private external debt.

Figure 5.8. Public Debt Service Obligations



Source: MEF

Appendix 6. Data Adequacy for Surveillance Purposes: A Preliminary Assessment

Criteria/ Key Indicators for Surveillance	Availability ⁽ⁱ⁾	Reporting Frequency/ Timeliness ⁽ⁱⁱ⁾	Data Quality ⁽ⁱⁱⁱ⁾	Consistency ^(iv)	Others, if any ^(v)
National Accounts and Labor Market	<ul style="list-style-type: none"> - GDP numbers on the production and expenditure side have been made available - Unemployment and labor market data are available on the website 	<ul style="list-style-type: none"> - The dissemination of GDP data is on an annual basis - The latest finalized GDP numbers by production and expenditure are for the year 2022. - Data on the labor market has a lag of more than one year 	<ul style="list-style-type: none"> - National Accounts statistics are compiled broadly in accordance with SNA93 standards. Data collection techniques remain weak due to resource constraints - The GDP data does not include output related to public infrastructure projects 	<ul style="list-style-type: none"> - Revisions are frequent but becoming less significant. Officially, the statistical discrepancy is also shrinking 	<ul style="list-style-type: none"> - Data quality of the National Accounts data could be improved using a more comprehensive Supply Used Table (SUT) based on the latest survey - The GDP data on the expenditure side remains relatively weak with underestimated gross fixed capital formation
Balance of Payments (BOP) and External Position	<ul style="list-style-type: none"> - BOP data is published on the NBC website - Import and export data is published by the MEF 	<ul style="list-style-type: none"> - BOP data is released on a quarterly and yearly basis with a time lag of one to two quarters - Trade data is released monthly with a time lag of one month 	<ul style="list-style-type: none"> - Since 2019, the BOP has been published in conformity with the BPM6 but some coverage limitations exist - Import data published by the MEF is incomplete, as it covers only major items 	-	-
State Budget and Government/ External Debt	<ul style="list-style-type: none"> - Budget implementation data is released on the MEF website - Budget implementation data does not include local government budget operation - Contingent government liability statistics are not yet available 	<ul style="list-style-type: none"> - Budget implementation statistics are published monthly with a time lag of one to three months 	<ul style="list-style-type: none"> - The data coverage is limited to the budget and is not fully integrated with activities related to the disbursement of external loans and grants 	<ul style="list-style-type: none"> - The breakdown of budget implementation data from TOFE is different from the one provided by the GD of Budget 	-
Money Supply and Credit Growth	<ul style="list-style-type: none"> - CPI data for Phnom Penh is published by the NIS - National CPI data is yet to be made available - Monetary statistics have been released on the NBC website - Data on credit breakdown by sector is also available 	<ul style="list-style-type: none"> - CPI data is released monthly with a time lag of one to two months - Monetary and credit data is published monthly with a time lag of three months 	<ul style="list-style-type: none"> - The compilation of the CPI suffers from insufficient coverage - The authorities plan to release CPI data with much wider coverage and plan to rebase the CPI data - The actual amount of dollars and other foreign currency-denominated bills circulating in the economy has not been captured in the official monetary statistics 	-	<ul style="list-style-type: none"> - Regular and timely (schedule-based) publication of headline and core inflation, and monetary and credit data, would strengthen economic monitoring
Financial Sector Soundness Indicators	<ul style="list-style-type: none"> - Foreign assets and liabilities for the banking sector in aggregate are published by the NBC - A detailed breakdown of the composition of foreign assets and liabilities of the banking sector is not yet available - NPL ratios by sector are not available 	<ul style="list-style-type: none"> - Yearly data is released on the NBC website with a time lag of three to six months 	<ul style="list-style-type: none"> - Indicators are generally based on reports from banks and MFIs - In addition to banking indicators, data on microfinance activities is lacking 	-	<ul style="list-style-type: none"> - The availability of more comprehensive and more frequent data, including a detailed breakdown of assets and liabilities, would help in the analysis of financial sector soundness as a whole

Notes:

- (i) Data availability refers to whether the official data are available for public access by any means.
- (ii) Reporting frequency refers to the time interval that the available data are published. Timeliness refers to how up-to-date the published data are relatively with the publication date.
- (iii) Data quality refers to the accuracy and reliability of the available data given the data methodologies are considered.
- (iv) Consistency refers to both internal consistency within the data series itself and its horizontal consistency with other data series of either same or different categories.
- (v) Other criteria might also apply, if relevant. Examples include but are not limited to potential areas of improvement for data adequacy.

Source: AMRO staff compilation. This preliminary assessment will form the "Supplementary Data Adequacy Assessment" in the EPRD Matrix.

Appendix 7. Climate Clipboard—Risks, Responses, and Opportunities⁶⁹

A. Physical Risks																																
Sources of risk	Potential macro-financial impact																															
<ul style="list-style-type: none"> Floods (acute) Drought (acute) Heatwaves (acute) Sea-level rise (chronic) 	<ul style="list-style-type: none"> The 2025 U.N.'s Index for Risk Management (INFORM) ranks Cambodia as the world's most drought-exposed country and seventh-most flood-exposed country (UN's INFORM Risk Index Mid 2025). Based on data from the year 2000 to 2020, losses in agricultural production in Cambodia were primarily due to flooding (about 62 percent), followed by drought (about 36 percent) (Cambodia's NDC, Dec 2020). Cambodia's agricultural areas will also be exposed to higher risks of drought (due to rainfall variability) and heatwaves (it is in the top 23 countries with acute exposure to extreme heat, World Bank (2023), "Cambodia Country Climate and Development Report"). More than four million hectares of lowland forest, especially that located in the northeast and southwest, which currently have a water deficit period of between four and six months, will become exposed to a water deficit period of between six and eight months or more (Cambodia's NDC, Dec 2020). The sea level across Cambodia's four coastal provinces is projected to increase by 0.07–0.36 meters by 2050 and by 0.36–1.07 meters by 2100. Recent analysis suggests that a total area of about 25,000 hectares would be permanently inundated by a sea level rise of one meter (World Bank (2024), "Climate Risk Country Profile: Cambodia"). 																															
B. Transition Risks																																
Sources of risk	Potential macro-financial impact																															
<ul style="list-style-type: none"> Increase the use of renewable energy and large-scale displacement of coal in industries Risk of difficulties in financing to respond to climate change Apply energy efficiency technologies 	<ul style="list-style-type: none"> Expanding use of relatively expensive renewable energy could have an impact on inflation and GDP growth. Limited concessional loans or international aid contribute to the slower pace of the climate change implementation plans. As imports increase in the process of introducing environmentally friendly equipment, the current account may worsen It could take time to train personnel to utilize environmentally friendly equipment 																															
C. Adaptation Response Framework and Strategies																																
Adaptation framework	Key initiatives/ strategies	Estimated financing needs																														
<ul style="list-style-type: none"> Nationally Determined Contribution (NDC, Dec 2020) National Adaptation Plan (May 2017) Cambodia Climate Change Strategic Plan 2024 -2033 (CCCSP, May 2025) <ul style="list-style-type: none"> - Building climate-resilient infrastructure and communities - Strengthening disaster risk management systems and early warning mechanisms - Sustainable water resource management National Action Plan for Disaster Risk Reduction, the latest version for the 2024 to 2028 period is under formulation 	<ul style="list-style-type: none"> Implementation of climate change adaptation in Cambodia focuses on the following areas: <ol style="list-style-type: none"> Food, water, and energy security Reduce sectoral, regional, gender vulnerability, and health risks Resilience of critical ecosystems, Low-carbon planning and technologies Improve capacity Promote adaptive social protection Strengthen coordination frameworks Strengthen collaboration on regional and global processes 	<ul style="list-style-type: none"> USD2 billion through 2030 (NDC) <table border="1"> <thead> <tr> <th colspan="2">Financing sources</th> </tr> <tr> <th>Domestic</th> <th>External</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Annual budgets for climate change expenditure (Latest figure in 2022: KHR2,516 billion, equivalence to USD629 million and 2.1 percent of GDP) Private funding from financial markets, such as green bonds, sustainable bonds, and sustainable-linked bonds </td> <td> <ul style="list-style-type: none"> Financial support from bilateral (Australia, China, EU, Japan, Korea, US, etc.) and multilateral partners (ADB, UN Agencies, World Bank, Global Climate Fund, etc.) </td> </tr> </tbody> </table>	Financing sources		Domestic	External	<ul style="list-style-type: none"> Annual budgets for climate change expenditure (Latest figure in 2022: KHR2,516 billion, equivalence to USD629 million and 2.1 percent of GDP) Private funding from financial markets, such as green bonds, sustainable bonds, and sustainable-linked bonds 	<ul style="list-style-type: none"> Financial support from bilateral (Australia, China, EU, Japan, Korea, US, etc.) and multilateral partners (ADB, UN Agencies, World Bank, Global Climate Fund, etc.) 																								
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Nationally Determined Contribution (NDC)	National framework/ strategies	Estimated financing needs																														
<ul style="list-style-type: none"> Reduce GHG emissions by 41.7 percent in 2030 relative to business-as-usual emissions by 2030, of which approximately 60 percent is planned to be achieved in the forestry and other land use sector (FOLU). <table border="1"> <thead> <tr> <th colspan="3">Sources of GHG emissions (Unit: Million t-CO₂)</th> </tr> <tr> <th>Sector</th> <th>NDC 2030</th> <th>BAU 2030</th> </tr> </thead> <tbody> <tr> <td>FOLU</td> <td>38.2</td> <td>76.3</td> </tr> <tr> <td>Energy</td> <td>20.7</td> <td>34.4</td> </tr> <tr> <td>Agriculture</td> <td>20.9</td> <td>27.1</td> </tr> <tr> <td>Industry</td> <td>8.0</td> <td>13.9</td> </tr> <tr> <td>Waste</td> <td>2.7</td> <td>3.3</td> </tr> <tr> <td>Total</td> <td>90.5</td> <td>155.0</td> </tr> </tbody> </table> <p>Source: Cambodia's NDC (Dec 2020)</p>	Sources of GHG emissions (Unit: Million t-CO ₂)			Sector	NDC 2030	BAU 2030	FOLU	38.2	76.3	Energy	20.7	34.4	Agriculture	20.9	27.1	Industry	8.0	13.9	Waste	2.7	3.3	Total	90.5	155.0	<ul style="list-style-type: none"> NDC (Dec 2020) LTS4CN (Dec 2021) Cambodia Climate Change Strategic Plan 2024 -2033 (CCCSP, May 2025) <p>Key mitigation strategies in CCCSP:</p> <ul style="list-style-type: none"> Promoting Renewable Energy Enhancing Energy Efficiency Sustainable Transport Sustainable Land Use and Forestry Waste Management Low-carbon Industry GHG Inventory and MRV (Measurement, Reporting, Verification) Mobilizing Climate Finance for Mitigation 	<ul style="list-style-type: none"> USD5.8 billion in investments by 2030 (NDC) Public financing needs reach to USD9 billion between 2025 and 2050 (LTS4CN) <table border="1"> <thead> <tr> <th colspan="2">Financing sources</th> </tr> <tr> <th>Domestic</th> <th>External</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Annual budgets for climate change expenditure New public borrowing Economic services spent Policy reform in the transportation sector </td> <td> <ul style="list-style-type: none"> Financial support from bilateral and multilateral partners International green finance, e.g., green bond (the country's first green bond was issued in 2023) </td> </tr> </tbody> </table>	Financing sources		Domestic	External	<ul style="list-style-type: none"> Annual budgets for climate change expenditure New public borrowing Economic services spent Policy reform in the transportation sector 	<ul style="list-style-type: none"> Financial support from bilateral and multilateral partners International green finance, e.g., green bond (the country's first green bond was issued in 2023)
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Long-term commitment																																
<ul style="list-style-type: none"> Being a carbon-neutral economy by 2050 with the forestry and other land use sector providing a total carbon sink of 50 Megatons of Carbon Dioxide Equivalent (MtCO₂e) (Long Term Strategy for Carbon Neutrality, LTS4CN, Dec 2021) 																																

⁶⁹ Prepared by Heung Chun (Andrew) Tsang, Senior Economist.

E. Enabling Regulations for Climate Resilience		
E.1. Policy/ Legal frameworks	E.4. Carbon pricing frameworks	E.5. Sustainable finance frameworks
<ul style="list-style-type: none"> A General Secretariat (GSSD) was established to support the operations of the National Council for Sustainable Development (NCSD) and to coordinate the development of policies, strategic plans, action plans, and legal instruments concerning sustainable development, including the green economy, and climate change 	<ul style="list-style-type: none"> The Cambodian government issued Operations Manual for the Implementation of Article 6 of the Paris Agreement on Climate Change in Cambodia (Article 6 Operations Manual) in Jan 2024. <ul style="list-style-type: none"> The Article 6 Operations Manual provides a detailed framework for issuing and transferring of Internationally Transferred Mitigation Outcomes (“ITMOs”), which are referred to as authorized Greenhouse Gas Emission Reductions (“GHG ERs”) in the Article 6 Operations Manual Article 6 of the Paris Agreement allows countries to cooperate voluntarily in the implementation of their NDCs Before setting up the formal carbon credit market framework, Cambodia has a voluntary carbon offsetting market where the Ministry of Environment acts as a seller on behalf of the Government of Cambodia <ul style="list-style-type: none"> This market welcomes all sectors to purchase carbon credits from programs for Reducing Emissions from Deforestation and Forest Degradation, fostering conservation and sustainable management of forests, and enhancing forest carbon stocks (REDD+ programs) 	<ul style="list-style-type: none"> Cambodian Sustainable Finance Principles Implementation Guidelines (Feb 2019) <ul style="list-style-type: none"> The aim of basic guidelines is to serve as a basis for the Cambodian banks and microfinance institutions (MFIs) in developing their own sustainable finance approaches, in line with the Cambodian Sustainable Finance Principles The intention of the guidelines is to encourage banks to seriously consider the impact of climate change when conducting business This Principle also aims to build knowledge of sustainable finance within banks/MFIs and across the banking sector, among banks/MFIs’ customers, and among the communities the banks/MFIs serve Cambodian Sustainable Finance Roadmap (under development) Guidelines on International Reserve Investment and Green Bond Investment with integration of Environmental, Social, and Governance Framework (ESG) (under development) Guidelines on the Incorporation of Social and Environmental Risks in Banking and Financial Institutions’ Risk Management Framework (under development)
E.2. Fiscal framework		
<ul style="list-style-type: none"> Since 2017, the Ministry of Economy and Finance has included guidance on climate change in annual budget circulars, and in 2019 climate change was recognized as a key challenge to be addressed both in the debt policy and in the budget of the Government Key ministries have also started to integrate climate change in the way they prioritize activities for the national budget with technical support from partner organizations 		
E.3. GHG accounting framework		
<ul style="list-style-type: none"> No national-level GHG accounting framework as of June 2025 		
E.6. Financial System		
Initiatives	Guidelines	Status
1. Taxonomy	<ul style="list-style-type: none"> Cambodia Green Finance Taxonomy and Market is under development 	<ul style="list-style-type: none"> The NBC and the International Finance Corporation (IFC) signed a Cooperation Agreement on the Development of the Cambodia Green Finance Taxonomy and Market on December 19, 2023. Under this agreement, the NBC and IFC jointly organized a meeting with relevant ministries and institutions from April 29 to May 3, 2024, to collect input for the development of a Green Finance Taxonomy suitable for the Cambodian context alongside with a consultation workshop on the development of the Cambodia Green Finance Taxonomy was co-organized on May 3, 2024.
2. Risk management assessments	<ul style="list-style-type: none"> No national guidelines have been established as of June 2025 	<ul style="list-style-type: none"> Banks/ MFIs are requested to seek to develop and implement an environmental risk management system (Feb 2019, The Association of Banks in Cambodia) Development of environmental risk reporting framework and criteria (relevant key performance indicators (KPIs) to monitor and report on progress against the bank/ MFIs’ environmental commitments) Ensuring that the necessary systems are in place to collect the relevant data Developing E&S policies (general E&S Policy and specific E&S policies, as applicable), approved by top management, that adequately address environmental issues Establishing E&S governance structures, aligned with the existing operating model for the management of other risk categories—particularly credit risk, transaction approval, and new client acceptance The NBC is developing “Climate Risk Assessment and Analysis Framework” and “Climate Risk Assessment and Analysis Framework”
3. Climate-related financial disclosures	<ul style="list-style-type: none"> No national guidelines have been established as of June 2025, but relevant international standards have been adopted 	<ul style="list-style-type: none"> Volunteer reporting (particularly by international firms) based on international disclosure standards, such as Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) The adoption of the IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) from the 1st of January 2024 onwards. The NBC is developing “Sustainable Finance Reporting and Disclosure Framework”
4. Data availability	<ul style="list-style-type: none"> No specific data set is available for the impact of climate change on the financial system 	<ul style="list-style-type: none"> The NBC is studying the feasibility of conducting this a climate stress test, as well as data collection.
5. Capacity building	<ul style="list-style-type: none"> Various initiatives being led by GSSD of NCSD and NBC 	<ul style="list-style-type: none"> The GSSD of NCSD leads in coordination, integration, capacity building and knowledge management, stakeholder engagement and awareness, legal frameworks, and NDC review. The NBC has engaged in the capacity building program by co-organizing and conducting some training related topics with some international development partners, such as i) The British Embassy in Cambodia for Environmental, Social, and Governance Risk Assessment and Governance; ii) IFC for Building a Sustainable Finance Roadmap; iii) the UNESCAP and the Securities and Exchange Commission of Cambodia on the issuance of sustainable sectoral bonds; and iv) KPMG Vietnam and KPMG Cambodia on the integration of ESG to the banking sector in Cambodia, etc.
F. Potential Opportunities from the Low-carbon Transition		
<ul style="list-style-type: none"> Investment in renewable energy, such as solar panels 	<ul style="list-style-type: none"> Improving energy productivity 	<ul style="list-style-type: none"> Promote climate-friendly agribusiness rice value chain

