

2021 COVID-19 ECONOMIC AND SOCIAL IMPACT ASSESSMENT IN CAMBODIA

An Integrated Modelling Approach

September 2021



The cover photo was taken before the COVID-19 community outbreak by ILO Better Factory Cambodia.

Acknowledgement

This policy brief was developed in close collaboration with the Ministry of Economy and Finance with support from the Australian government. It was prepared by Dr. Bazlul Khondker (UNDP Senior Economic Consultant), Dr. Iván Gonzalez de Alba (UNDP Lead Economist), Dr. Chandarany Ouch (UNDP Economist) and Dr. Kongchheng Poch (UN Resident Coordinator Office Economist). It also benefitted from contributions by Ms. Jessica Johanna Tjandra, Mr. Hokkheang Hiev, Ms. Sokhema Sreang, and UNDP Communications Team. The policy brief was reviewed by Ms. Alissar Chaker, incoming UNDP Resident Representative in Cambodia, the Ministry of Planning and other UN agencies and development partners.

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Executive Summary

The policy brief on the 2021 socio-economic impacts of COVID-19 in Cambodia was elaborated by the UN Development Programme (UNDP) and the Ministry of Economy and Finance (MEF), with support from the Australian government. The brief is based on an analysis using the integrated modelling framework used previously in the 2020 assessment. It consists of a computable general equilibrium (CGE) model using actual economic data to estimate the reaction of the economy to external factors, complemented by employment and poverty modules taken from a social accounting matrix (SAM) to capture relevant economic transactions and estimate the impacts of the pandemic on economic growth, poverty, and employment. Two recovery scenarios, namely, the baseline and moderate scenarios, are considered.

Both baseline and moderate scenarios build on assumptions relating to the duration of lockdown in April and May 2021, as well as on the performance of agriculture, garment and non-garment exports, construction, tourism, transport, and communication sectors. The moderate scenario anticipates additional impacts from possible delays in the return of tourism and associated economic activities, and a slowdown in garment exports and construction. Both scenarios also consider the effects of the social protection and economic stimulus package, and factor in the gender dimension.

The simulation outcomes suggest that **GDP growth will likely return to a positive zone in 2021**. The GDP growth rate will likely range between 1.7 percent and 2.3 percent with social protection and other economic stimulus in place. The stimulus package adds around 0.4 percentage points to economic growth, reinforcing its relevance in both social and economic terms.

The **unemployment rate improves to 2.9 percent in the baseline scenario**, considering the effect of social protection and other economic stimulus, from an estimated rate of 4.3 percent in 2020. The rate may be 1.4 percentage points less than the one reported last year.

Given the fact that social protection is in place, the **estimated poverty rate for 2021 might range between 11.5 and 12.5 percent**. Both consumption and poverty rates improve under both scenarios compared to the 2020 estimated values, but the impacts are larger under both recovery scenarios when social protection and other forms of stimulus are considered.

Based on modelling results, the brief presents few policy recommendations.

For strengthening the social protection system, the following strategies are suggested:

- Strengthen, adapt, and expand policies towards achieving universal access to social protection and promoting a more inclusive, resilient, and sustainable society and economy, while considering fiscal space and macroeconomic stability and making efficient use of resources, harmonizing interventions, innovating, and accelerating digitalization.
- Adopt a 'preventive and shock responsive' social protection system to respond to climate risks and other disasters, including health measures to contain the COVID-19 pandemic.
- Given higher impacts on women and girls, develop a road map for a gender-responsive social protection system, mainstream gender across current programmes and promote specific policies for women and girls.
- Adopt a multidimensional perspective on progress that goes beyond income to address the multiple sources of deprivation that limit people's abilities to thrive and remain out of poverty.

In addition to social protection, Cambodia might also consider the following measures:

- Support depressed income and employment generating economic sectors to recover faster, in particular tourism, and consider reopening borders to vaccinated tourists while implementing safe visitor schemes.
- Prioritize trade diversification and competitiveness, moving to new and green market value chains.
- Consider pro-poor growth policy measures that could include increased risk-informed public investments in local economic production, among other things.

1. Growth Outlook and Vaccination Situation

COVID-19 has imposed severe tolls on Cambodia, including the loss of lives and devastating socioeconomic impacts. With an impressive vaccination rate, gradual economic reopening and a global economic rebound, economic recovery is on the horizon. Despite these developments, however, economic recovery remains marred by high levels of uncertainty and complex, fast-evolving issues, such as new coronavirus variants.

The prime goal of this policy brief is to delineate alternative recovery pathways through simulations of various socioeconomic scenarios. The exercise is intended as a contribution to policy discussions around options for accelerating a sustainable, inclusive, resilient recovery in Cambodia.

The simulation of recovery in 2021 has been pursued based on a set of assumptions derived from experiences in the first eight months of the year. Several scenarios have been considered based on data from within Cambodia and from external reports. Some sources are necessarily provisional at this stage. While there are likely additional demand and supply impacts, the scenarios were paired down to a few major sectors for clarity and tractability of recovery channels. Secondary effects are captured by the modelling.

