

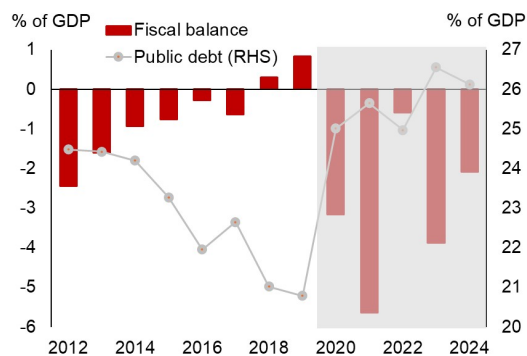
Annex 3. Assessment of Cambodia's Fiscal Space⁸²

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

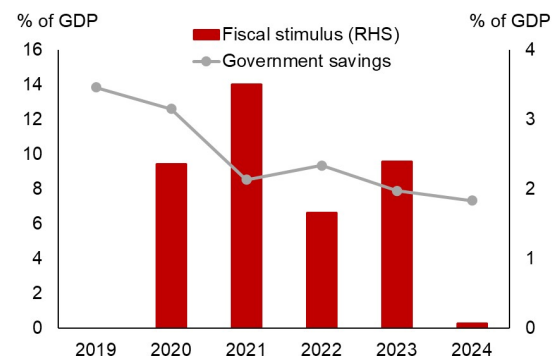
1. Cambodia has historically managed its fiscal position in a conservative and prudent manner. Prior to the COVID-19 pandemic, adherence to fiscal discipline allowed Cambodia to maintain narrow fiscal deficits or even small surpluses (Figure A3.1), keeping its public debt ratio among the lowest in the 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

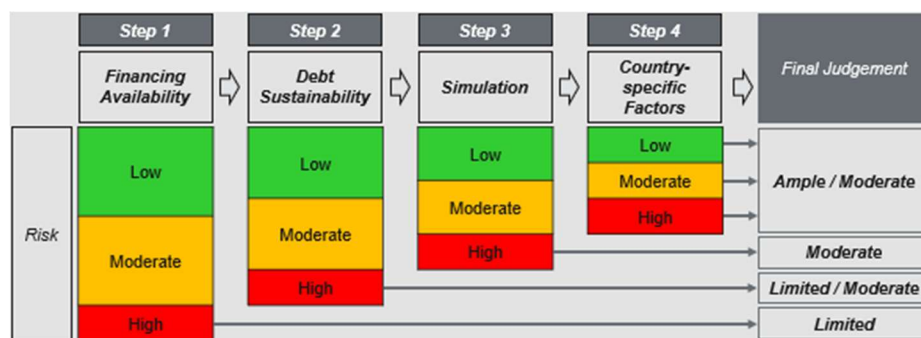
⁸² Prepared by Paolo Hernando, Senior Economist, and Vansopheaktra Odorm Tep, Associate.

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)

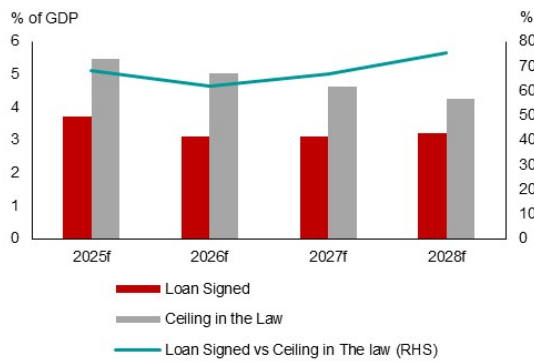
Qualitative Assessment of Fiscal Space

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).

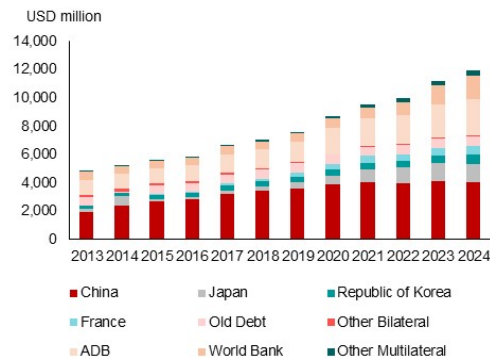
⁸³ This selected issue utilizes AMRO’s new fiscal space assessment framework, as outlined in Box B of the ASEAN+3 Fiscal Policy Report (April 2025). For further details, see Nam and Song (2025).