Source: National authorities; media reports; AMRO staff

Annexes: Selected Issues

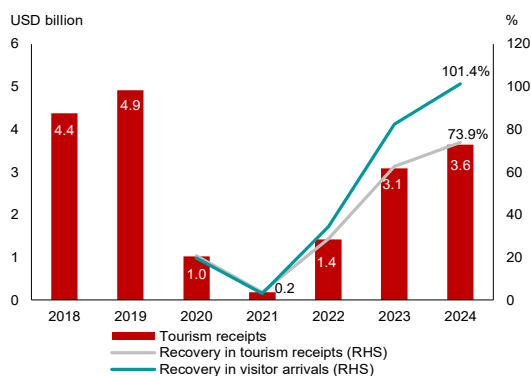
Annex 1. Challenges in the Post-pandemic Recovery of Inbound Tourism to Cambodia: Slow Return of Chinese Tourists⁷⁰

The post-pandemic recovery in Cambodian tourism is uneven across regions and segments, with notable shifts in visitor sources and destinations. In particular, there is a sluggish growth in tourism receipts despite increased visitor numbers after the pandemic, primarily driven by a decline in high-spending tourists, especially from China. Against this development, further policy efforts are required to foster a resilient and high value-added tourism in Cambodia.

Background

1. Cambodia’s tourism sector has seen a sluggish recovery in tourism receipts⁷¹ despite a strong rebound in international visitor arrivals since 2023. International visitor arrivals reached 6.7 million in 2024—up from 5.5 million in 2023, and surpassing the pre-pandemic peak of 6.6 million in 2019. However, aggregate tourism receipts in 2024 were 26 percent below the pre-pandemic level (Figure A1.1). This could reflect a new trend of persistently low average spending per tourist, driven by the slow recovery of high-value visitor segments in the post-pandemic era.

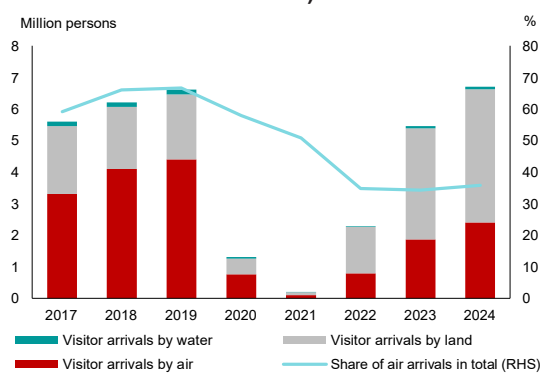
Figure A1.1. Tourism Receipts and Recovery Rates



Source: Ministry of Tourism; AMRO staff calculations

Note: The recovery rates are compared with the 2019 levels.

Figure A1.2. Rebound in Visitor Arrivals (by Mode of Travel)



Source: Ministry of Tourism; AMRO staff calculations

Post-Pandemic Recovery in Cambodian Tourism

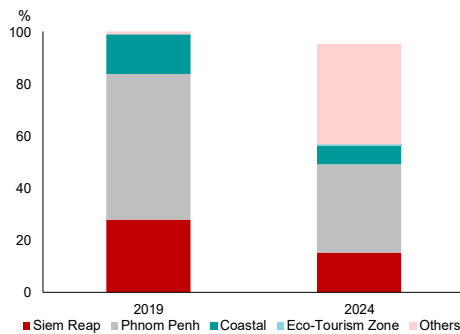
2. The high headline visitor number masks significant variation across regions and segments, with fewer high-spending tourists. First, the recovery has been dominated by land-based arrivals, which have more than doubled since 2019, with provinces along the land border experiencing the strongest growth due to a surge in short-stay visitors and casino patrons. These visitors, however, tend to visit for shorter periods of time and contribute less economic value compared to those arriving by air or water (Figure A1.2). Second, the distribution of visitors’ destinations has shifted, with popular sites like Siem Reap—typically dependent on air arrivals and longer-staying, higher-spending tourists—still seeing visitor numbers well below pre-crisis levels (Figure A1.3). Third, the sources of international visitors have also shifted, with a notable decline in high-spending tourists from key markets such as China and a growing share of arrivals from neighboring countries (Figure A1.4). These

⁷⁰ Prepared by Andrew Tsang, Senior Economist and Kuchsa Dy, Associate.

⁷¹ According to the World Bank, "tourism receipts" refer to expenditures by international inbound visitors, including payments to national carriers for international transport.

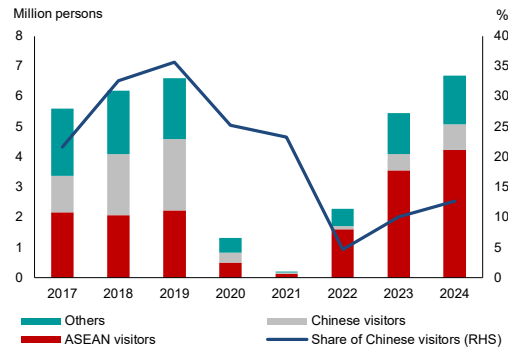
changes have collectively limited the sector’s recovery in receipts and broader economic impact.

Figure A1.3. Visitor Arrivals (by Destination)



Source: Ministry of Tourism; AMRO staff calculations
Note: The Ministry of Tourism does not provide additional information on “Others”, but it should include land border provinces.

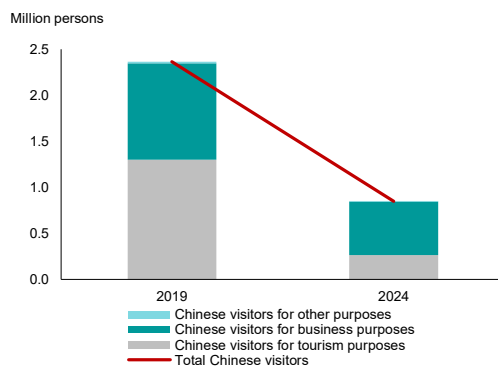
Figure A1.4. Rebound in Visitor Arrivals (by Sources)



Source: Ministry of Tourism; AMRO staff calculations

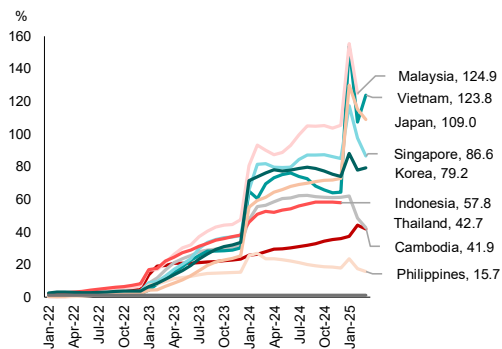
3. The significant shift in Cambodia’s incoming visitor profile reflects the continued weak recovery in Chinese visitor numbers. Prior to the pandemic, Chinese travelers accounted for the largest share of arrivals and contributed disproportionately to the sector’s revenue. Despite the reopening of China’s borders and the gradual resumption of business travel, Chinese visitor arrivals to Cambodia remain subdued (Figure A1.4), particularly for leisure tourism (Figure A1.5). In contrast, visitors from ASEAN and other regions have surpassed or nearly returned to the pre-pandemic levels. Compared with peer countries in the region, the recovery of Chinese visitor arrivals to Cambodia has been slower than most, except for the Philippines (Figure A1.6). Therefore, the main challenge in the recovery of inbound tourism post-pandemic is the slow return of Chinese tourists.

Figure A1.5. Composition of Chinese Visitors (by Purpose of Visit)



Source: Ministry of Tourism

Figure A1.6. Recovery of Chinese Visitor Arrivals since 2022 to March 2025, Compared with the 2019 Level



Source: National authorities; AMRO staff calculations
Note: The comparison utilizes year-to-date visitor arrivals to benchmark against the corresponding levels from 2019. Malaysia data was as of February 2025, and Indonesia was as of December 2024.

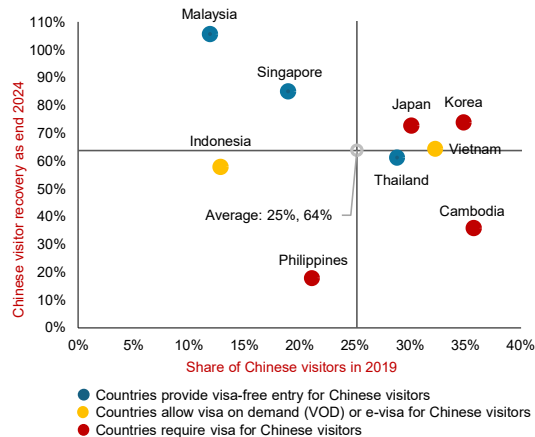
Determinants for Slow Recovery in Chinese Tourists

4. Several demand-side factors, including shifting travel preferences, could explain the slow return of Chinese tourists to Cambodia. The Chinese market has seen a pronounced move away from group package tours toward free independent travel (FIT), premium products,

and experience-driven itineraries.⁷² Cambodia’s tourism product offering is centered on group tours and Angkor Archaeological Park, with relatively limited innovation in premium or experiential segments. These challenges underscore the need for Cambodia to adapt its tourism products and improve its image as a tourist destination.

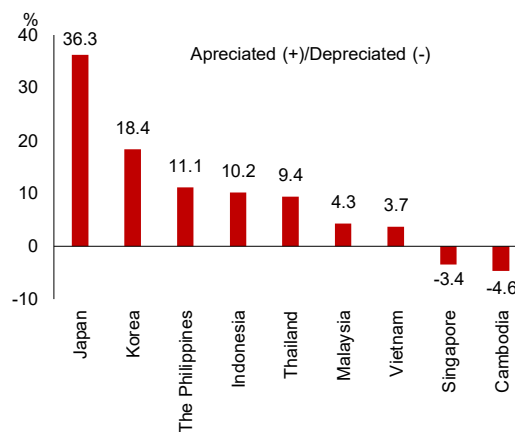
5. Reduced flight connectivity and high travel costs have contributed to the slow return of Chinese tourists. Lower demand for travel to Cambodia has kept direct air connectivity with China below pre-pandemic levels, reducing accessibility and convenience for those who do want to travel, particularly Siem Reap. That its nationals must pay a USD30 visa fee adversely impacts tourism arrivals from China, especially given recent moves by Thailand, Malaysia, and Singapore to offer visa-free entry to Chinese nationals (Figure A1.7). Exchange rate movements have also played a role. Compared with 2019, the Cambodian riel—which is closely aligned with the US dollar—has appreciated against the Chinese yuan, increasing the cost of travel in Cambodia for Chinese tourists. In contrast, many regional peers have seen their currencies depreciate against the yuan (Figure A1.8), enhancing affordability for Chinese tourists in those economies.

Figure A1.7. Recovery of Chinese Visitors, Pre-Pandemic Shares, and Visa Requirements among Selected Countries



Source: National authorities; AMRO staff calculations

Figure A1.8. Valuation Changes in the Chinese Yuan Against Selected ASEAN+3 Currencies, December 2024 versus December 2019



Source: Various central banks via Haver Analytics

6. Cambodia continues to face persistent constraints in both hard and soft infrastructure.⁷³ The lagging return of Chinese tourists, despite targeted policy efforts, reflects both temporary bottlenecks, including air connectivity, cost, and safety perceptions, and deeper, longer-standing structural constraints. The Travel and Tourism Development Index (TTDI) 2024 ranks Cambodia below its regional peers in air connectivity, modern airports, and urban infrastructure, although it has rich cultural or natural resources. Soft infrastructure gaps are equally significant, including health and hygiene issues, inconsistent service quality, limited Chinese-language support, and digital gaps such as a lack of digital marketing platforms that limit its appeal to free independent travel and higher-spending tourists.⁷⁴ These issues also constrain further growth in tourists from other countries, as well as Cambodia’s tourism.

⁷² See Rapti, E. and Zouni, G. (2024) and Dragon Trail International (2025). For instance, in Dragon Trail International (2025), the highest share of respondents (60 percent) said they prefer independent travel, compared with only 19 percent for semi-self-guided tour and 15 percent for group tours.

⁷³ See Vanne, K. (2023) on key structural issues and cross-country comparisons in Cambodia’s Tourism sector.

⁷⁴ See Rapti, E. and Zouni, G. (2024) and Dragon Trail International (2025). In particular, their survey data indicates these are now key priorities for Chinese outbound travelers.