2. Growth Outlook and Vaccination Situation

2.1. Global Growth Outlook

The 2021 *World Economic Situation and Prospects*¹ report painted a gloomy picture of the global economic situation for 2020. All 18 regional economic blocks in the report posted negative gross domestic product (GDP) growth rates that year, albeit with substantial variations. Global GDP decline has been estimated at negative 4.3 percent in 2020—the sharpest contraction since the Great Depression. For 2021, however, the global growth outlook is positive for all 18 blocks. World GDP is expected to grow by 4.7 percent.

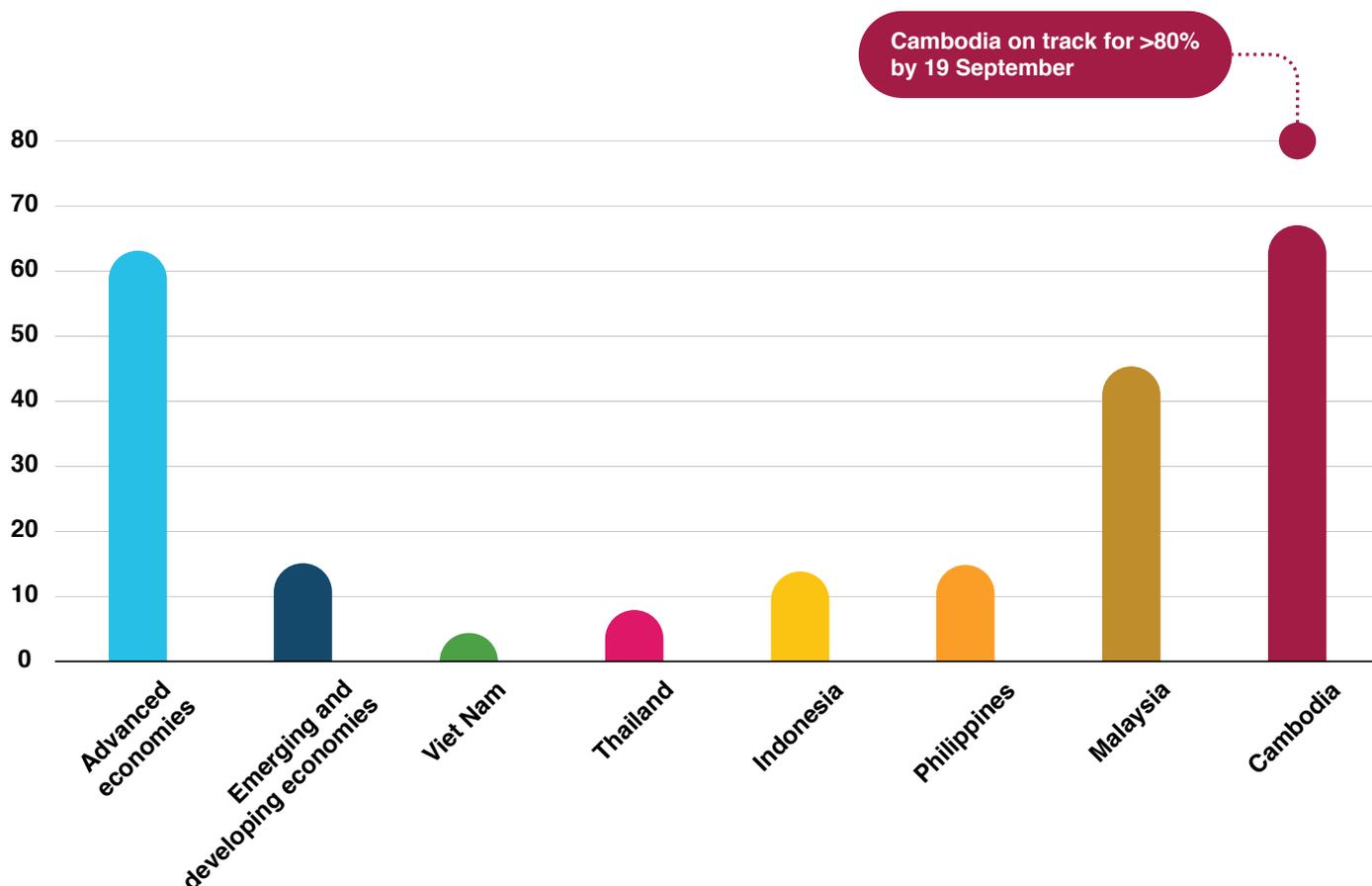
Unfortunately, early optimism on recovery has been marred by the surge of the Delta variant of COVID-19. Accordingly, growth estimates have been revised in line with the vaccination rate. Countries with above average vaccination rates appear to be experiencing much improved growth prospects.² It is thus argued that vaccination rates and returns to normal economic activities have a positive association.

