Executive Summary

1. Cambodia's economy proved to be relatively resilient against external shocks in 2025. Economic growth was estimated at 5.3 percent in 2025, higher than earlier projected following the introduction of reciprocal tariffs by the US administration, Cambodia-Thailand border tensions, and reputational effects from multinational sanctions related to online scams. The garment sector remained robust, supported by strong global demand, while the services sector underperformed and the construction sector remained weak.

2. However, growth momentum is expected to moderate in 2026, mainly due to the energy shock. In addition, the continued suspension of cross-border activities in 2026 is expected to constrain trade, tourism, and labor mobility. While manufacturing is projected to remain resilient, the agricultural and services sectors are likely to weaken due to higher oil and fertilizer prices stemming from the Middle East conflict, which could raise transport costs and erode the purchasing power of households. The government's intensified crackdown on scamming activities, while desirable and supportive of long-term growth, may inevitably soften domestic economic activity in the short term.

- In the baseline scenario, where global oil prices average USD90-100 per barrel in 2026, Cambodia's growth is expected to slow to 4.2 percent in 2026 and 4.9 percent in 2027.
- In an upside scenario, where global oil prices average USD80 per barrel in 2026, in the event of managed containment and a de-escalation of the Middle East conflict, real GDP growth could be close to 4.5 percent in 2026.
- In contrast, under a downside scenario characterized by global oil prices averaging USD120 per barrel, real GDP growth would slow down to under 4 percent in 2026, reflecting weaker external demand, higher transport and logistics costs, and softer tourism receipts.

3. Inflation stabilized in 2H 2025 but is expected to increase with rising energy prices. It averaged 2.5 percent in 2025, as alternative supply sources helped offset disruptions from the border conflicts with Thailand. In 2026, headline CPI inflation is expected to rise to 4.5 percent due to high global oil prices, as domestic fuel prices closely track global oil prices, with potentially swift second-round effects on food and core inflation. Inflation is projected to moderate to 2.4 percent in 2027.

4. Cambodia's external position was held up by stable FDI inflows, but is expected to weaken in 2026. In 2025, the current account balance shifted to a deficit of 3.7 percent of GDP, reflecting a wider trade deficit and a sharp decline in remittances following the return of migrant workers. The current account deficit is projected to widen to 8.5 percent of GDP in 2026, driven by higher oil import prices, before narrowing to around 6 percent over the medium term.

5. Credit growth remained low in 2025, reflecting subdued economic activity in certain sectors. It edged up to 5.4 percent at end-2025, driven mainly by a surge in lending at a few banks, while most institutions saw muted expansion. However, credit growth slowed again in early 2026. The non-performing loan (NPL) ratio remained elevated at above 8 percent. Subdued credit growth and rising NPLs in the financial sector, alongside recent developments related to online scams and isolated bank liquidation cases, have weighed on the confidence of some depositors, although immediate spillover risks appear limited so far given relatively low

resident interbank exposure, as well as high capital adequacy and liquidity coverage in the banking industry.

6. To manage heightened uncertainties and repeated shocks, proactive policies and effective implementation will be essential. These include targeted fiscal support to vulnerable households and firms affected by the energy shock and the border conflict, and preemptive measures to address banking sector vulnerabilities, particularly elevated NPLs.

7. The 2026 Budget's expansionary fiscal stance is appropriate in response to the oil price shock, but fiscal measures responding to the shock should remain temporary and well targeted. Expedited labor market and social protection measures would help mitigate the impact of the border conflict. Over the medium term, gradual fiscal consolidation and fiscal reserve rebuilding should remain key priorities, by strengthening revenue collection, enhancing spending efficiency, and maintaining a prudent public debt management.

8. Meanwhile, the National Bank of Cambodia (NBC) should maintain an accommodative policy stance while taking decisive and timely actions to resolve elevated NPLs. Further development of the interbank market is essential to strengthen monetary policy transmission and improve liquidity management. Maintaining exchange rate stability is also critical to cushion against external shocks from higher energy prices. On financial stability, elevated NPLs call for decisive and timely policy action to accelerate resolution and strengthen capital buffers. Strengthening liquidity oversight and the bank resolution framework should be near-term priorities to safeguard confidence.

9. Stronger collaboration is needed among key stakeholders to address underlying risks. The NBC and Ministry of Economy and Finance (MEF) should coordinate closely on potential arrangements to address banking sector vulnerabilities, recognizing that some measures may involve risk sharing. Besides, the NBC, MEF, Non-Bank Financial Services Authority (NBFSA), and other relevant authorities should strengthen coordination and data sharing to monitor risks across the financial sector, including real estate and non-bank activities.

10. Enhancing energy security and upgrading energy infrastructure should be prioritized to strengthen Cambodia's resilience and support structural transformation. Heavy reliance on imported petroleum products exposes the economy to price volatility and supply disruptions, while rising fertilizer prices pose risks to agricultural output. At the same time, high electricity costs and uneven supply reliability may deter investment in higher value-added industries. Cambodia should continue diversifying its energy mix through liquefied natural gas infrastructure, renewable energy, strategic fuel reserves, and energy storage systems.