Policy Implications

7. The authorities have initiated policies to support tourism recovery, but further efforts should be made to address fundamental weaknesses in Cambodia’s tourism. In recent years, the authorities have carried out some supporting policies, such as investments to enhance airport facilities,⁷⁵ the launch of the Tourism Development Master Plan for Siem Reap 2021-2035, the “Go Digital Cambodia” campaign,⁷⁶ the recent launch of Bakong Tourist app, as well as ongoing visa and air liberalization reforms. However, to accelerate growth momentum and achieve high value-added tourism, the authorities should further invest in tourism-related infrastructure, particularly in transport, health and hygiene, and other urban amenities. Furthermore, closer collaboration with the private sector is needed to implement more impactful measures, including proactively addressing safety and quality concerns, particularly on social media in key tourism markets; diversifying tourism products beyond traditional cultural attractions; improving digital marketing and language support to appeal to free independent travelers; and encouraging industry-led promotional initiatives. While restoring Chinese tourist arrivals remains important, building a more resilient tourism sector in Cambodia requires diversifying the tourist base by expanding outreach to other emerging markets such as Europe, India, and the Middle East.

References

- Dragon Trail International (2025). “Chinese Traveler Sentiment Report April 2025.” <https://dragontrail.com/resources/blog/china-traveler-sentiment-report-april-2025>.
- Rapti, E. and Zouni, G. (2024). “Changes in Travel Behaviour Caused by COVID-19: Outbound Chinese Tourists.” *Tourist Behaviour and the New Normal (Volume I, Chapter 4)*, pp. 51-70, Springer.
- Vanne, K. (2023). “Structural Challenges in the Tourism Sector: The Case of Cambodia.” *AMRO Annual Consultation Report on Cambodia – 2023 (Annex 4)*, pp. 57-65, ASEAN+3 Macroeconomic Research Office.

⁷⁵ For instance, the expansion of Siem Reap International Airport and the construction of new Phnom Penh International Airport are underway.

⁷⁶ The campaign aims to promote and enable the community to become a digitally inclusive society. See <https://godigital.gov.kh/about>.

Annex 2. Potential Impact of High US Tariffs on Cambodia’s Economy: A Value-Added Perspective⁷⁷

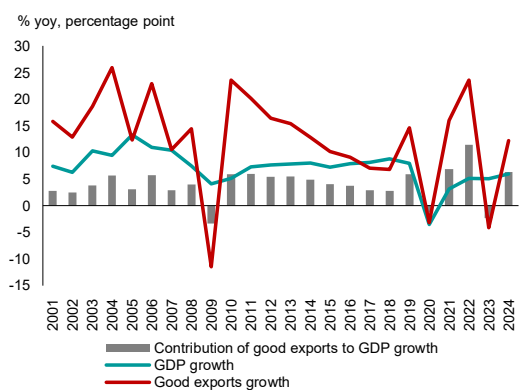
The newly announced US tariffs on Cambodian products, combined with ongoing uncertainty, pose a notable challenge to Cambodia’s economy. As a small open economy, Cambodia exports a significant share of its manufactured goods to the US, although the domestic value added remains relatively limited. A closer look at the domestic value added in Cambodia’s production can provide insights into how different levels of tariffs—along with other assumptions—may affect the economy in varying ways.

Background

1. Cambodia has made significant progress in economic development over the past few decades, particularly in expanding its trade sector, with export growth often outpacing GDP growth (Figure A2.1). From a product composition perspective, garments, footwear, and travel goods (GFT) continue to dominate Cambodia’s export portfolio. While the share of GFT has gradually declined amid increasing export diversification, it still accounts for more than half of all exports and has maintained double-digit growth in most years (Figure A2.2). From a market perspective, the US is not only Cambodia’s largest export destination, but it has also become an increasingly dominant one (Figure A2.3). Notably, GFT products remain the mainstay of Cambodia’s exports to US. While solar panel exports to the US surged sharply in 2022–2023, the trend reversed in 2024 and had nearly vanished by early 2025 following the imposition of US countervailing measures (Tep and Yang, 2024, and Figure A2.4).

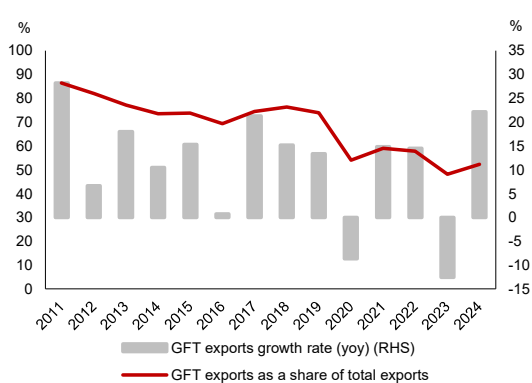
2. The US tariffs on Cambodian products pose a considerable downside risk to Cambodia’s economic outlook. Cambodia is faced with a 36 percent reciprocal tariff, one of the highest among ASEAN+3 economies.⁷⁸ Even when considering weighted tariffs that account for the exemption list, Cambodia still faces significantly higher tariffs compared with its ASEAN+3 peers (Figure A2.5). More concerning, Cambodia has a relatively larger share of exports to the US relative to its GDP, particularly when compared with other regional peers (Figure A2.6). Taken together, these two factors cast a cloud of uncertainty over Cambodia’s economic outlook.

Figure A2.1. GDP Growth and Export Growth



Source: National Institute of Statistics (NIS); AMRO staff calculations

Figure A2.2. Garment Exports

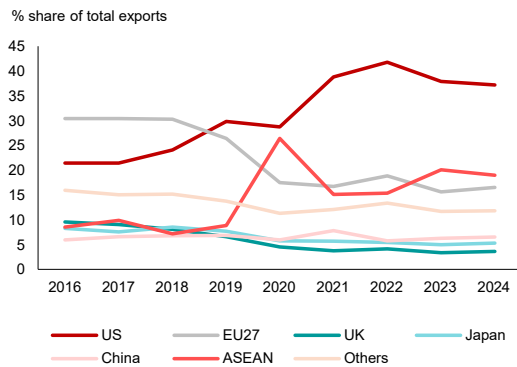


Source: NBC via Haver; AMRO staff calculations

⁷⁷ Prepared by Chunyu Yang, Economist.

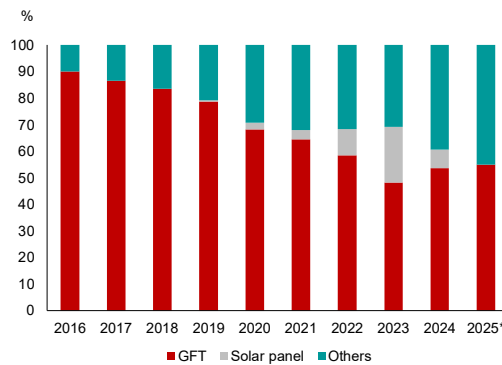
⁷⁸ On April 2, US announced a 49 percent tariff on Cambodian goods. Following negotiations, on July 7, the US notified Cambodia of revised tariff rates at 36 percent to take effect August 1, 2025.

Figure A2.26. Good Exports Destination



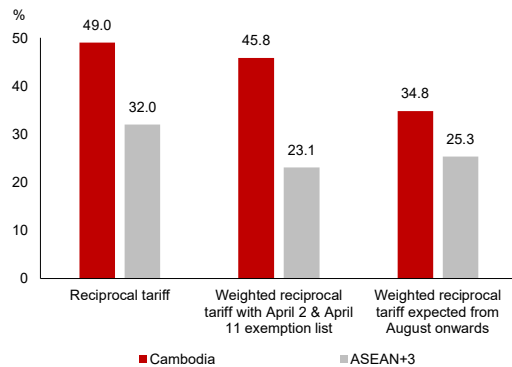
Source: General Department of Customs and Excise (GDCE); AMRO staff calculations

Figure A2.27. Composition of Exports to the US



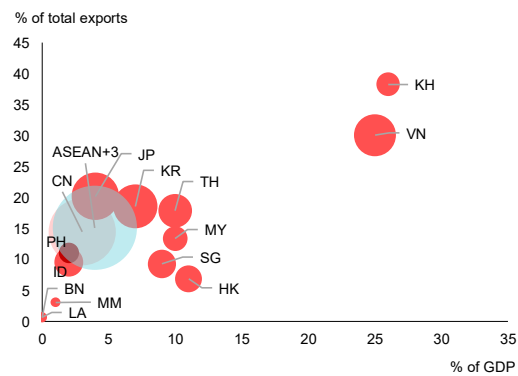
Source: GDCE; AMRO staff calculations
Note: Data for 2025 is based on exports from January to April.

Figure A2.5. ASEAN+3 and Cambodia: US Tariffs Comparison by Various Measures



Source: S&P Global Trade Analytics; AMRO staff calculations
Note: Weighted reciprocal tariff excludes exempted products following White House Executive Order 14257 on April 2 and the clarification of exceptions on April 11 up to HS 6-digit codes.

Figure A2.6. ASEAN+3: Exports to the US



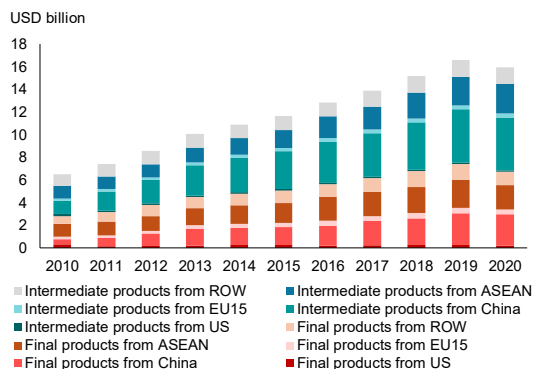
Sources: S&P Connect Global Trade Analytics; National authorities via Haver Analytics.
Note: The size of the bubble represents the size of each economy's exports to the US in year 2024. The share of exports shows the total exports to the US as a share of the economy's total exports in year 2024. The share of GDP shows the total exports to the US as a share of the economy's GDP in 2024.

Domestic Value Added in Cambodia's Gross Exports

3. Considering Cambodia's economic structure, this analysis adopts a domestic value-added (DVA) approach to assess the potential impact of US tariffs. Cambodia relies heavily on imported intermediate goods (Figure A2.7) in the production of its final export goods (Figure A2.8). As such, the DVA approach—which focuses on the value added by each country in the production process rather than the gross value of trade—is more appropriate for evaluating trade-related shocks. Although Cambodia has made efforts to deepen its integration into global value chains, the DVA gains in its exports remain modest. Indeed, Cambodia's exports are mainly composed of minimally processed products with low domestic value-added, according to an AMRO study (Vu, 2024). For example, according to OECD's Trade in Value-Added (TiVA) data, compared to other major textile-exporting economies, Cambodia's domestic value added⁷⁹ as a share of gross exports remains relatively low (Figure A2.9), reflecting its continued dependence on imported inputs such as fabrics.

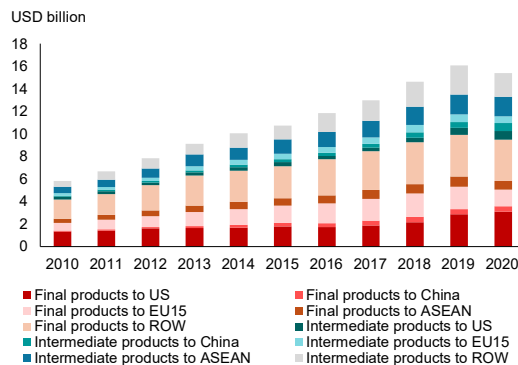
⁷⁹ According to the OECD's definition, DVA in gross exports is an estimation of value added, by an economy, in producing goods and services for export, simply defined as the difference between gross output at basic prices and intermediate consumption at purchasers' prices.

Figure A2.7. Cambodia: Imports of Intermediate and Final Products by Source



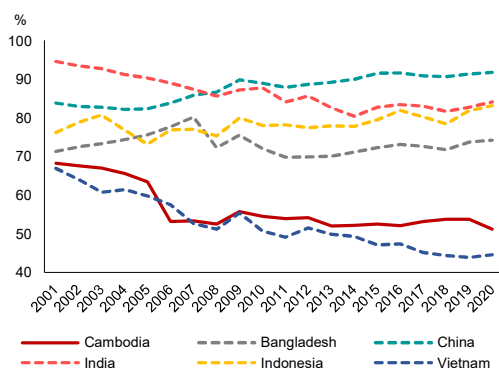
Source: TiVA OECD, AMRO staff calculations
Note: 1) Imports include both goods and services. 2) ROW = rest of the world.

Figure A2.8. Cambodia: Exports of Intermediate and Final Products by Source



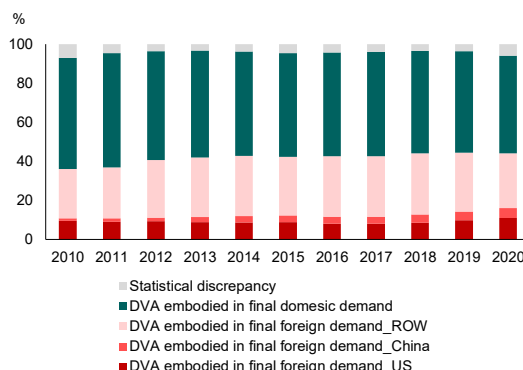
Source: TiVA OECD, AMRO staff calculations
Note: 1) Exports include both goods and services. 2) ROW = rest of the world.

Figure A2.9. Selected Economies: DVA Share of Exports in Textile Manufacturing Sector



Source: TiVA OECD

Figure A2.10. Cambodia: Nominal GDP Breakdown by DVA

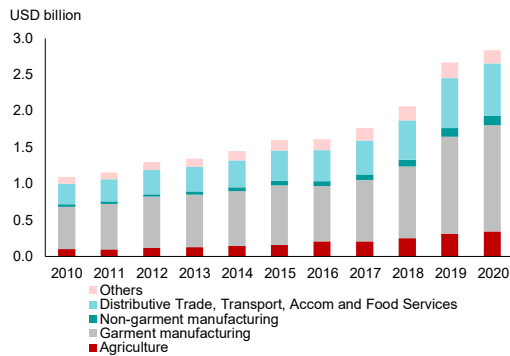


Source: TiVA OECD; AMRO staff calculations
Note: As TiVA's database may not reflect Cambodia's rebased GDP, when calculating the ratio, the old base GDP number has been used.

4. DVA indicators also reveal that while Cambodia exports a high volume of goods to the US, the actual domestic value embedded in those exports is relatively limited. The DVA embodied in final demand from the US accounts for only around 10 percent of nominal GDP (Figure A2.10), in contrast to the gross trade figures, where exports to the US appear large and account for 32 percent of nominal GDP. This reflects the country's limited participation in GVCs, but also suggests that its exposure to negative shocks from the US-imposed high tariffs may be relatively contained.