2.2. Vaccination Status in Cambodia

The vaccination rate has been impressive in Cambodia.³ “A well strategized and rapidly executed COVID-19 vaccination rollout has resulted in Cambodia being amongst the leaders globally for vaccinations. Phnom Penh ranks as one of the most vaccinated.”⁴

Cambodia has achieved remarkable performance compared with the advanced economies as well as its neighbours. By 19 September 2021, Cambodia had surpassed the goal of vaccinating 80 percent of the adult population, crossed the 12 million mark in vaccinated people with at least one dose and had more than 10 million people who were fully vaccinated. Ongoing campaigns to reach children between ages 6 and 17 years old, as well as booster shoots for adults, will allow it to set a new target to reach more than 90 percent of the total population, about 14.5 million people.

Figure 1: Comparison of vaccination progress in Cambodia (percentage of people aged 18 and above) by 13 August 2021



Source: Mekong Strategic Partners 2021.

2.3. Major Impact Channels and Assumptions

Table 1 summarizes the sources of recovery and channels of impact under two scenarios, a baseline scenario and a moderate scenario, both with and without social protection stimulus. The values of 2020 key socioeconomic indicators have been estimated.

Table 1: Description of impact channels

Assumptions	Baseline Scenario	Moderate Scenario
Duration of the lockdown	<ul style="list-style-type: none"> Three-week large-scale lockdown in Phnom Penh, Ta Khmao city of Kandal province and Sihanoukville from 15 April to 5 May (however, a few areas in Phnom Penh and other provinces remain red zones for an extended period; no one is allowed to leave the house). 	<ul style="list-style-type: none"> Three-week large-scale lockdown in Phnom Penh, Ta Khmao city of Kandal province and Sihanoukville from 15 April to 5 May (however, a few areas in Phnom Penh and other provinces remain red zones for an extended period; no one is allowed to leave the house).

	<ul style="list-style-type: none"> • Another two-week lockdown in eight provinces bordering Thailand from 29 July to 12 August due to a rising risk of Delta variant transmission. 	<ul style="list-style-type: none"> • Another two-week lockdown in eight provinces bordering Thailand from 29 July to 12 August due to a rising risk of Delta variant transmission.
Agriculture	1 percent output increase (equivalent to an increase in export demand by 20 percent compared to 2020).	1 percent output increase (equivalent to an increase in export demand by 20 percent compared to 2020).
Garments (including textiles, footwear and travel goods)	5 percent Increase in export demand given the surge in the Delta variant resulting in rising uncertainties, including the likelihood of community transmission and slower-than-expected global recovery.	3 percent Increase in export demand given the surge in the Delta variant resulting in rising uncertainties, including the likelihood of community transmission and slower-than-expected global recovery.
Non-garment exports	Non-garment exports increase, ranging from 6 percent to around 30 percent by sector.	Non-garment exports increase, ranging from 6 percent to around 30 percent by sector.
Construction	1 percent Increase in investment demand (if project approval in the remaining half of the year picks up).	No growth in investment demand due to rising uncertainties deriving from the increasing likelihood of Delta variant transmission and consequently extended community transmission.
Hotels and restaurants	58 percent reduction in tourism demand (given a ratio of 65-35 percent between international and domestic tourism; international tourism may drop by 83 percent and domestic tourism by 11 percent).	64 percent reduction in tourism demand (given a ratio of 65-35 percent between international and domestic tourism; international tourism may drop by 83 percent and domestic tourism by 30 percent due to increasing worries of Delta variant transmission).
Transportation and communication	The transportation and communication sector may see a 1 percent output increase given the decline in tourism, slow growth in exports and possibly continued restrictions on movements, including lockdowns in eight provinces along the Thai border and night curfews. (The communication sector is expected to grow between 10-20 percent, driving overall growth of the transportation and communication sector.)	The transportation and communication sector may see a 0.5 percent output increase given the decline in tourism, slow growth in exports and possibly continued restrictions on movements, including lockdowns in eight provinces along the Thai border and night curfews.

Government stimulus

The Government announced three stimulus programmes in 2021: social protection at \$564 million, small and medium enterprise financing facilities at \$150 million and a health response at \$740 million. This stimulus package is considered for both scenarios. However, among these three, only social protection measures are included in the simulation. The health response is expected to affect the ability to achieve herd immunity, reopen the economy and avoid further lockdown, and is thus considered for both scenarios but not included in the simulation designs. Similarly, since the social accounting matrix (SAM) database does not explicitly classify the small and medium enterprise sectors, it is not feasible to include the small and medium enterprise financing facilities in the simulation design.

Note: The two recovery scenarios have been extended by the inclusion of social protection transfers to four household groups: landless, small farmers, non-agricultural and low-educated.