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



Source: MEF; AMRO staff calculations

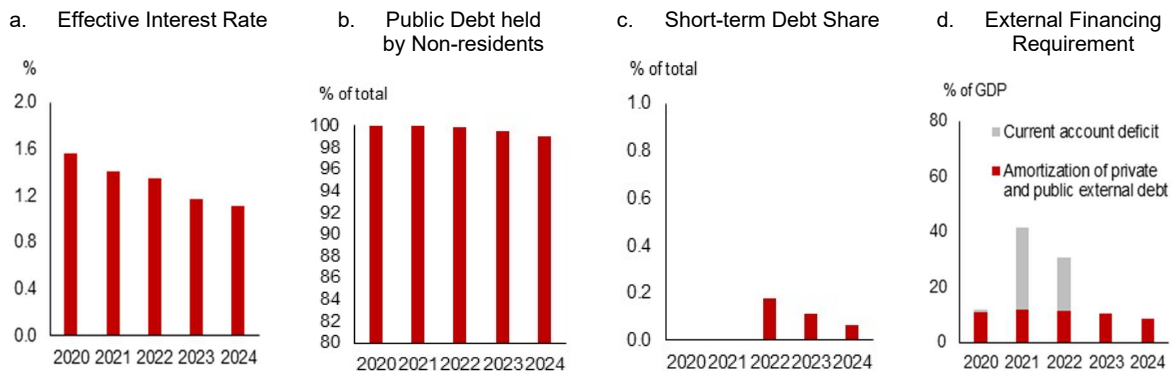
Figure A3.5. Outstanding External Debt



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

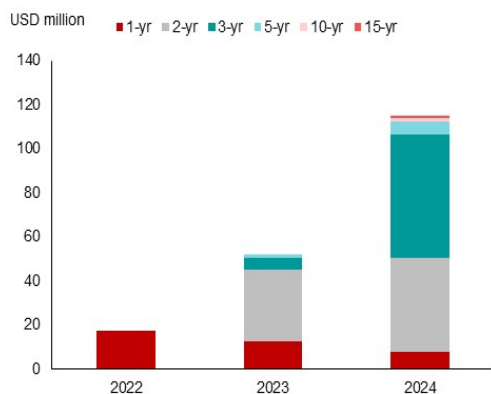
Note: 1) Public debt held by non-residents is based on the jurisdiction of issuance; 2) Short-term debt is based on the original maturity; 3) External financing requirements = current account deficit + amortization of public external debt + amortization of private external debt.

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.

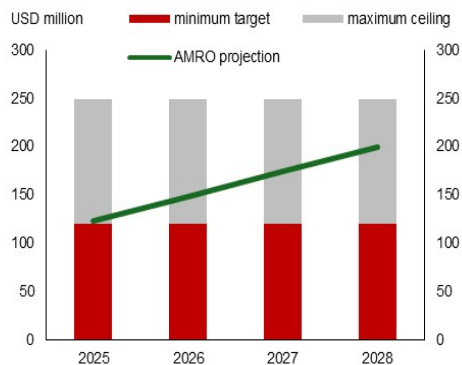
appeal to investors. Planned domestic bond issuance for 2025–2028, ranging from USD120–250 million, is aimed at supporting market development, improving liquidity, and broadening the investor base (Figure A3.8).

Figure A3.7. Outstanding Domestic Debt



Source: MEF

Figure A3.8. Domestic Bond Ceiling



Source: MEF; AMRO staff calculations

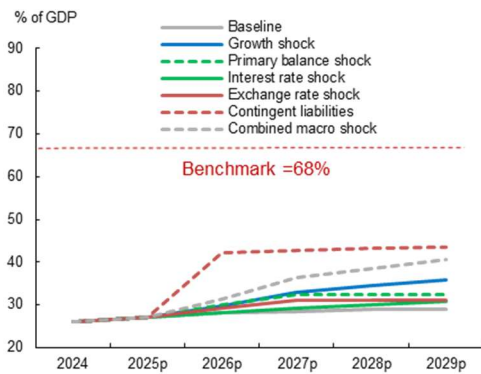
Note: AMRO projection assumes a steady rise in domestic bond issuance, beginning with the minimum of USD120 million and rising linearly to up to 80 percent of the domestic borrowing ceiling.