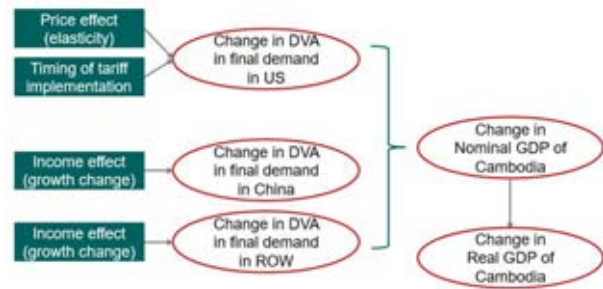
5. A breakdown by industry reveals that Cambodia's DVA embodied in final US demand is concentrated in the garment sector (Figure A2.11). The GFT goods alone account for more than half of the share, reflecting the dominance of apparel exports in Cambodia's trade with the US. Other manufacturing sectors contribute much smaller shares. Notably, although Cambodia experienced a sharp surge in solar panel exports to the US in 2022–2023, these shipments largely involved re-exports or reshipments with limited domestic value added. This sectoral concentration suggests that the adverse effects of US tariffs would be felt most acutely in Cambodia's garment exports and associated trade and logistics services.

Figure A2.11. Cambodia: DVA Embodied in Final Demand in the US by Industry



Source: TiVA OECD; MRO staff calculations

Figure A2.12. Cambodia: Nominal GDP Breakdown by DVA



Source: AMRO staff illustrations

Key Assumptions and Results Discussion

6. A simple and straightforward framework, based on several assumptions, is used to estimate the potential impact of the tariffs on Cambodia's GDP growth. As illustrated in Figure A2.10 and Figure A2.12, Cambodia's nominal GDP can be decomposed into DVA embedded in final demand across different destinations. Based on an assumed price elasticity of 0.5 in 2025 and 0.55 in 2026⁸⁰ and a tariff implementation timeline starting in August, the projected decline in DVA embedded in US final demand was estimated. In addition, slower economic growth in China and the rest of the world⁸¹ is expected to dampen external demand through income effects, leading to further reductions in DVA embedded in those markets. This DVA-based approach presents several advantages. It enables rapid analysis in response to evolving developments and provides a clear channel to trace the sources of impact. However, several caveats should be noted. The forecast relies on subjective assumptions, including the choice of price elasticity, a stable GDP deflator and exchange rates, etc. It also assumes a one-to-one relationship between external growth shocks and demand for Cambodian exports. Furthermore, the approach does not capture shifts in final domestic demand.

7. Scenario analysis suggests that Cambodia's growth outlook is highly sensitive to the magnitude of the tariffs, consumers' price elasticity and spillover effects, as suggested in Figure A2.13 and Table A2.1.

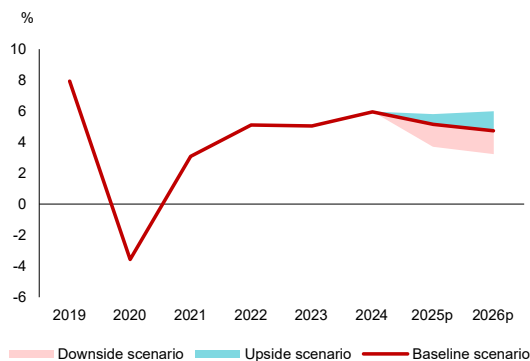
- In the baseline scenario, in which the US high tariffs take effect from August 2025, Cambodia's growth is expected to slow to 5.2 percent in 2025 and 4.7 percent in 2026.
- In an upside scenario, where a timely global agreement is reached, Cambodia's growth could range between 5.2 and 5.8 percent in 2025, and between 4.7 and 6.0 percent in 2026.

⁸⁰ The assumed price elasticity of demand of 0.5-0.55 for US imports of Cambodia's GFT products reflects several considerations: 1) GFT items are often considered necessities with relatively inelastic demand. Consumers tend to maintain their consumption levels despite price changes, especially for basic apparel items. 2) The US has minimal domestic production capacity in the GFT sector, necessitating a continued reliance on imports. This lack of domestic alternatives reduces the substitutability of imports, contributing to lower elasticity. 3) Other major GFT exporting countries also face US tariffs, limiting the availability of lower-cost substitutes and thereby reducing the price sensitivity of demand for Cambodian GFT products. 4) Relocating production facilities involves significant costs and time. Meanwhile, other factors such as Cambodia's highly dollarized economy, favorable tax incentives, and low labor costs enhance its attractiveness as a sourcing destination. Therefore, in the short term, firms are less likely to shift their sourcing away from Cambodia, making demand less responsive to price changes.

⁸¹ AMRO's in-house growth projections for China and the rest of world are used in this exercise.

- In contrast, a downside scenario—characterized by a higher price elasticity of demand, or a tariff rate on Cambodia exceeding 36 percent—would further dampen growth, pushing it to about 4 percent or less in both 2025 and 2026.

Figure A2.13. Cambodia: GDP Trajectories by Scenario



Source: NIS; TiVA OECD; AMRO staff estimation
Note: The upper bound reflects Scenario 1 in Table A1.1, whereas the lower bound reflects Scenario 7.

Table A2.1. Cambodia: Corresponding Scenarios and Changes in GDP Growth

	Key Assumptions			Results	
	Price Elasticity		Weighted Tariff	Growth Rate	
	2025	2026		2025	2026
Scenario 1	-	-	0	5.8	6.0
Scenario 2	0.5	0.6	10	5.6	5.5
Scenario 3	0.5	0.6	35	5.2	4.7
Scenario 4	0.5	0.6	70	4.3	3.9
Scenario 5	1.0	1.1	40	4.1	3.7
Scenario 6	0.5	0.6	90	3.8	3.4
Scenario 7	1.2	1.3	40	3.7	3.2

Source: AMRO staff illustrations
Note: To simplify, the assumptions for China's economic growth and for the rest of the world remain consistent across all scenarios.

8. This exercise underscores the urgency for Cambodia to diversify both its export products and destination markets by accelerating its efforts to move up GVCs. Ongoing trade negotiations have played a vital role in cushioning short-term shocks and providing time to adjust. However, the recent tariff hike serves as a reminder of Cambodia's continued vulnerability to external demand concentration, particularly its heavy reliance on the US market. It requires Cambodia to fully capitalize on existing FTAs and actively pursue the negotiation of new agreements. Meanwhile, diversifying FDI sources can also help broaden Cambodia's export destinations, as different source countries often specialize in distinct sectors and trade with different markets.

References

- Tep, V. and C. Yang (2024). "Cambodia's Solar Panel Exports at a Crossroads." *AMRO Annual Consultation Report on Cambodia - 2024 (Box C)*, pp.17-19, ASEAN+3 Macroeconomic Research Office.
- Vu, T. (2024). "Pathways for Diversifying Exports and Enhancing Comparative Advantages." *AMRO Annual Consultation Report on Cambodia - 2024 (Annex 3)*, pp. 63-72, ASEAN+3 Macroeconomic Research Office.

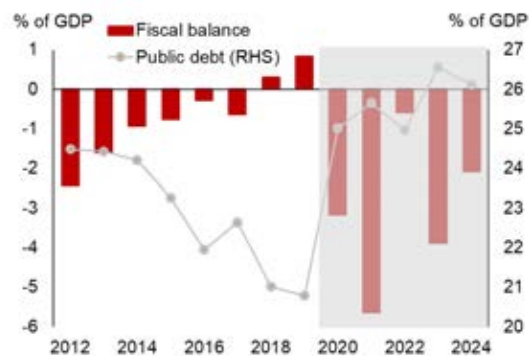
Annex 3. Assessment of Cambodia's Fiscal Space⁸²

This Selected Issue assesses Cambodia's fiscal space, using AMRO's fiscal space assessment framework. The analysis indicates that Cambodia's fiscal space has declined since the pandemic and is currently assessed as moderate. This underscores the importance of cautious and targeted deployment of fiscal resources in response to potential external shocks, as well as the need to maintain a gradual trajectory of fiscal consolidation over the medium term.

Background

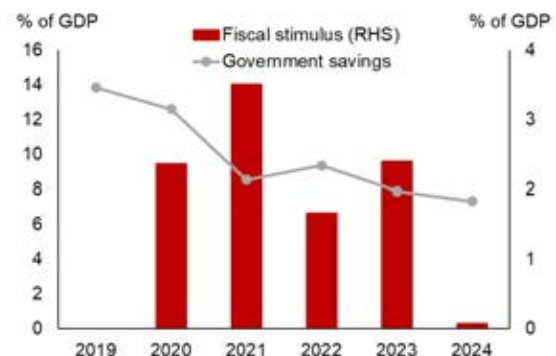
1. Cambodia has historically managed its fiscal position in a conservative and prudent manner. Prior to the COVID-19 pandemic, adherence to fiscal discipline allowed Cambodia to maintain narrow fiscal deficits or even small surpluses (Figure A3.1), keeping its public debt ratio among the lowest in the region. Over the past decade, fiscal soundness was strengthened further through a successful revenue mobilization strategy and strict expenditure controls. The authorities ensured that current revenue consistently exceeded current expenditure, resulting in current surpluses that were accumulated as fiscal reserves in the form of government deposits. These deposits peaked at around 14 percent of GDP in 2019.

Figure A3.1. Fiscal Balance and Public Debt



Source: Ministry of Economy and Finance (MEF); AMRO staff calculations
Note: Shaded area indicates COVID-19 and recovery period.

Figure A3.2. Fiscal Stimulus and Government Savings



Source: MEF; AMRO staff calculations
Note: The final tranche of the cash transfer program was released in March 2024, amounting to USD30 million.

2. The prudent accumulation of fiscal buffers enabled the Cambodian authorities to respond swiftly to the COVID-19 crisis. Fiscal reserves were deployed to finance stimulus measures aimed at mitigating the pandemic's impact on households and businesses (Figure A3.2). Key support measures included cash transfers to the poor, wage subsidies, and a cash-for-work scheme. Additional support was provided to firms through targeted lending and guarantees to SMEs, helping facilitate the post-pandemic recovery. Further fiscal stimulus was implemented in 2022 and 2023 to cushion the impact of high inflation on household living standards. Overall, the combined cost of these measures is estimated at USD3.8 billion (8.2 percent of GDP) between 2020 and 2024.

3. Cambodia faces renewed challenges in the current global environment. The US announcement of "reciprocal tariffs" on April 2, 2025—amid a broader escalation of protectionist measures and rising policy uncertainty—poses significant downside risks to Cambodia's exports and overall economic activity. With the decline of fiscal reserves following the pandemic, assessing Cambodia's fiscal space will be helpful to determine its capacity to provide agile and

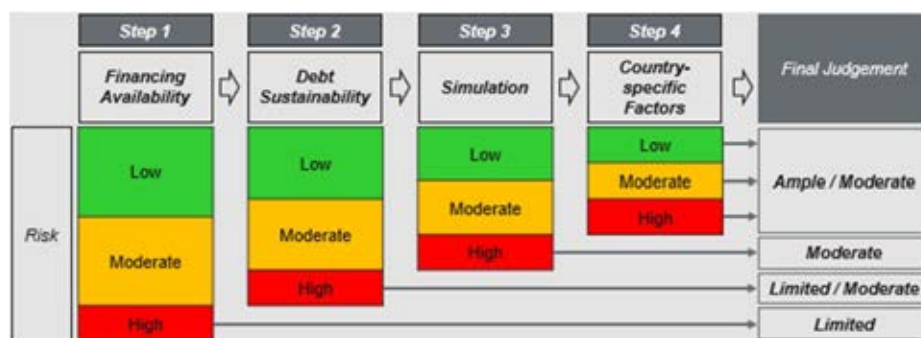
⁸² Prepared by Paolo Hernando, Senior Economist, and Vansopheaktra Odorm Tep, Associate.

flexible countercyclical fiscal support in response to possible external shocks that may undermine growth and employment.

4. This Selected Issue assesses Cambodia’s fiscal space using AMRO’s new fiscal space assessment framework.⁸³ The framework is grounded in a comprehensive definition of fiscal space as “the room for a government to implement discretionary fiscal policy relative to the baseline, with available financing, without compromising debt sustainability.” This definition is operationalized by adopting qualitative and quantitative measures:

- First, AMRO’s qualitative assessment of a country’s fiscal space uses a four-step approach, sequentially evaluating: (1) risks to financing availability, (2) risks to debt sustainability, (3) simulation scenarios, and (4) country-specific factors. At each step, if the risk is assessed to be high, a final judgment is made without proceeding to subsequent steps (Figure A3.3).
- Second, its quantitative approach assesses the maximum amount of discretionary fiscal expansion relative to the baseline that would not endanger debt sustainability.

Figure A3.3. AMRO’s Four-step Approach to Fiscal Space Assessment



Source: Nam and Song (2025)

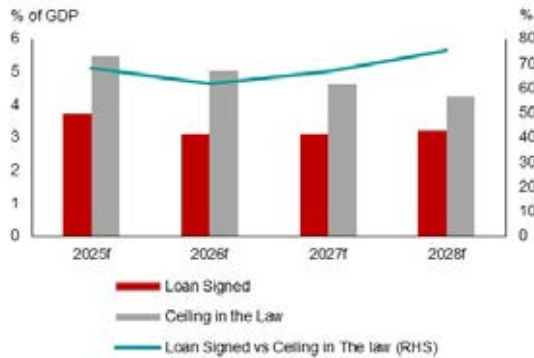
Qualitative Assessment of Fiscal Space

Step 1. Financing Availability

5. Financing availability is the first step of determining fiscal space, as countries without access to funding sources at reasonable cost face significant challenges in implementing discretionary fiscal policy. For low-income developing countries (LIDCs) like Cambodia, which lack effective access to international capital markets, the assessment of financing availability primarily focuses on the sources of development financing. These include undisbursed commitments under existing facilities and continued access to concessional loans from multilateral development banks and bilateral donors. For the period 2025–2028, loan commitments range from 3.1 to 3.7 percent of GDP, exceeding the projected fiscal deficits of 2.5 to 2.7 percent of GDP during the same period. This signals strong financing availability. Cambodia also has remaining flexibility of negotiating additional loans if necessary, as loan commitments are currently between 60 percent and 80 percent of the country’s external loan ceiling (Figure A3.4).

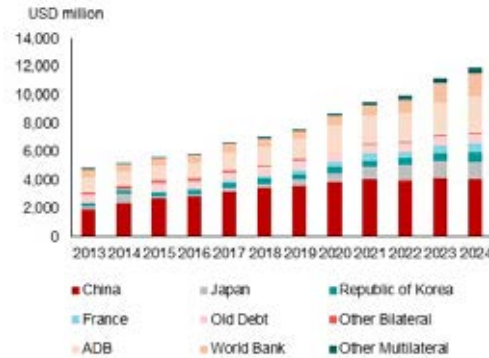
⁸³ This selected issue utilizes AMRO’s new fiscal space assessment framework, as outlined in Box B of the ASEAN+3 Fiscal Policy Report (April 2025). For further details, see Nam and Song (2025).