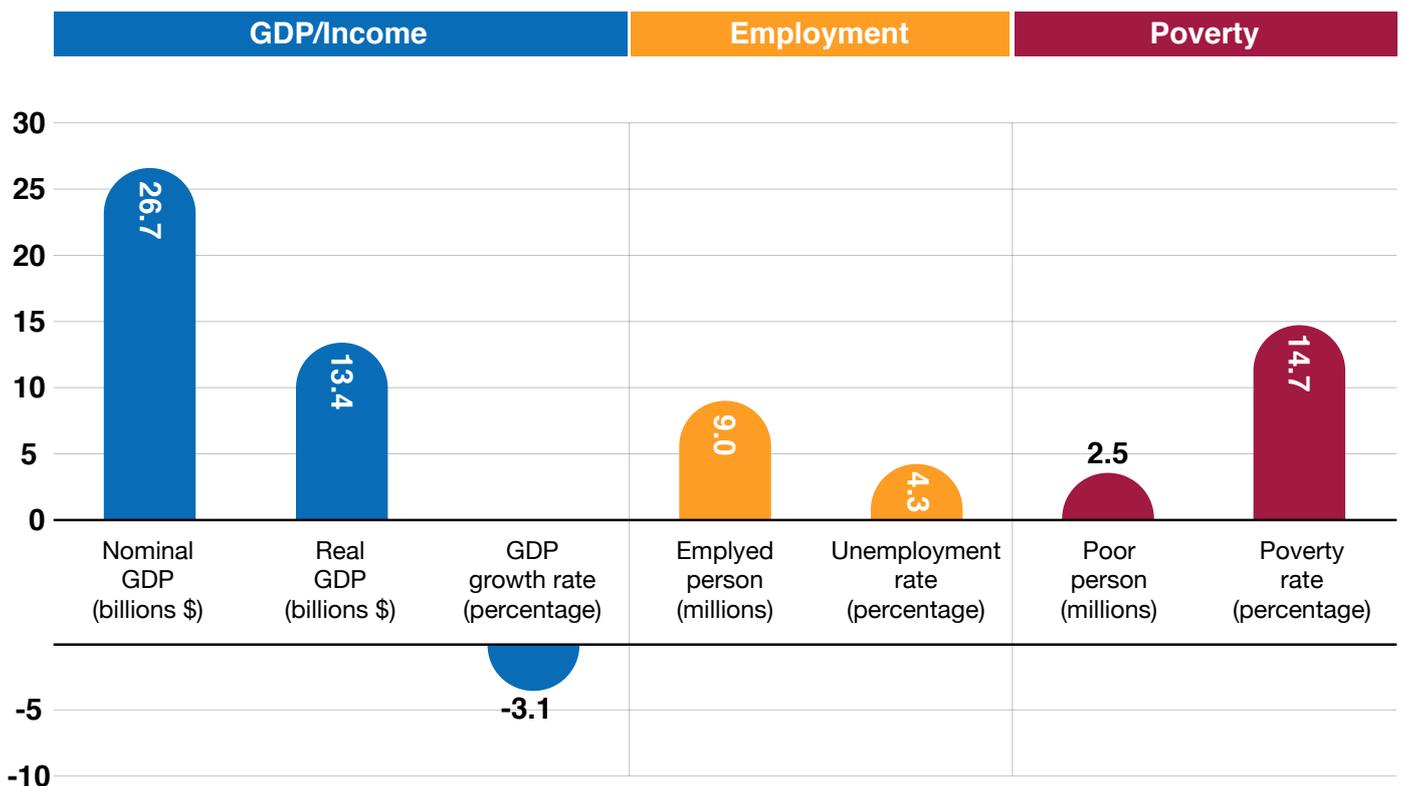
Source: Based on data gathered through literature reviews and consultations. For further details on assumptions, refer to Annex 1.

3 Simulated Economic and Social Outcomes

3.1. 2020 Estimation

The simulation model and the projected sectoral GDP information presented in the 2021 Macroeconomic Framework of the Ministry of Economy and Finance (as of May 2021) were used to estimate the 2020 values of GDP and other key socioeconomic data.⁵ The values capture the demand shock or COVID-19 shock. According to the estimation, the economy contracted by 3.1 percent and poverty edged up to 14.7 percent in 2020.

Figure 2: Simulated GDP, employment and poverty in 2020 (COVID-19 case)



Source: Based on data from the Ministry of Economy and Finance and estimations by the authors.

3.2. Simulation Design

The Cambodia static computable general equilibrium (CGE) model has been used to simulate scenarios in recovering from COVID-19. This entails setting up simulations or designing simulations. In addition to the 2020 estimation, four recovery scenarios were considered: a baseline scenario,⁶ a baseline scenario without the social protection stimulus, a moderate scenario and a moderate scenario without the social protection stimulus.