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

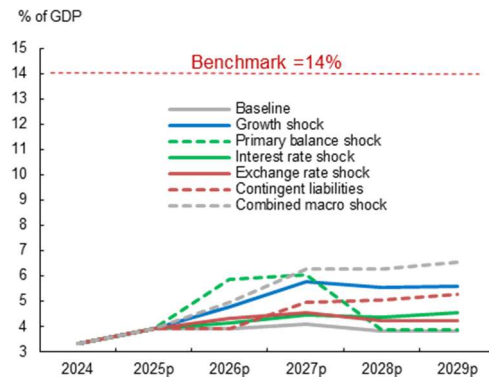
9. Debt sustainability analysis shows Cambodia’s public debt and gross financing need (GFN) ratios remain below the thresholds under both baseline and stress-test scenarios, even though they are higher than pre-pandemic levels. Having assessed that Cambodia faces moderate financing availability risks, 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

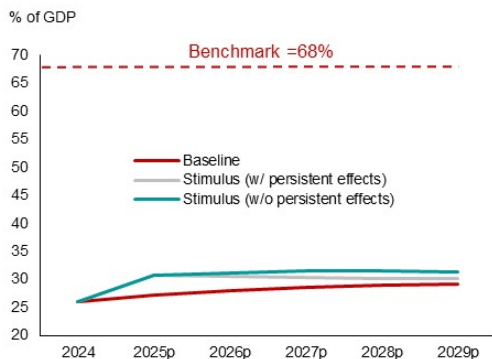


Source: MEF; AMRO staff estimates

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).

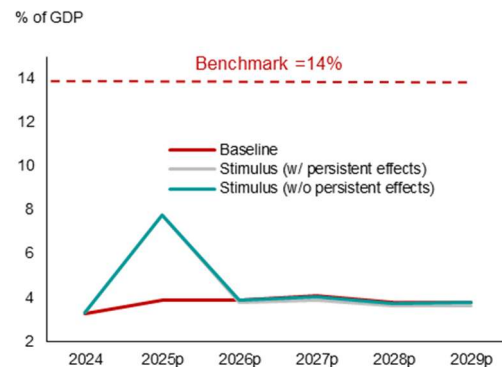
Figure A3.11. Public Debt-to-GDP Simulation



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

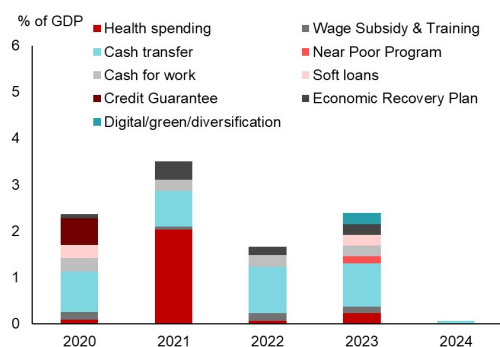
11. Government savings, together with a record of conservative fiscal management and ongoing reforms, further strengthen Cambodia’s fiscal resilience. Given the moderate financing risk and low risk of debt distress both in stress tests and simulations, country-specific

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.