Figure A3.4. Projected Disbursements from Multilateral and Bilateral Donors



Source: MEF; AMRO staff calculations

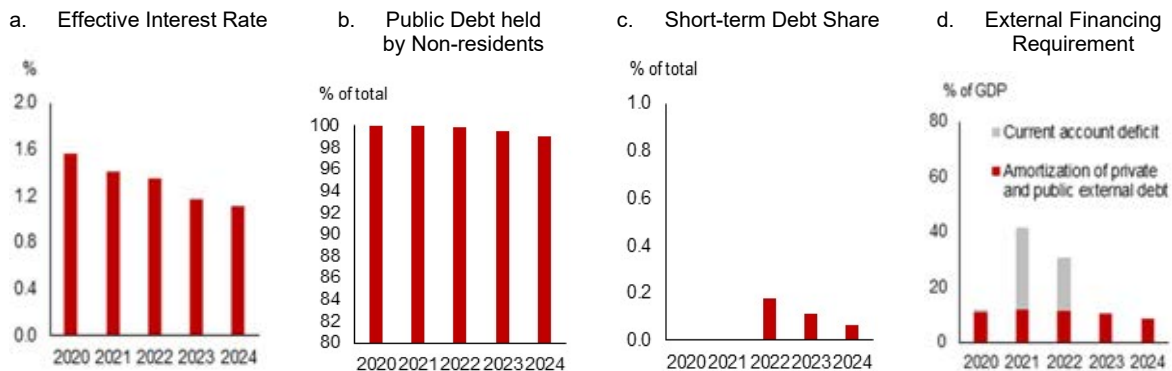
Figure A3.5. Outstanding External Debt



Source: MEF

6. Despite the high concentration of external debt in Cambodia’s public debt profile, its financing risk remains low due to the concessional nature of most of its external loans and limited exposure to short-term debt. In Cambodia’s case, the risks associated with market-based financing remain limited, as 99 percent of its public debt is external and contracted primarily on concessional terms from multilateral and bilateral lenders (Figure A3.5). These loans carry low interest rates (with a weighted average interest rate of 1.17 percent) and long grace and maturity periods (an average maturity of 24.1 years), thereby mitigating rollover and repayment risks. While Cambodia’s external debt burden is high relative to its total public debt, the concessional nature of these liabilities reduces the risk of immediate financing pressures. In addition, Cambodia’s exposure to short-term debt is minimal. Although the country experienced a temporary increase in external financing requirements in 2021 and 2022—mainly due to a surge in gold imports—the situation has since stabilized (Figure A3.6).

Figure A3.6. Debt Profile Vulnerabilities



Source: MEF; AMRO staff estimates

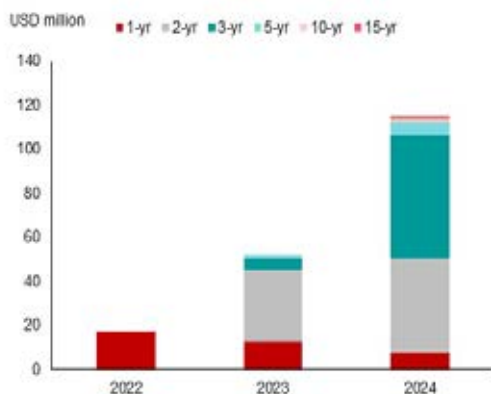
Note: 1) Public debt held by non-residents is based on the jurisdiction of issuance; 2) Short-term debt is based on the original maturity; 3) External financing requirements = current account deficit + amortization of public external debt + amortization of private external debt.

7. Meanwhile, Cambodia’s domestic bond market remains nascent, having only been established in 2022. It currently accounts for just 1 percent of total public debt (Figure A3.7), and borrowing costs are significantly higher than those of concessional loans, with an effective interest rate of approximately 3.6 percent.⁸⁴ Moreover, government bonds are not widely popular, as they are issued only in Cambodian riel within a highly dollarized economy, which limits their

⁸⁴ Given the nascent stage of Cambodia’s bond market, which only began operations in 2022, the stock of outstanding debt has risen sharply from a very low base. To smooth out the resulting volatility in the debt stock, the effective interest rate on domestic bond issuances is estimated by dividing domestic interest payments by the average of the previous year’s outstanding debt and the current year’s new issuances.

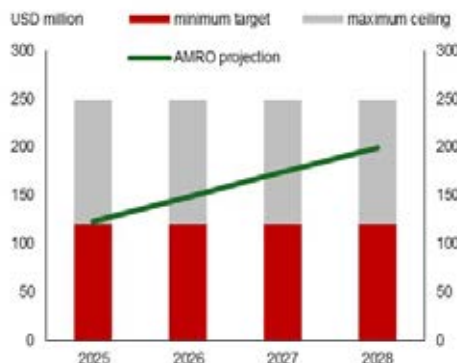
appeal to investors. Planned domestic bond issuance for 2025–2028, ranging from USD120–250 million, is aimed at supporting market development, improving liquidity, and broadening the investor base (Figure A3.8).

Figure A3.7. Outstanding Domestic Debt



Source: MEF

Figure A3.8. Domestic Bond Ceiling



Source: MEF; AMRO staff calculations

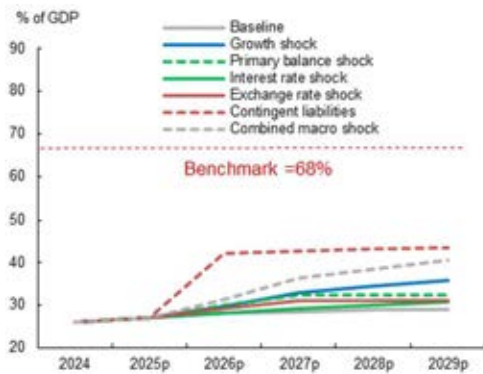
Note: AMRO projection assumes a steady rise in domestic bond issuance, beginning with the minimum of USD120 million and rising linearly to up to 80 percent of the domestic borrowing ceiling.

8. The country’s reliance on concessional financing and the underdeveloped domestic bond market are structural vulnerabilities that could constrain policy flexibility in the future. Consequently, financing availability risk is assessed as moderate. While continued access to concessional financing is expected, Cambodia’s scheduled graduation from least developed country (LDC) status in 2029 could lead to higher borrowing costs. Upon graduation, Cambodia will lose access to highly concessional loans although it will still have access to blended financing from international financial institutions, which offers more favorable terms than commercial borrowing. These evolving financing dynamics underscore the importance of gradually developing the domestic bond market to strengthen fiscal resilience over the medium term, while continuing to secure concessional or semi-concessional financing from multilateral development banks and bilateral partners, whenever feasible.

Step 2. Public Debt Sustainability

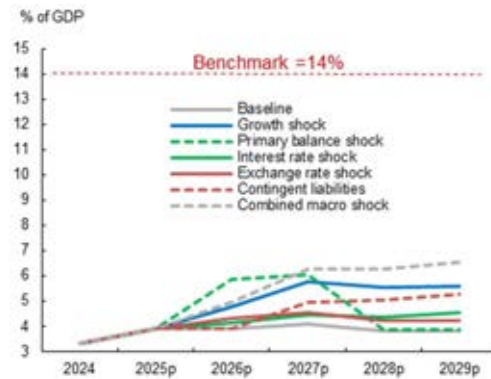
9. Debt sustainability analysis shows Cambodia’s public debt and gross financing need (GFN) ratios remain below the thresholds under both baseline and stress-test scenarios, even though they are higher than pre-pandemic levels. Having assessed that Cambodia faces moderate financing availability risks, the next step is to evaluate public debt sustainability by analyzing the risks of debt GFN over the medium term. Under the baseline scenario, public debt is projected to rise gradually but remain below 30 percent of GDP, while GFNs are expected to stay just below 4 percent of GDP, reflecting a balance between fiscal consolidation and development spending. Standard stress tests confirm that, even under adverse shocks, both ratios remain well below the thresholds, underscoring Cambodia’s low risk of debt distress. (Figure A3.9 and A3.10; see Annex 5 Debt Sustainability Analysis for more details).

Figure A3.9. Public Debt Stress Test



Source: MEF; AMRO staff estimates

Figure A3.10. GFN Stress Test

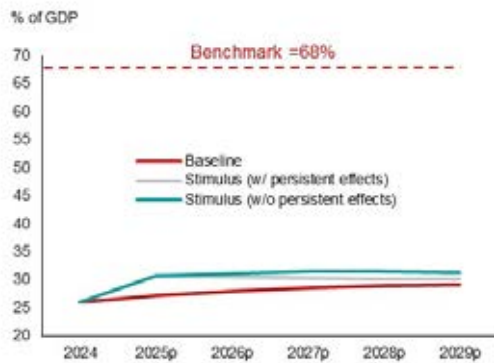


Source: MEF; AMRO staff estimates

Step 3. Fiscal Stimulus Simulations

10. Fiscal stimulus simulations show Cambodia’s debt remains at low risk of distress. With the low risk of Cambodia’s public debt sustainability, the next step in assessing fiscal space is to evaluate the impact of a sizable discretionary fiscal policy on its debt and GFN ratios. This is simulated using a “bucket approach”, suggested by Batini et al. (2014),⁸⁵ which applies a fiscal stimulus equivalent to two standard deviations of the primary balance. While both the public debt and GFN ratios increase following the simulated 4.2 percent of GDP rise in expenditure, they remain well below their respective thresholds (Figure A3.11 and A2.12).

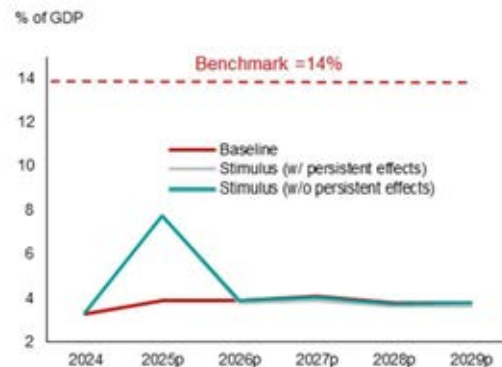
Figure A3.11. Public Debt-to-GDP Simulation



Source: MEF; AMRO staff estimates

Note: Based on the “bucket approach”, Cambodia is categorized as having a “low” multiplier range. The simulation with persistent effects assumes that the fiscal multiplier gradually fades out from t to t+4. Meanwhile, the simulation without persistent effects assumes that the fiscal multiplier is in effect only in period t.

Figure A3.12. GFN-to-GDP Simulation



Step 4. Country-specific Factors

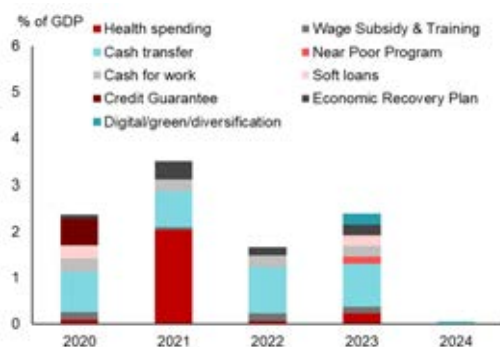
11. Government savings, together with a record of conservative fiscal management and ongoing reforms, further strengthen Cambodia’s fiscal resilience. Given the moderate financing risk and low risk of debt distress both in stress tests and simulations, country-specific

⁸⁵ The “bucket approach” bunches countries into groups that are likely to have similar multiplier values based on their structural characteristics, including trade openness, labor market rigidities, automatic stabilizers, exchange rate regime, public debt level, and public finance management.

factors are considered in the fourth and final step of AMRO’s fiscal space assessment before making a judgment on Cambodia’s fiscal space.

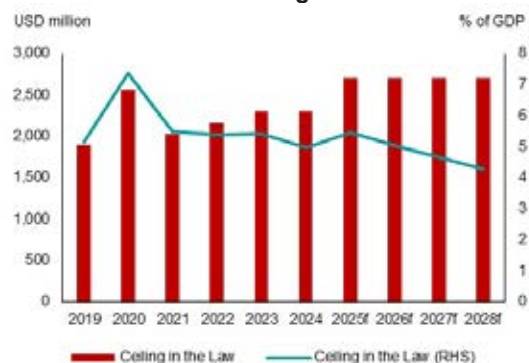
- A key supporting factor for Cambodia is the stock of government savings, which can be considered as fiscal reserves that can be utilized in the event of shocks or crises, as demonstrated during the COVID-19 pandemic (Figure A3.13). Although these fiscal reserves in the form of government savings have declined from a peak of 13.9 percent of GDP in 2019 to an estimated 7.3 percent of GDP by the end of 2024, they remain a substantial buffer. Few countries in the region possess such a resource, which can be drawn on to mitigate adverse shocks, when needed.
- Another supporting factor in the assessment of Cambodia’s fiscal space is the government’s strong fiscal discipline, reflected in its historical record of managing the fiscal position conservatively and prudently. Furthermore, the government has demonstrated a strong commitment to reform and has steadily implemented the long-term Public Financial Management Reform Program (PFMRP), which was initiated in 2004.⁸⁶ Cambodia has also implemented a Medium-term Public Debt Strategy that establishes a debt ceiling (Figure A3.14). The progress and direction of these reforms suggest that Cambodia’s fiscal framework and discipline will continue to strengthen in the years ahead.

Figure A3.13. COVID-19 Fiscal Stimulus



Source: MEF; AMRO staff estimates

Figure A3.14. Medium-term External Public Debt Ceiling



Source: MEF; AMRO staff estimates

12. Cambodia has some positive factors supporting its fiscal space, there are also country-specific risks that may constrain it. Exposure to state-owned enterprise (SOE) debt and contingent liabilities from public-private partnerships (PPPs) must be assessed when evaluating Cambodia’s fiscal space.

- SOEs are not authorized to borrow independently; instead, the government contracts debt on their behalf and on-lends the proceeds to them. Importantly, these on-lent debts are relatively modest in scale—amounting to 6.1 percent of GDP as of end-2024—and are fully and explicitly included in Cambodia’s official public debt statistics.
- In contrast, contingent liabilities from PPPs could pose a larger source of risk, given that the total value of implemented PPP projects stood at USD18.4 billion (approximately 40 percent of GDP) as of end-2024 (Figure A3.15), and the full extent of government exposure to these

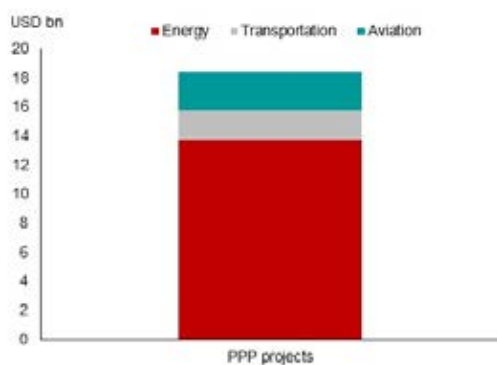
⁸⁶ Cambodia’s Public Financial Management Reform Program (PFMRP) has advanced through four sequential stages: (1) establishing budget credibility; (2) deepening financial accountability; (3) strengthening the linkages between budget and policy; and (4) enhancing medium-term planning, monitoring and evaluation (M&E), and performance-informed budgeting. Stages 1 through 3 have been completed, and the government is now engaged in the implementation of Stage 4.

projects is not clear.⁸⁷ Meanwhile, ongoing PPP projects amounted to USD5.5 billion (approximately 12 percent of GDP) as of end-2024 (Figure A3.16), with government guarantees equivalent to around 2.1 percent of GDP. Additionally, Cambodia’s high degree of dollarization, with the USD accounting for about 90 percent of total deposits, has important implications for fiscal space. It limits the effectiveness of monetary policy and places greater reliance on fiscal measures to stimulate the economy during downturns.

- Furthermore, the economy’s high degree of dollarization constrains the government’s ability to finance counter-cyclical measures through domestic borrowing in local currency.