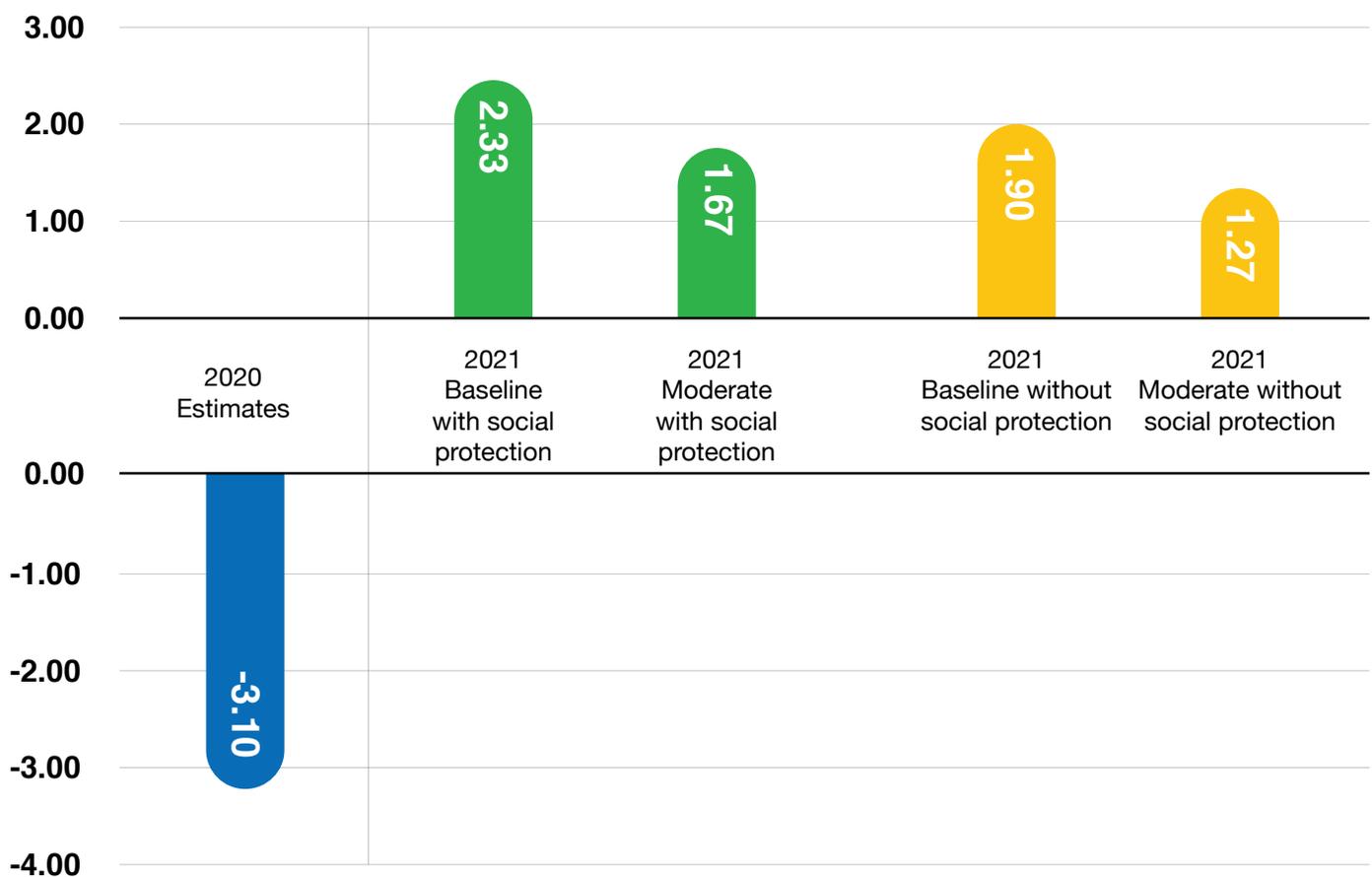
3.3. Simulated Outcomes of the Recovery Scenarios

Recovery outlooks are presented by three important and widely used indicators—GDP growth, employment, and poverty.

GDP Growth

Under the baseline scenario, the simulation shows GDP growing at 2.3 percent in 2021 including the social protection stimulus. The rate drops to 1.9 percent when the social protection stimulus is excluded. The rate may decline to 1.7 percent under the moderate scenario or to 1.3 percent under this scenario without the social protection stimulus.

Figure 3: Simulated GDP growth rate under recovery scenarios (percentage)



Source: Cambodia Static CGE Model 2020.

Table 2: Growth rates for 2021 by sectors (percentage)

Sectors	Baseline with social protection	Moderate with social protection	Baseline without social protection	Moderate without social protection
Agriculture	1.09	0.95	1.04	0.88
Industry	4.51	3.76	4.44	3.69
Services	0.81	-0.09	-0.30	-0.96
Overall	2.33	1.67	1.90	1.27

Source: Cambodia Static CGE Model 2020.

