The Rise in Cambodia's Public Debt: How that should be tackled?

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While Cambodia's debt condition was favorable, it has continued to grow ever since the pandemic. As of the fourth quarter of 2022, the Royal Government of Cambodia (RGC) had a total debt of USD 9.99 billion of which USD 9.97 billion accounted for external debt from bilateral and multilateral agreements.[1]

In 2018, Cambodia's public debt amounted to only USD 7.02 billion, among which USD 2.78 million was the public domestic debt.[2] Afterward, it climbed to USD 7.59 billion in 2019, USD 8.81 billion in 2020, and most vastly USD 9.49 billion in 2021.[3]
Based on international practices, Cambodia's debt remains at a low risk. However, according to the 2019 Joint World Bank-IMF Debt Sustainability Analysis, Cambodia's debt sustainability is vulnerable.[4] The growth of debt has been attributed mostly to two factors: fiscal deficit and trade imbalance.

Fiscal Deficit

The fiscal condition in Cambodia continued to deteriorate, according to the National Bank of Cambodia (NBC). The deteriorated fiscal condition resulted in a net borrowing deficit that increased from 3.8 percent of GDP in 2020 to 5.3 percent in 2021.[5] The accelerating causes of this condition were the COVID-19 pandemic and tax relief measures. For instance, NBC stated that

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[1] From GDICDM Editor, "Cambodia Public Debt Statistical Bulletin Volume 17 - Data as of End-Q4 2022," General Department of International Cooperation and Debt Management, March 9, 2023, https://gdicdm.mef.gov.kh/en/2023/03/09/11009.html.
[2] From GDICDM Editor, "Cambodia Public Debt Statistical Bulletin Volume 7 - Data as of Year - End 2018," General Department of International Cooperation and Debt Management, March 28, 2019, https://gdicdm.mef.gov.kh/en/2019/03/26/2443.html.
[3] From GDICDM Editor, "Cambodia Public Debt Statistical Bulletin Volume 9 - Data as of Year-End 2019," General Department of International Cooperation and Debt Management, March 25, 2020, https://gdicdm.mef.gov.kh/en/2020/03/12/10157.html; GDICDM Editor, "Cambodia Public Debt Statistical Bulletin Volume 11 - Data as of Year End 2020," General Department of International Cooperation and Debt Management, April 1, 2021, https://gdicdm.mef.gov.kh/en/2021/03/31/10300.html; GDICDM Editor, "Cambodia Public Debt Statistical Bulletin Volume 13 - Data as of Year-End 2021," General Department of International Cooperation and Debt Management, July 4, 2022, https://gdicdm.mef.gov.kh/en/2022/02/21/10502.html.
[4] See Cambodia Joint World Bank-IMF debt sustainability analysis, accessed June 5, 2023, https://documents1.worldbank.org/curated/en/297381580755778880/pdf/Cambodia-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf.
[5] See "Financial Stability Review 2021," National Bank of Cambodia, accessed June 5, 2023, https://www.nbc.gov.kh/download_files/publication/fsr_eng/Financial_Stability_Review_2021.pdf.

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since its first intervention action in 2020, the RGC has distributed USD 2.3 billion to assist disadvantaged individuals and businesses in 2021.[6]
In fact, the measures are essential for supporting vulnerable people that have been seriously harmed by the unprecedented crisis as well as for restoring the economy, particularly the tourist sector in the post-pandemic era. As a consequence, the government expenditure exceeded its revenue.

History tells countries that experienced a debt crisis were those that allowed significant fiscal deficits to accumulate over an extended period. Sri Lanka, for example, was one of the countries that permitted substantial fiscal deficits to amass and eventually encountered a financial crisis. The primary cause of Sri Lanka's bankruptcy was its increasing exposure to international sovereign bonds (ISBs) with high-interest rates.[7] The country then failed to distribute the borrowings in line with its assets, which resulted in a fiscal imbalance.

If the financial sector remains unbalanced, the government will incur lower future incomes and greater borrowing costs.

Trade Imbalance

The trade imbalance is another factor that endangers the sustainability of Cambodia's public debt. The statistic of the General Department of Customs and Excise shows that every year Cambodia faces a trade deficit.[8] Although exports are increasing in the following years, the imports also increase, and the effects of the trade deficit are still being felt. When the market is flooded with imported goods while exports of goods are limited, this has an impact on domestic sectors. Trade deficit causes poor economic growth and tax losses. With no doubt, the trade imbalance increases the government's debt.

Moving Forward

The issue with the high amount of public debt lies in the decline in revenue and excessive spending. In this regard, the government should prioritize generating more income in order to keep up with the evolving socio-economic conditions in Cambodia.

One way to collect higher revenue is to impose higher taxes. Unquestionably, tax increases have two sides. On the one hand, increasing taxes might reduce the debt because it could generate income roughly to or above spending. On the other hand, it can cause the country's economic condition to be distorted. There, the second option is in place: cutting government spending.

The government's budget expenditure on specific programs or projects, tourism intervention packages for instance, that are not necessary shall be minimized, and the emphasis can be shifted to those factors that are crucial for economic growth. Suspension of tax relief measures that have

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[6] Ibid.
[7] See The Diplomat, "The Real Cause of Sri Lanka's Debt Trap," March 2, 2023, https://thediplomat.com/2023/03/the-real-cause-of-sri-lankas-debt-trap/.
[8] From "GDCE Website," GDCE Website, accessed June 5, 2023, https://stats.customs.gov.kh/.

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been in place since the COVID-19 outbreak is another practical way to reduce government spending. IMF categorizes each episode of decreased deficit in industrialized nations from 1980 to 2005 as either "expenditure-based" or "tax-based," depending on whether the government primarily cut spending or increased taxes.[9]

Besides raising tax revenues and cutting expenditures, Cambodia has to tighten its trade policies since persistent deficits might put the country at risk of sliding into debt. The country should continue to liberalize its economy, reduce tariff barriers, and simplify trade regulations to attract investment and business. Maintaining and establishing friendly relations with foreign countries is also another essential method of enhancing trade exports.

At the same time, the government should focus on its comparative advantages in trade, such as textile goods, and ought to develop measures to build up labor and public institutions' capacity and governance to boost market productivity in both domestic and international markets. These may hinder the trade deficit and guarantee greater incomes.

Lastly, it is suggested that Cambodia monitor its government budget closely to maintain a sustainable debt. The General Department of International Cooperation and Debt Management in this case plays a key role in conducting debt sustainability analysis to forecast debt risks and monitor debt management.

As of now, the public debt situation in Cambodia is not particularly concerning, but it should not be disregarded. If the debt keeps increasing annually, it would impede economic growth and particularly influence the government's budget.

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[9] See Alberto Alesina, Carlo A. Favero, and Francesco Giavazzi, "The Output Effect of Fiscal Consolidation Plans," *Journal of International Economics* 96 (July 1, 2015): S19–42, https://doi.org/10.1016/j.jinteco.2014.11.003.

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