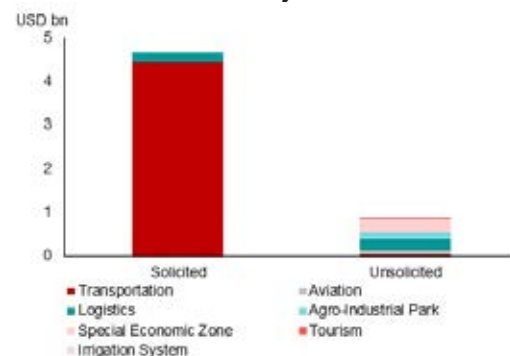
Taken together, these mixed positive and negative factors result in an overall assessment of Cambodia’s country-specific fiscal risks as moderate.

Figure A3.15. Implemented PPP Projects (As of End-2024)



Source: MEF; AMRO staff estimates

Figure A3.16. Ongoing Solicited and Unsolicited PPP Projects⁸⁸



Source: MEF; AMRO staff estimates

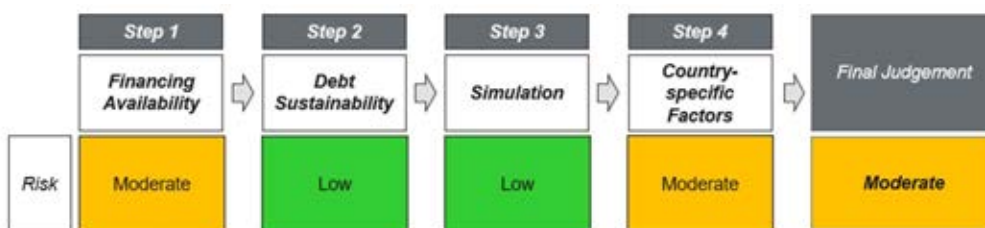
Final Judgement on the Qualitative Assessment

13. Based on the four-step qualitative assessment, Cambodia is deemed to have “moderate” fiscal space (Figure A3.17). Current funding costs and debt profile indicators suggest moderate financing risks. Meanwhile, both debt and GFN risks are low, with projected debt-to-GDP and GFN-to-GDP ratios well below their respective thresholds in baseline and stress test scenarios. Fiscal stimulus simulations also show Cambodia’s debt remains at low risk of distress. However, a mixture of positive and negative country-specific factors leads to the final qualitative judgement of “moderate” fiscal space for Cambodia.

⁸⁷ Non-disclosure agreements and confidentiality clauses make it challenging to assess government exposure. With a majority of projects in the energy sector, contingent liabilities can persist even after construction is completed due to possible revenue guarantees or minimum off-take agreements provided by the government to help ensure the projects remain financially viable.

⁸⁸ Solicited Project refers to a Public-Private Partnership (PPP) initiative that is initiated, prepared, and promoted by the Implementing Agency (IA) and is considered suitable for implementation under the PPP framework. If the Royal Government approves the project, the IA will proceed to launch a request for proposal (RFP) to select a private partner, in accordance with Chapter VI of the PPP Law. Unsolicited Proposal (USP), as defined in the PPP Law, is a written submission from a private entity to the Implementing Agency, proposing the development of a new project under the PPP model. This type of proposal introduces original ideas, technologies, or innovations and is not initiated or requested by the IA.

Figure A3.17. Cambodia: Qualitative Assessment of Fiscal Space



Source: AMRO staff illustration

Quantitative Assessment of Fiscal Space

14. AMRO’s quantitative assessment indicates Cambodia’s fiscal space has narrowed compared to pre-pandemic levels. Under AMRO’s quantitative measure of fiscal space,⁸⁹ two buffers are constructed: a debt sustainability buffer and a financing sustainability buffer, each defined as the maximum stimulus size that would not breach its respective threshold.

- Compared to 2019, Cambodia’s debt sustainability buffer declined by 43.4 percent of GDP in 2024, primarily driven by the discounted sum of the primary balance, which remains elevated over the medium term under the baseline scenario even without additional fiscal stimulus. This persistence reflects weakened domestic revenue mobilization due to more generous tax incentives introduced since 2023. Meanwhile, the narrower initial debt buffer reflects an increase in debt levels following the COVID-19 pandemic (Figure A3.18).
- Cambodia’s financing sustainability buffer has declined since 2020, driven by similar factors, with the larger primary deficit as the main reason for the reduction, reflecting persistently elevated deficits compared to pre-pandemic levels (Figure A3.19).

Figure A3.18. Debt Sustainability Buffer

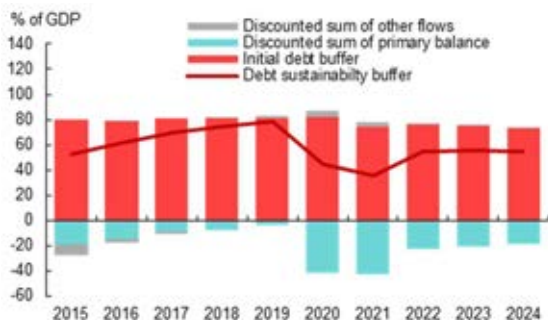


Figure A3.19. Financing Sustainability Buffer



Source: MEF; AMRO staff estimates

Note: AMRO’s quantitative measure of fiscal space represents the maximum additional fiscal stimulus (relative to the baseline) that would not breach debt-to-GDP and GFN-to-GDP thresholds over the projection period, following the approach of Nam and Song (2025).

Policy Implications

15. The reduced fiscal space underscores the need for cautious and targeted deployment of fiscal resources. While Cambodia retains fiscal space to support its economy amid increased global trade protectionism, this space is moderate and should be deployed judiciously. Short-term priority should be given to well-targeted measures that protect the most vulnerable segments of the population and sustain economic resilience in the short term. Over the medium term, it is essential to resume fiscal consolidation to safeguard fiscal sustainability and preserve

⁸⁹ As outlined in Nam and Song (2025).

macroeconomic stability. In addition, efforts to enhance domestic revenue mobilization will be critical to secure a stable source of funding to meet Cambodia's development needs and build resilience to future external shocks.

16. Strengthening fiscal sustainability over the long term will require proactive reforms, strategic debt management, and enhanced risk reporting. As Cambodia approaches its scheduled LDC graduation, managing the shift carefully becomes imperative, as graduation may lead to higher borrowing costs and constrain fiscal space. To mitigate these risks, strengthening the connection between policy priorities and budgeting is essential, while improving spending efficiency to ensure developmental outcomes while maintaining fiscal sustainability. A forward-looking and diversified public debt management strategy is vital for long-term fiscal sustainability. Authorities should continue leveraging concessional or semi-concessional financing where feasible. Concurrently, developing capacity to manage and issue debt at commercial rates will be pivotal to diversifying financing sources, including through the development of a deeper domestic government bond market. Additionally, institutionalizing regular fiscal risk reporting for SOEs and PPPs will enhance fiscal transparency and strengthen fiscal resilience further.

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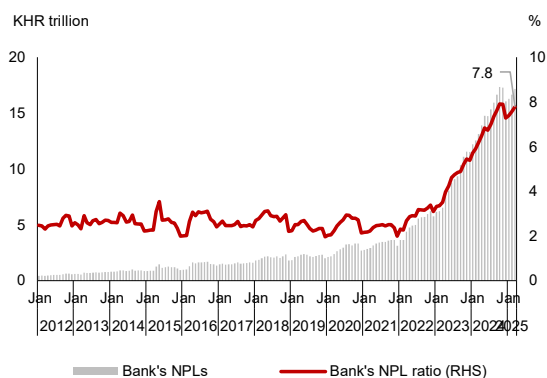
Annex 4. Exploring Policy Options for NPL Resolution in Cambodia⁹⁰

Non-performing loans (NPLs) have risen sharply in Cambodia in recent years. While the authorities have introduced certain policy measures and banks have pursued recovery strategies on an individual basis, the continued accumulation of NPLs underscores the need for an effective NPL resolution strategy to safeguard financial stability and support economic growth. This Selected Issue explores policy options, including the potential establishment of an asset management company (AMC) and broader reforms, as well as a holistic NPL management approach, that aims to build a robust NPL resolution framework in Cambodia over the medium to long term.

Background

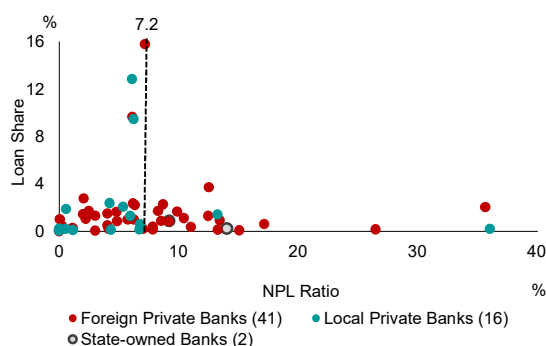
1. Cambodia’s banks have experienced broad deterioration in asset quality amid a prolonged credit boom and fragmented market structure. Cambodia’s sustained credit expansion over the past decade has pushed the credit-to-GDP ratio above 120 percent since 2021.⁹¹ Banks’ asset quality has deteriorated markedly in parallel, with NPLs reaching KHR17.2 trillion (approximately USD4.3 billion) and the NPL ratio rising to 7.8 percent as of March 2025 (Figure A4.1). By end-2024, 47 of 59 commercial banks reported higher NPL ratios year-on-year, including 40 that had already experienced deterioration in 2023. Notably, 21 banks—comprising 17 foreign private banks, two local private banks, and two state-owned banks—recorded NPL ratios above the sector-wide average of 7.2 percent (Figure A4.2). While large banks remain the primary contributors to aggregate NPLs,⁹² nearly half of the total is distributed among smaller institutions,⁹³ reflecting both the fragmented nature⁹⁴ of the banking system and the broad-based weakening in asset quality.

Figure A4.1. NPL Volume and NPL Ratio



Source: National Bank of Cambodia (NBC); AMRO staff calculations
Note: The chart covers commercial banks and specialized banks.

Figure A4.2. Distribution of NPL Ratios and Loan Shares across Individual Banks (end-2024)



Source: NBC; AMRO staff calculations
Note: (i) Figures in parentheses denote the number of banks in each group; (ii) this chart includes commercial banks only; (iii) *foreign private banks* are defined as privately owned banks with foreign ownership exceeding 50 percent, while *local private banks* are those with foreign ownership of 50 percent or less; (iv) the blue circle represents institutions with NPL ratios above the sector average.

⁹⁰ Prepared by Zhan (Bella) Guo, Associate Economist.

⁹¹ Cambodia’s double-digit credit growth between 2012 and 2022 pushed the credit-to-GDP ratio from 37.2 percent to 137.1 percent. Although growth decelerated sharply to around 3–4 percent from 2023 onward, the ratio remains elevated, at above 120 percent.

⁹² The top five banks with largest loan market shares accounted for 49.6 percent of total NPLs.

⁹³ One medium-sized bank’s relatively high NPL ratio led to it accounting for a 10.1 percent share of total NPLs, but the remaining 53 banks collectively held 40.3 percent, with none individually with a share of more than 2.8 percent.

⁹⁴ Cambodia’s banking sector remains highly fragmented. As of end-2024, the largest bank accounted for 15.8 percent of total loans, and the top four banks held a total share of 47.7 percent. In contrast, 47 banks each held less than a 2 percent loan market share, of which 31 enjoyed a share of under 1 percent, underscoring the limited scale of most institutions.

2. In response to rising NPLs, the National Bank of Cambodia (NBC) reintroduced a loan structuring forbearance measure in August 2024. Empirical studies suggest that a sustained buildup of NPLs can weaken bank profitability, erode capital buffers and constrain lending, ultimately heightening financial vulnerabilities and hindering economic growth (Fell et al., 2021; Caprio and Klingebiel, 1996). While banks in Cambodia have remained well-capitalized,⁹⁵ profitability has already declined significantly.⁹⁶ By year-end, deposit-taking institutions had restructured 84,434 loan accounts under the reintroduced forbearance policy totaling USD1.8 billion—equivalent to 3.0 percent of total loans, but well below the 12.6 percent recorded during the initial COVID-era forbearance in 2020. While providing short-term relief, the measure’s effectiveness is limited and may introduce risks including hidden vulnerabilities and moral hazard (Table A4.1). To safeguard financial stability and ensure durable NPL resolution, Cambodia should develop a holistic and well-coordinated approach to NPL management, as discussed in the following sections.

Table A4.1. Positive Impacts, Limitations and Potential Risks of Forbearance Measure

Positive Impacts	Limitations	Potential Risks
<ul style="list-style-type: none"> Eases immediate cash flow pressures for borrowers, supporting business continuity and recovery. Helps contain a short-term surge in NPLs and allows banks to restructure loans while preserving liquidity and capital buffers. 	<ul style="list-style-type: none"> Allows restructuring without loan reclassification up to twice. Measures are temporary, in effect only through end-2025. While applicable to all borrowers, the measure can only resolve problems of going-concern borrowers faced with temporary financial distress. 	<ul style="list-style-type: none"> May delay the timely recognition of credit losses and obscure potential vulnerabilities. Risks postponing the resolution of non-viable borrowers. Potential under-provisioning and inefficient capital allocation.

Source: AMRO; NBC (2025).

Note: This forbearance measure allows banks and financial institutions (BFIs) to restructure loans in all sectors up to twice without change in classifications or additional provisioning until the end of December 2025. It also allows BFIs to move up loan classification for customers who have been fulfilling their loan obligations diligently for at least three months consecutively.

Key Challenges in Addressing NPL Resolution in Cambodia

3. Structural weakness in Cambodia’s financial and legal systems has constrained effective NPL resolution. Banks face institutional capacity constraints with limited experience in managing sharp increases in NPLs despite several episodes of financial stress⁹⁷ since the 1990s. This is evidenced by recent breaches of financial covenants⁹⁸ by several major banks. Legal and judicial weaknesses—including the absence of a legal framework for NPL sales⁹⁹ and the lengthy, costly court-led insolvency procedures¹⁰⁰—undermine the effectiveness of formal recovery mechanisms. Cambodia ranked 46th out of 50 economies in the World Bank’s 2024 *Business Insolvency* score mainly due to its undeveloped digital infrastructure, inadequate judicial capacity, lack of specialized courts and low transparency (Table A4.2;

⁹⁵ By end-2024, the CAR and Tier 1 ratio were at 22.4 percent and 20.0 percent respectively, well above the regulatory minimum requirement of 15 percent for total capital and 11 percent for Tier 1 capital, based on risk-weighted assets. In addition, banks are required to maintain a capital conservation buffer (CCB) of 1.25 percent of risk-weighted assets.

⁹⁶ In 2024, Banks’ return on assets (ROA) and return on equity (ROE) declined significantly to 0.4 percent and 0.6 percent, respectively, down from 1.0 percent and 3.4 percent in 2023, and well below 2.4 percent and 9.9 percent in 2022, reflecting narrowing interest margins, subdued credit growth, and rising provisioning costs.