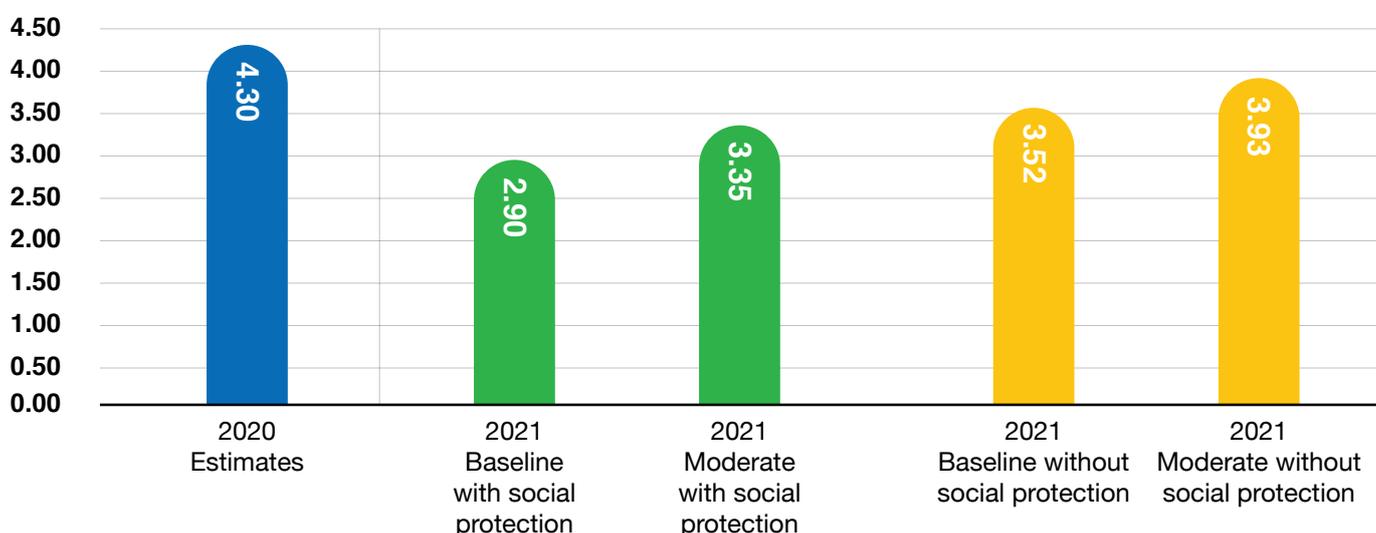
Among the different sectors, industry is expected to lead the recovery with boosts in textile and non-textile export demand. Due to the poor outlook for tourism, the services sector may again record negative growth rates. Based on the results of the simulations, the agriculture sector is expected to benefit most due to the expansion of social protection measures such as the cash transfer programme for poor and vulnerable households. They have a relatively higher propensity to consume agricultural products, especially fish and livestock.

Employment

Unemployment rates have historically been low in Cambodia at around 3 percent. According to the 2017 Cambodia Socio-Economic Survey, employment was close to full, with a very low unemployment rate of 0.7 percent.

Unemployment increased substantially due to COVID-19 shocks. The 2020 estimated unemployment rate was 4.3 percent. In 2021, unemployment is simulated as having improved with the expansion of the economy. Under the recovery scenarios, including the social protection stimulus, unemployment rates may range from 2.9 percent under the baseline scenario to 3.3 percent under the moderate scenario. Without the stimulus, unemployment is expected to increase further to 3.5 percent and 3.9 percent under the baseline and moderate scenarios, respectively.

Figure 4: Simulated employment effects under the recovery scenarios (percentage)



Source: Cambodia Static CGE Model and Employment Module.

Unemployment rates by gender suggest that female workers have been disproportionately affected by the COVID-19 crisis due to their higher participation in industries such as ready-made garments/textiles and tourism. In both the moderate and baseline scenarios, with and without social protection and other economic stimulus, the unemployment rate is higher for women than for men. Given that social protection and other forms of economic stimulus are in place, the unemployment rate in 2021 is estimated at 2.6 percent for men and 3.2 percent for women in the baseline scenario, a 0.6 percentage point gender gap. In the moderate scenario, the gender gap in unemployment increases to 0.7, with an estimated rate of 3 percent for men but 3.7 percent for women. Slower economic recovery would widen the gender gap.

While social protection might have an important effect in reducing unemployment for men and women, its effect is not equal in terms of unemployment. The gender gap is greater with social protection than without. In the baseline scenario, the gender gap closes to less than 0.5 percentage points, versus 0.6 with social protection. And in the moderate scenario without social protection the gap is 0.6 percentage points, also lower than the 0.7 with social protection. As mentioned before, the four categories of households receiving social protection stimulus in the model are landless, small farmers, non-agricultural and low-educated households. With women concentrated in hard-hit industries such as tourism, social protection stimulus might not have been enough to close the gender gap. This may suggest the need for additional, targeted efforts to protect women's jobs and livelihoods during the pandemic.