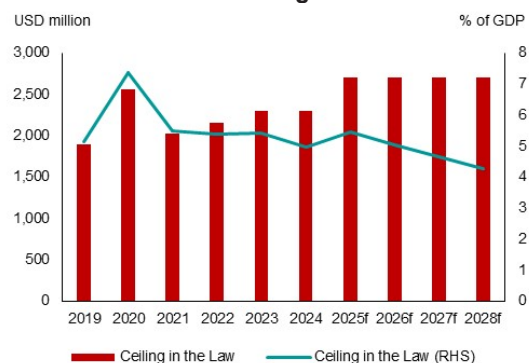
- A key supporting factor for Cambodia is the stock of government savings, which can be considered as fiscal reserves that can be utilized in the event of shocks or crises, as demonstrated during the COVID-19 pandemic (Figure A3.13). Although these fiscal reserves in the form of government savings have 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

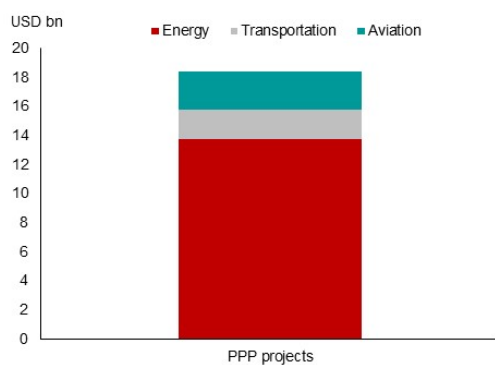
⁸⁶ Cambodia’s Public Financial Management Reform Program (PFMRP) has advanced through four sequential stages: (1) establishing budget credibility; (2) deepening financial accountability; (3) strengthening the linkages between budget and policy; and (4) enhancing medium-term planning, monitoring and evaluation (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.

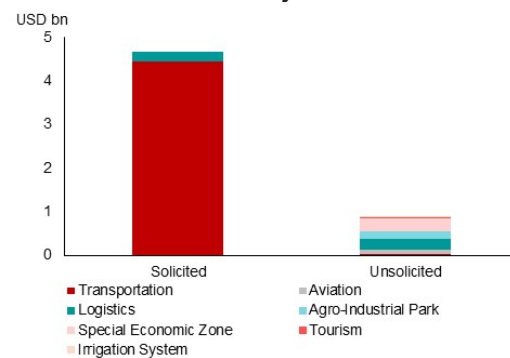
Taken together, these mixed positive and negative factors result in an overall assessment of Cambodia’s country-specific fiscal risks as moderate.

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

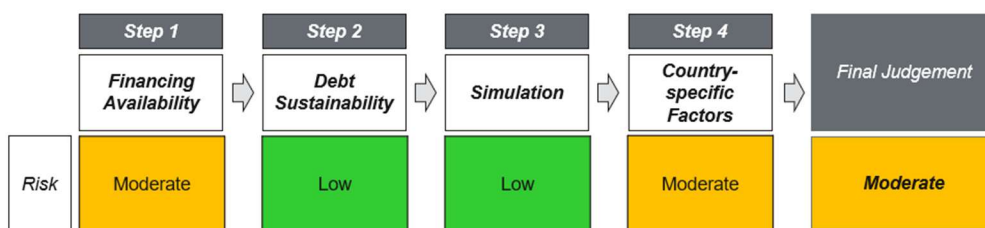
Final Judgement on the Qualitative Assessment

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

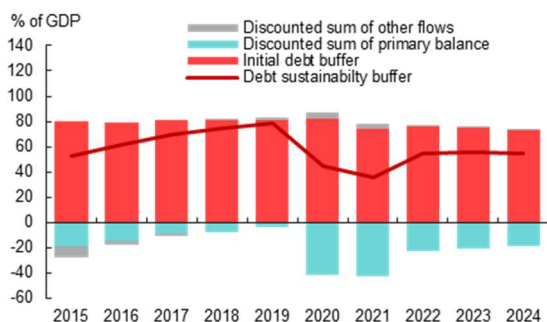
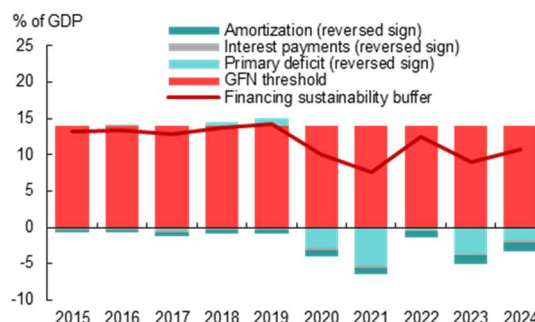


Figure A3.19. Financing Sustainability Buffer



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.

References

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