⁹⁷ In 2000–2001, the sector faced instability due to weak and undercapitalized banks, leading the NBC to revoke licenses and enforce stricter capital rules, resulting in sector consolidation. During the 2008–2009 Global Financial Crisis, Cambodia avoided major disruption through prudential tightening, with no bank bailouts required. The 2019–2020 period saw reputational damage in the microfinance sector from over-indebtedness, prompting authorities to impose rate caps and introduce a code of conduct.

⁹⁸ According to [S&P](#), three large Cambodian financial institutions breached NPL-related covenants on their borrowings in 2023, as the surge in NPLs eroded the buffers between their actual financial ratios and the covenant thresholds.

⁹⁹ Cambodia lacks a dedicated legal framework governing the sale of NPLs to third parties. While bilateral transactions may occur in practice, they operate in a legal grey zone, posing risks related to compliance and enforceability.

¹⁰⁰ Court proceedings in Cambodia are often subject to significant delays, with anecdotal evidence suggesting that cases can take up to 7-8 years to resolve, compounded by frequent changes in presiding judges. According to the World Bank’s *Doing Business 2015* report, the average time required to resolve corporate insolvency in Cambodia was six years—considerably longer than the ASEAN+3 average of 2.3 years. The recovery rate stood at 14.6 percent (ASEAN+3 average: 55.8 percent), while the cost of proceedings was 18 percent of the estate’s value (ASEAN+3 average: 13.4 percent).

Figure A4.3¹⁰¹). These institutional and legal deficiencies have impeded the emergence of a secondary market for distressed assets, limiting market-based resolution options.

Table A4.2. Business Insolvency Scores for ASEAN+3 Economies

Economy	Pillar I: Regulatory Framework	Pillar II: Public Services	Pillar III: Operational Efficiency	Overall	Rank
Singapore	93.2	76.7	99.3	89.7	1
Indonesia	50.6	53.3	67.0	57.0	20
Vietnam	75.8	38.3	51.3	55.1	21
Hong Kong, China	65.1	26.3	49.0	46.9	27
Philippines	71.9	18.3	46.3	45.5	29
Cambodia	55.6	3.3	0.0	19.6	46

Source: World Bank *Business Ready 2024* Database.
Note: (1) Data for Brunei, China, Japan, Korea, Malaysia, Myanmar, and Thailand are not available. (2) The maximum possible score for each category is 100.

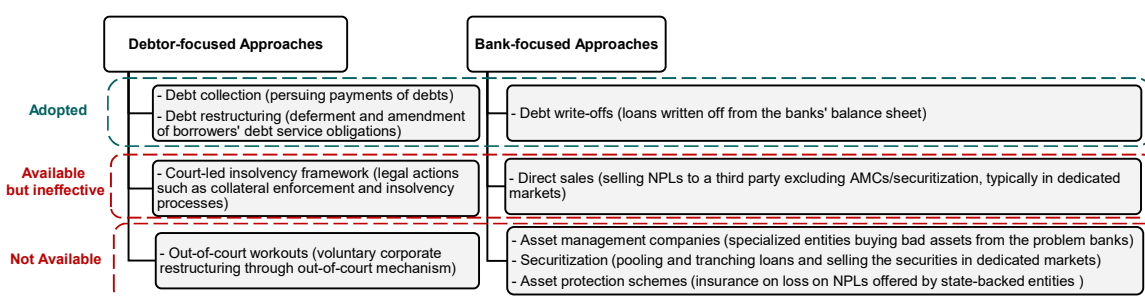
Figure A4.3. Business Insolvency Scores for Cambodia, by Sub-Category



Source: World Bank *Business Ready 2024* Database.
Note: "L&R" denotes "Liquidation and Reorganization"; "MSEs" denotes "Micro and Small Enterprises."

4. Cambodian banks therefore rely heavily on a narrow set of resolution tools. In principle, banks can deploy a wide range of strategies to address distressed assets, including "debtor-focused" approaches, aimed at enhancing repayment capacity and preserving business value; and "bank-focused" approaches, intended to remove or reduce NPLs from bank balance sheets. These tools are not mutually exclusive and are often combined and used sequentially, guided by the expected recovery outcome of each option (Baudino and Yun, 2017; World Bank, 2021). In Cambodia, however, due to institutional, legal, and market constraints, banks remain largely reliant on basic recovery measures in both approaches such as debt collection, debt restructuring and debt write-offs (Figure A4.4). Structural reforms are needed to strengthen court-led and out-of-court insolvency regimes as well as to facilitate the development of risk transfer mechanisms such as direct sales, AMC's, securitization and asset protection schemes.

Figure A4.4. Availability of NPL Resolution Tools in Cambodia



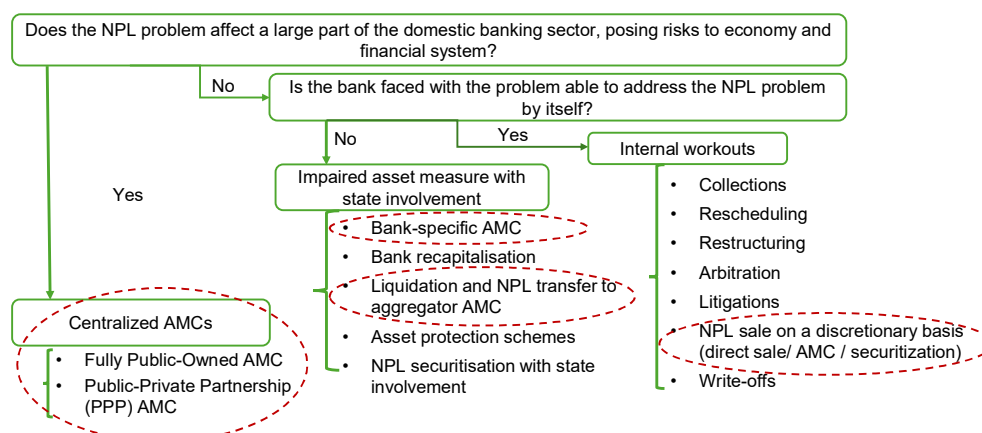
Source: AMRO staff assessment based on the analytical framework from Baudino and Yun (2017).

Policy Options for Complementing the NPL Resolution Framework

¹⁰¹ The Business Insolvency Score evaluates key aspects of insolvency systems at the regulatory level, examines the institutional and operational infrastructure supporting insolvency proceedings—particularly judicial services—and assesses the overall efficiency of these proceedings across three pillars. Compared to the selected ASEAN countries, Cambodia's regulatory framework for judicial insolvency proceedings—liquidation and reorganization—is generally aligned with international standards, but its implementation is notably the weakest, in terms of the quality of institutional and operational infrastructure, and the time and cost required to resolve in-court liquidation or reorganization proceedings.

5. To complement Cambodia’s limited NPL resolution toolkit, establishing an AMC can be a feasible and pragmatic option. Figure A4.5 shows various NPL resolution mechanisms and how they can be applied under different scenarios. While enhancing debtor-focused approaches—such as court-led insolvency frameworks or out-of-court workouts—requires complex and time-consuming legal and institutional reforms, introducing a dedicated legal framework for bank-focused tools would be more straightforward and achievable in the near term. Additionally, given the nascent stage that Cambodia’s capital markets are in, the development of a sufficiently deep and diversified investor base to support securitization or sizable NPL direct sales is also unlikely in the short to medium term. While an asset protection scheme¹⁰² is typically applied during acute crises to target individual banks with exceptionally high NPLs, an AMC¹⁰³ can offer a broader, sector-wide approach to NPL resolution, with greater flexibility in mandate design and use of public resources.

Figure A4.5. Tailored Strategies for NPL Resolution



Source: AMRO staff illustration based on the analytical framework from Martin et al. (2025).
Note: Red circles indicate resolution measures in which the AMC(s) can play a direct role.

6. While AMCs can offer notable benefits, they also carry certain risks and therefore require careful design and implementation.¹⁰⁴ AMCs have been successfully established across both advanced and emerging market economies, including nine ASEAN+3 countries¹⁰⁵—most of which initially introduced public AMCs, to efficiently offload distressed assets from banks (Table A4.3; Figure A4.6¹⁰⁶). AMCs can also improve financial sector transparency, restore market confidence, enhance asset recovery, and contribute to the development of secondary NPL markets. However, AMCs are not a panacea—if poorly designed or implemented, AMCs may entail significant fiscal costs, create moral hazard and weaken credit discipline. In Cambodia, success will depend on a well-calibrated approach that reflects country-specific factors, including fiscal, legal and institutional constraints.

¹⁰² According to Baudino and Yun (2017), an asset protection scheme (APS) is an insurance mechanism designed to support banks with elevated NPL levels. Under an APS, a public agency agrees to absorb a portion of losses on legacy assets in exchange for a fee. The primary objective is to sustain credit provision. APSs are typically deployed during acute phases of banking crises, when the risk of a credit crunch is heightened. They often focus on a few large domestic banks to address systemic vulnerabilities, rather than covering the entire sector. In some instances, eligible banks may opt to raise private capital instead, to avoid the potential stigma associated with APS participation.

¹⁰³ An AMC is an entity established to manage and enhance the recoveries of distressed assets removed from the banking system.

¹⁰⁴ See Otero-Fernández et al. (2024), Fell et al. (2021), Cerruti et al. (2019), Baudino and Yun (2017) and Fung et al. (2004) for an overview of the benefits and drawbacks of AMCs, as well as explanations of selected country experiences.

¹⁰⁵ Brunei Darussalam, Cambodia, Myanmar, Singapore and Hong Kong, China haven't set up AMCs specialized for NPL resolution.

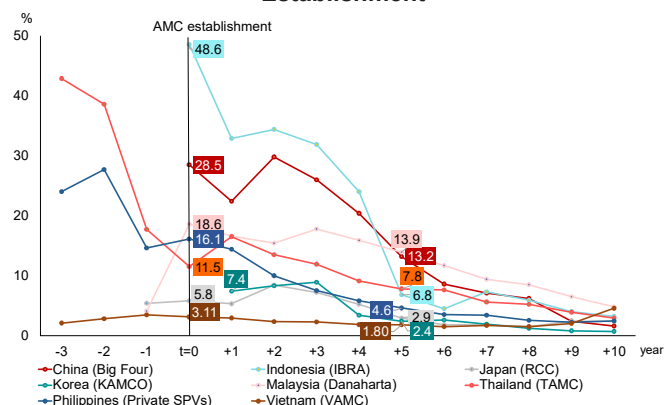
¹⁰⁶ The AMCs presented in this chart refer to either the first or the most dominant AMCs established in each country to address the high level of NPLs. The chart shows that in all cases, NPL ratios declined following the establishment of AMCs. Indonesia, China, and the Philippines witnessed sharp reductions in NPL ratios within five years, whereas Korea, Thailand, Malaysia, Vietnam, and Japan experienced more gradual improvements.

Table A4.3. AMC Landscape in ASEAN+3 Economies

	First AMC(s)			Current Landscape	
	Set-up Background	Set-up Year	Centralized?	Public AMCs	Private AMCs
Indonesia		1998	✓	✓	✓
Korea	Asian Financial Crisis	1997	✓	✓	✓
Malaysia		1998	✓	✓	✓
Thailand		2001	✗	✓	✓
China		1999	✗	✓	✓
Japan	Domestic banking crisis	1999	✓	✓	✓
Vietnam		2003	✓	✓	✓
Lao PDR	Non-systemic banking problem	2023	✓	✓	✗
Philippines		2003	✗	✗	✓

Source: AMRO staff compilation based on international practices and analytical literature.
Note: See Appendix A3.1 for more details.

Figure A4.6. NPL Ratio Trends Following AMC Establishment



Source: Haver Analytics; Asian Development Bank; AMRO staff calculations.
Note: "Big Four" refers to Orient, Great Wall, Cinda, Huarong Asset Management; IBRA = Indonesia Bank Restructuring Agency; RCC = Resolution and Collection Corporation; KAMCO = Korea Asset Management Corporation, Danaharta = Pengurusan Danaharta Bhd, TAMC = Thai Asset Management Company, SPVs = special purpose vehicles. VAMC = Vietnam Asset Management Company.

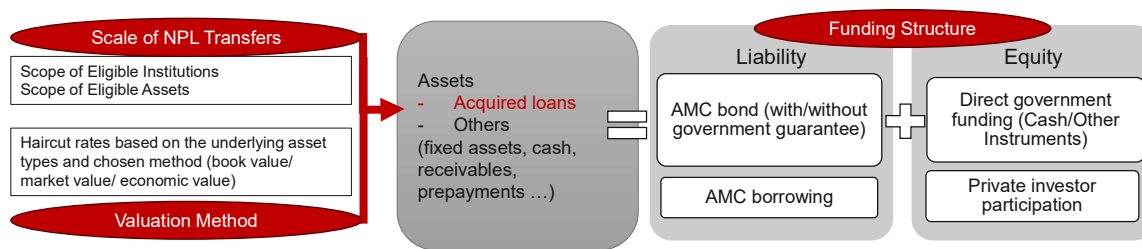
Key Considerations for AMC's Design and Operation

7. Given the varied roles and design features of AMCs, the key challenge lies in establishing a model well-suited to Cambodia's specific needs and institutional context. International experience points to several success factors for effective AMC operations, including strong political commitment, explicit government support, a supportive legal framework, efficient market infrastructure, a clear mandate, a finite lifespan, robust governance, transparency, realistic asset valuation, and timely resolution (Fung et al., 2004). Cerruti et al. (2019) further underscores the importance of commercial focus, sound governance, and comprehensive NPL management strategy, while Baudino and Yun (2017) and Otero-Fernández et al. (2024) highlight operational challenges and trade-offs across different AMC models. Drawing from these lessons, key AMC design considerations include:

- **A centralized AMC model may be more appropriate for Cambodia, given the systemic nature of NPL challenges and institutional constraints.** Unlike decentralized AMCs that are suited to bank-specific issues, a centralized AMC is better equipped to address sector-wide distress, enforce consistent resolution practices, and advocate for legal reforms. Public funding and oversight would likely be required, as the private sector generally lacks the capacity to coordinate system-wide programs.
- **A balanced public-private funding approach would help ensure financial sustainability of an AMC.** Funding needs depend on the scale of NPL purchases, asset valuation methods, and the financing structure (Figure A4.7). While the first two reflect strategic objectives, asset features, and market conditions, the funding structure mainly hinges on the availability of financing sources. Given Cambodia's track record of fiscal discipline and underdeveloped bond markets, mobilizing private capital can help reduce the fiscal burden, and promote transparency and commercial orientation.¹⁰⁷

¹⁰⁷ According to Otero-Fernández et al. (2024), participation by private investors with expertise in distressed asset markets can strengthen transparency and accountability, and promote a commercial focus.

Figure A4.7. Key Factors Relating to the Financing Needs of AMC's



Source: AMRO staff illustration.