Table 3: 2021 unemployment rates by gender (percentage of labour force)

	Baseline with social protection	Moderate with social protection	Baseline without social protection	Moderate without social protection
Cambodia	2.90	3.53	3.52	3.93
Male	2.63	3.00	3.29	3.60
Female	3.18	3.71	3.75	4.23

Source: Cambodia Static CGE Model and Employment Module.

Household Consumption and Poverty

Cambodian households are represented in the model by seven types classified by location and occupation. Four types are rural and the remaining three are urban.

Table 4: Household consumption recovery

	Baseline with social protection	Moderate with social protection	Baseline without social protection	Moderate without social protection
(Percentage change over 2020)				
Rural households	3.41	1.50	0.53	-1.33
1. Landless	6.98	4.97	-0.16	-2.10
2. Small farm	5.87	3.95	-0.01	-1.87
3. Large farm	0.88	-1.00	0.79	-1.04
4. Non-farm	3.69	1.77	0.74	-1.12

Urban households	1.36	0.33	0.98	0.67
5. Low educated	4.29	2.55	0.57	-1.11
6. Medium educated	0.69	1.00	1.03	0.60
7. High educated	0.62	0.87	1.11	0.53
All households	2.31	0.51	0.77	-0.97

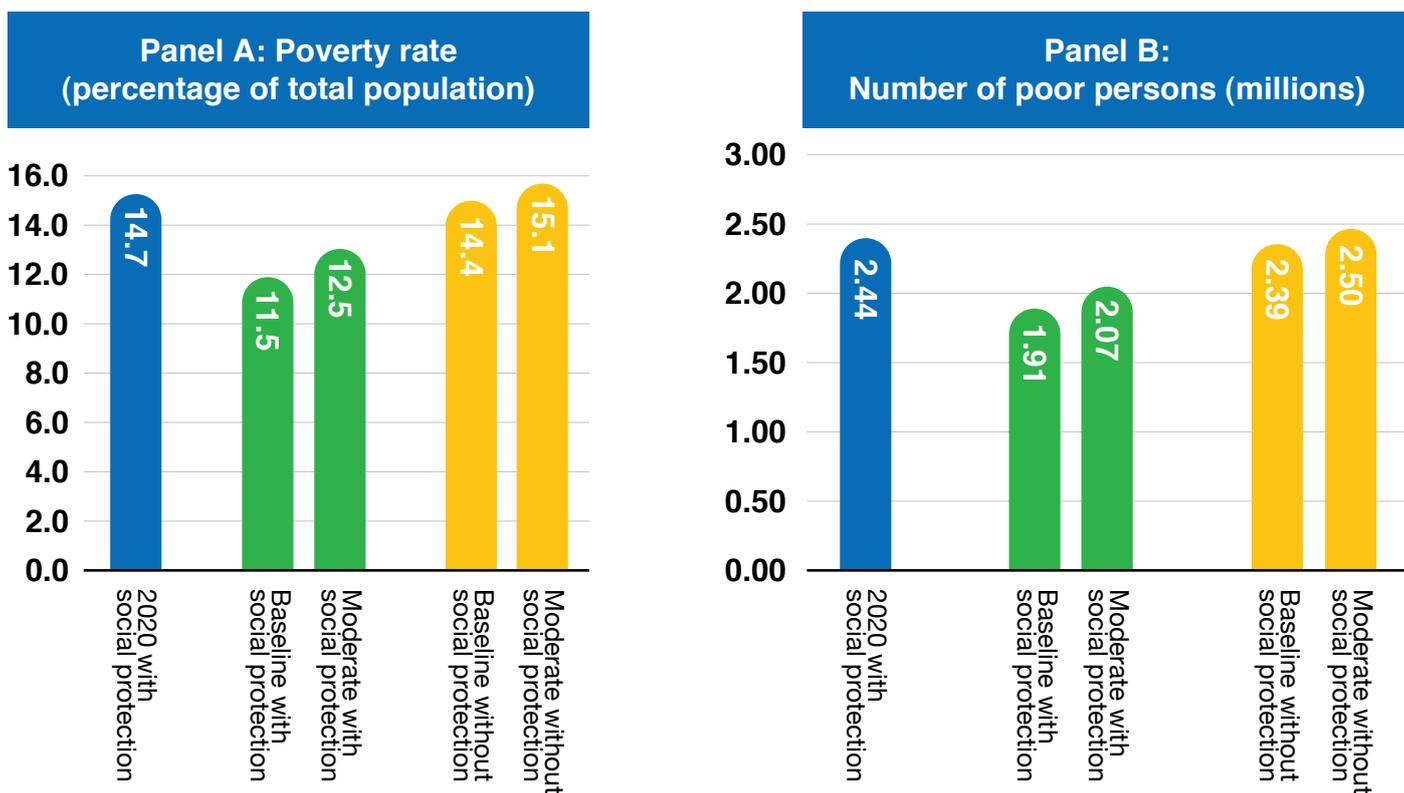
Source: Cambodia Static CGE Model 2020.