- **A careful selection of assets is critical to achieving the AMC's objectives and ensuring operational effectiveness.** The AMC mandate should clearly define the scope of eligible institutions and asset types. As AMCs have been seen to be effective when focused on large, collateralized loans,¹⁰⁸ it may be appropriate to set minimum thresholds for loan size and portfolio volume, enabling the AMC to benefit from economies of scale and leverage specialized expertise.
- **A sound valuation methodology should be developed in advance.** As noted by YCP and Confluences (2024), Cambodian banks currently face challenges in pricing transactions appropriately.¹⁰⁹ The real economic value approach, often regarded as a balanced and transparent methodology,¹¹⁰ could serve as a benchmark. To further mitigate friction arising from asset heterogeneity, legal uncertainty, and asymmetric information, loss- or gain-sharing mechanisms¹¹¹ could also be considered.
- **Robust governance and incentive frameworks are critical to safeguard the AMC's effectiveness.** For example, the mandate should clearly define the AMC's independence, internal control, and external oversight to prevent political interference and misuse as a bailout vehicle.¹¹² Setting a legislative sunset clause can help reduce moral hazard and promote timely resolution.¹¹³ To further align incentives, employment contracts can include performance-based compensation tied to asset resolution outcomes.¹¹⁴

¹⁰⁸ According to Fell et al. (2021), AMCs have historically been most successful when tasked with resolving real assets, typically commercial real estate and land. These assets are relatively straightforward to value and, as a result, can be managed by AMCs with relatively lean staffing. However, it remains unclear whether AMCs can efficiently manage other asset types, such as household mortgages, which involve a large number of small-sized loans and may strain operational capacity. According to Otero-Fernández et al. (2024), large, collateralized loans—particularly those linked to commercial real estate and corporate borrowers—are generally well suited for AMCs, as their recovery values are less dependent on borrower performance. In contrast, unsecured loans—whose recovery depends largely on the borrower—require in-depth borrower knowledge to maximize recovery, making originating banks better positioned to manage them. It is also important that each eligible loan meets a minimum critical size to ensure recovery process efficiency by the AMC.

¹⁰⁹ Due to the relative immaturity of the market, Cambodian banks face high transaction costs in sourcing investors and are under pressure to offer steep portfolio discounts, making NPL transaction negotiations particularly challenging.

¹¹⁰ The real economic value approach estimates the present value of expected cash flows. Book value transfers seen in the initial AMC operations of China and Vietnam's initial AMC operations can significantly increase fiscal risks and reduce AMC effectiveness, while relying solely on deeply discounted market prices may undermine credit discipline by incentivizing strategic defaults, where borrowers seek to repurchase assets at reduced prices. See more discussion in Baudino and Yun (2017), Otero-Fernández et al. (2024) and Fell et al. (2021).

¹¹¹ Korea Asset Management Corporation (KAMCO), Pengurusan Danaharta Bhd (Danaharta), and Thai Asset Management Company (TAMC) are examples of AMCs that have implemented loss- or gain- sharing mechanisms in their operations. For more details, see Fung et al. (2004).

¹¹² The Mongolian Asset Realization Agency is widely regarded as a financial failure due to poor governance, weak capacity, and political interference. It was established to resolve NPLs of Mongolian banks during the 1996 banking crisis. However, political influence distorted asset sales and borrower treatment, making it a vehicle for non-transparent asset transfers. Weak oversight further allowed inefficiencies and possible corruption. As a result, it failed to recover significant value from distressed assets while fiscal costs were high. For more details, see Enoch et al. (2002).

¹¹³ An open-ended mandate may create disincentives for staff to complete operations efficiently, especially if job security is linked to the AMC's continued existence.

¹¹⁴ Baudino and Yun (2017).

8. Following the establishment of the AMC, effective implementation and operation will remain complex. As a first step, asset transfers should be conducted on a comprehensive basis to avoid “cherry-picking” by banks and support system-wide cleanup. While voluntary transfers offer a market-oriented approach, mandatory schemes are often more effective in overcoming banks’ reluctance to recognize losses. Post acquisition, the AMC should prioritize active asset resolution¹¹⁵ to maximize recovery values, with time-bound strategies tailored to the underlying NPL profile and debtor viability. To expedite resolution, the AMC could be granted special legal powers—such as to seize assets or force debtor negotiations without court approvals—as seen in other countries’ experiences (Table A4.4). However, such powers should be subject to strong oversight to prevent misuse and safeguard due process. Robust governance, regular independent audits, and public disclosure of financial and operational performance are essential to ensure transparency and accountability.

Table A4.4. Selected AMC Cases in ASEAN+3

Country	AMC	Resolution Method ¹		Recovery Rate ² (%)	Special Power	Lifespan
		Restructuring	Disposal			
Indonesia	IBRA	25	75	36	Transfer assets without borrowers’ permission or seize assets without court approval	6 years (1998-2004)
Malaysia	Danaharta	54	46	60	Seize assets or appoint special administrator for borrowers without court approval	7 years (1998-2005)
Thailand	TAMC	64	36	19	Special out of court restructuring power without debtor’s consent	12 years (2001-2013)
Korea	KAMCO	48	52	43	No, but it had special privileges such as tax exemption on financial transactions	Not applicable, but the recovery period is 15 years (1997-2012)

Source: Fung et al. (2004); Otero-Fernández et al. (2024); AMRO staff calculations.

Note: 1) As a percentage of resolved asset book values as of the year 2002; 2) Recovery rate = total recovery / total assets resolved at closing.

Policy Implication for Cambodia

9. A thorough pre-establishment assessment is critical before launching an AMC. Given the legal, institutional, and operational complexities of establishing an AMC, the authorities should conduct a comprehensive feasibility study to assess funding options, legal readiness, and institutional capacity. In parallel, granular diagnostics of the NPL stock and borrower profiles are necessary to formulate an appropriate mandate design. As emphasized by other international financial institutions,¹¹⁶ the use of public AMCs should be limited to instances where systemic financial stability risks are present. In jurisdictions where such preconditions for AMC were absent—such as in Greece¹¹⁷—strong supervisory tools proved effective in reducing NPLs. Measures such as higher capital charges on NPLs and time-bound write-off requirements can incentivize banks to resolve distressed assets proactively.

10. The successful implementation of AMC requires sustained efforts to build institutional capacity. Over the short to medium term, a centralized, commercially oriented, hybrid-funded AMC with a clear mandate and strong governance framework can offer an

¹¹⁵ AMCs are more effective when assets are actively resolved and sold without delay (Baudino and Yun, 2017).

¹¹⁶ See Cerruti et al. (2019) and Otero-Fernández et al. (2024).

¹¹⁷ See Cerruti et al. (2019).

effective solution for Cambodia. While such a model balances policy objectives with fiscal prudence well, early and sustained capacity building will be critical for Cambodia. In 2024, the NBC signed a Memorandum of Understanding with the KAMCO to facilitate the exchange of practical knowledge and experience in NPL resolution, providing an opportunity for relevant staff to build technical proficiency in AMC design and operations. Moving forward, the authorities should continue to engage with regional partners like KAMCO and participate in multilateral initiatives like the International Public AMC Forum (IPAF), along with technical assistance from development partners, to further strengthen institutional capacity and support the effective implementation of AMC.

11. More fundamentally, the creation of an AMC must be complemented by broader structural, legal, and regulatory reforms. The experience of successful AMCs highlights the importance of supporting reforms.¹¹⁸ In Cambodia, overbanking has led to intensified competition and weaker margins, underscoring the need for policies to promote voluntary consolidation. Legal bottlenecks—including weak insolvency regimes, inefficient collateral enforcement, and unregulated asset transfers—must be addressed to support effective resolution. While building court capacity is a longer-term goal, introducing out-of-court workout mechanisms could provide a more immediate and flexible solution. Strengthening supervisory frameworks—through improved asset valuation standards, development of NPL market infrastructure,¹¹⁹ and clear procedural guidance—will help underpin AMC operations and support broader market-based resolution efforts.

12. Strengthening long-term financial system resilience requires a holistic NPL management approach that integrates public and private responsibilities. While a public-led AMC can alleviate systemic pressures, banks remain responsible for early credit risk identification and timely resolution. Continued efforts to strengthen credit discipline and risk management are essential. Public policy can reinforce a conducive environment through robust prudential regulations and supervisory oversight. The NBC's plan to adopt the Cambodian International Financial Reporting Standards 9 (CIFRS 9) by end-2025—introducing forward-looking expected credit loss provisioning—marks an important step forward. Additional measures may include the stricter enforcement of NPL recognition, extensive on-site examinations, and heavier penalties for misreporting. The authorities should also collaborate to improve the legal, tax, and accounting frameworks for NPL resolution. In the longer term, as capital markets deepen, mechanisms such as securitization vehicles and electronic NPL trading platforms¹²⁰ could be considered to enhance market-based resolution.

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¹¹⁸ Asian countries' success in managing NPLs cannot be ascribed to the establishment of AMCs alone. Accompanying measures have included legal and institutional arrangements and reforms to help NPL resolutions, the facilitation of NPL resolution measures such as securitization and corporate restructuring, and bank recapitalization programs. See Fell et al. (2021) and Khor et al. (2022) for country case studies on Thailand, Malaysia, Korea, Indonesia, China, and Vietnam.

¹¹⁹ According to Cerruti et al. (2019) and YCP and Confluences (2024), a functional NPL ecosystem should comprise debt servicers, asset appraisers, legal advisors, credit rating agencies and institutional investors or AMCs.

¹²⁰ Such as European Data Warehouse GmbH, which is the first centralized data repository in Europe for collecting, validating, and making accessible specific loan-level data for asset-backed securities transactions.

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Appendix A4.1 AMC Landscape in Selected ASEAN+3 Economies

Economy	Asset Management Companies / Special Purpose Vehicles
Indonesia	<p>1) The first public centralized AMC, the Indonesian Bank Restructuring Agency (IBRA), was established in 1998 and dissolved in 2004.</p> <p>2) The state-owned PT Perusahaan Pengelola Aset (PPA) was established in 2004 to manage NPLs from IBRA. PPA was transformed into Indonesia's National AMC in 2022, with a broader mandate including SOE restructuring and distressed asset management.</p> <p>3) Private AMCs also actively participate in the NPL market in Indonesia, such as PT Apollo Asset Management—established in 2023 by the Heung Chang Group—as well as foreign banks' asset management units (AMUs), which serve as NPL warehousing entities.</p>
Korea	<p>1) Korea Asset Management Corporation (KAMCO), established in 1962 and restructured in 1997 to manage and resolve NPLs from Korean financial institutions, is South Korea's first and only permanent public AMC responsible for managing NPLs and distressed assets.</p> <p>2) Private AMCs like KOREIT Asset Management (established in 1987), actively manage NPLs, particularly in the real estate sector. Major banks also have set up their own AMUs, such as United Asset Management Corporation (UAMCO), Daishin F&I, Hana F&I and Kiwoom F&I Co., to manage NPLs.</p> <p>3) Special Purpose Vehicles, such as the Korea 1st International ABS Specialty Co., Ltd, are utilized for the securitization and management of NPLs, with KAMCO serving as the master servicer.</p>
Malaysia	<p>1) Danaharta, a fully state-owned AMC, was established in 1998 during the Asian Financial Crisis to purchase NPLs from banks, manage the restructuring of distressed assets and resolve corporate debt problems. It was dissolved in 2005.</p> <p>2) Private AMCs also actively participate in the NPL market in Malaysia. These include the likes of Aiqon Capital and Southeast Asia Special Asset Management Berhad (SEASAM).</p>
Thailand	<p>1) Four public AMCs—Bangkok Commerce AMC, Sukhumvit AMC, Petchburi AMC and Radhanasin AMC—were first established in 1998 during the Asian Financial Crisis to remove NPLs from state-owned commercial banks. They functioned as temporary crisis-response institutions and were dissolved in 2003.</p> <p>2) Thai Asset Management Corporation (TAMC), a public AMC, was established in 2001 via an emergency decree to acquire distressed assets from both public and private FIs. It ceased new acquisitions in 2003, and officially wound down operations in 2011, with full closure by 2013.</p> <p>3) Since TAMC's last acquisition in 2003, two large AMCs—Bangkok Commercial Asset Management Public Company Limited (BAM) and Sukhumvit Asset Management Company Limited (SAM)—have dominated Thailand's NPL market. BAM is a listed private company with public origins, while SAM is wholly state-owned under the Bank of Thailand.</p> <p>4) In addition, several private AMCs also actively participate in the NPL market in Thailand, such as Alpha Capital Partners Group, Prime Zone Asset Management Co., Ltd. and Oxygen Asset Management Co., Ltd.</p>
China	<p>1) Four major public AMCs were established in 1999 to address the NPL problems of the four largest state-owned banks—China Cinda AMC (for the China Construction Bank), China Huarong AMC (for the Industrial and Commercial Bank of China), China Great Wall AMC (for the Agricultural Bank of China) and China Orient AMC (for the Bank of China). The “Big Four” state-owned AMCs dominate the NPL resolution space in China.</p> <p>2) Many local and provincial AMCs operate too. Several private AMCs, such as Fosun Asset Management and CITIC Asset Management Co., Ltd., are active players in the distressed asset market as well.</p>
Japan	<p>1) Resolution and Collection Corporation (RCC) was established in 1999 as a public AMC, succeeding the earlier Housing Loan Administration Corporation during Japan's banking crisis in the 1990s. It operated under the Deposit Insurance Corporation and acquired NPLs from both failed and solvent financial institutions.</p> <p>2) Industrial Revitalization Corporation of Japan (IRCJ) was established in 2003. It focused on revitalizing distressed corporations by managing and restructuring NPL portfolios. IRCJ was dissolved in 2007, and its role was revived in the Enterprise Turnaround Initiative Corporation of Japan (ETIC) and the Regional Economy Vitalization Corporation of Japan (REVIC) after reorganization, which focus on SME and regional turnarounds.</p> <p>3) The 1998 Servicer Law opened Japan's NPL market to licensed private “servicers”. Private AMCs such as ORIX Asset Management & Loan Services, Nomura Group, Fortress Investment Group, Lone Star Funds, Cerberus Capital Management, and Strategic Value Partners, are active in Japan's distressed asset market.</p>
Vietnam	<p>1) Debt and Asset Trading Corporation (DATC), a state-owned enterprise, was established in 2003 as part of Vietnam's broader strategy to restructure SOEs and resolve bad debts. DATC purchases NPLs and non-core assets from SOEs and financial institutions with a long-term debt restructuring strategy.</p> <p>2) Vietnam Asset Management Company (VAMC) was established in 2013 as a central public AMC to offload bad debts from Vietnamese commercial banks.</p> <p>3) Bank AMCs and private debt trading companies also participate in the NPL market. These include the likes of Agribank AMC, BIDV AMC, VietinBank AMC, Vietcombank AMC and Welcome Debt Trading Company.</p>
Philippines	<p>1) The Philippines does not have a single, centralized public AMC dedicated solely to NPL resolution.</p> <p>2) Instead, it relies mainly on the private sector. The SPV Act (Republic Act No. 9182) was enacted in 2002 and expired in 2009 to help banks offload NPLs and foreclosed assets by transferring them to SPVs. Currently, active private players in the Philippines' NPL market include local private AMCs such as Rizal Commercial Banking Corporation, BDO Unibank Asset Management and Servicing Group, Metrobank Asset Management Group, Bank of the Philippine Islands (BPI) Asset Management and Recovery Group, RCBC NPL SPV, and Metrobank SPV, as well as global AMCs such as Cerberus Capital Management.</p>
Lao PDR	<p>The Debt and Asset Administration Company Limited, a state-owned entity under the supervision of the Bank of the Lao PDR, was launched in September 2023.</p>



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