Both consumption and poverty impacts improve under the scenarios including the stimulus compared to the scenarios without the stimulus. Total household consumption increases by 2.3 percent in the baseline scenario from the 8.2 percent reduction estimated for 2020. Without the stimulus, household consumption gains are only about 0.8 percent. Moreover, under the moderate scenario without the social protection stimulus overall consumption may decline compared to 2020 estimation.

In the two scenarios excluding the stimulus, the increase in household consumption is mainly the result of enhanced household income due to the recovery of factor incomes (i.e., from labour and capital). Regressive distribution patterns in consumption gains among relatively poor household groups (e.g., those who are landless, small farmers and low-educated) under the baseline and moderate scenarios highlight their narrow income sources, mainly from low-skilled labour in low-productivity activities. The regressive pattern in household consumption gain suggests the need for social protection interventions. Cash transfers through social protection interventions are likely to result in positive consumption growth of relatively poor households, such as those without land or with small farms in rural areas, and those with low education in urban areas.

Tracking poverty outcomes is one of the most important indicators of Cambodia's development. Poverty reduction has been impressive due to high and sustained economic growth. A poverty module based on the 2019 Cambodia Socio-Economic Survey was used to assess poverty impacts in 2020 (pre-COVID-19) as well as due to COVID-19 shocks and under the recovery scenarios. Projections based on SAM 2020 household consumption data suggest a pre-pandemic simulated headcount poverty rate of 9.6 percent for 2020. While the poverty rate could be higher, social protection and other economic stimulus have limited the negative fallout. The model estimates a poverty rate of 14.7 percent in 2020 as a result.

Figure 5: Simulated poverty impacts under the baseline and recovery scenarios⁷



Source: Cambodia Static CGE Model 2020 and Poverty Module.

Enhanced household consumption is expected to reduce poverty in Cambodia. Accordingly, the poverty rate would decline from 14.7 percent in 2020 to 11.5 percent in 2021 under the baseline scenario due mainly to the social protection stimulus. Without social protection, the poverty rate may remain stubbornly high at 14.4 percent.

Similarly, the poverty rate may decline from 14.7 percent in the baseline scenario to 12.5 percent under the moderate scenario with the social protection stimulus. If social protection is not considered, the poverty rate may increase to 15.1 percent.

The gain in poverty reduction (about 3.2 percentage points comparing the 2020 estimation to the baseline scenario) is supported by positive economic growth and stimulus packages focused on social protection. Social protection appears to make the largest contributions to protecting people’s livelihoods and preventing greater poverty. The gain in poverty reduction could have been larger, however, with pro-poor economic growth. Despite positive growth, there is a smaller effect on poverty due to regressive consumption growth, which again underlines the important role of social protection.

Box 1: Increasing household indebtedness in Cambodia

Increasing debt in households in Cambodia is a critical concern aggravated by the devastating impact of the COVID-19 pandemic. It poses high risks to financial stability and jeopardizes development gains and poverty reduction achieved in past years. Levels of household debt have expanded significantly and rapidly. The average microfinance loan size increased by 80 percent between 2015 and 2017.⁸ In 2020, out of the total microfinance outstanding loan of \$6.8 billion, household loans accounted for the largest share at 31.3 percent, followed by trade at 20.9 percent, agriculture at 19.3 percent and services at 15.9 percent.⁹

The situation appears to have worsened during the pandemic, which resulted in a substantial loss of jobs and income in the past 18 months. The economy contracted by 3.1 percent in 2020, resulting in a loss of nearly 110,000 jobs while 323,674 garment workers saw their jobs suspended partially or fully.¹⁰ A UNDP survey reported that the number of informal workers with debt and requesting more debt increased from 17 percent in October 2020 to 29 percent in January 2021, just before a February 2021 community outbreak that spurred more stringent containment measures such as lockdowns and night curfews.¹¹

According to the COVID-19 Socio-Economic Impact Assessment in 2020, borrowing from microfinance institutions, banks or other sources was one of the coping mechanisms that households adopted as their livelihoods were affected by the COVID-19 crisis.¹² This has resulted in a debt spiral, continuing a trend observed before the pandemic, where households are unable to repay an existing loan, borrow a bigger loan to repay the existing one, and often end up losing collateral, which is mainly land. A debt spiral can have adverse consequences on well-being and the ability to participate in economic opportunities.

Concern over rising household debt is corroborated by the most recent COVID-19 Socio-Economic Impact Assessment. Conducted in July 2021, it reported that the average amount of loans per household was \$5,907. Ten percent of households had taken out a loan in the past 30 days.¹³ The average loan size has expanded tremendously from \$3,800 before the pandemic.¹⁴

The burden of household indebtedness is reflected in rising requests for loan restructuring. According to a directive by the National Bank of Cambodia from 27 March 2020, banks and financial institutions are allowed to restructure loans for borrowers affected by the COVID-19 crisis. As of June 2021, banks and other financial institutions have restructured loans of about \$5.5 billion for 367,239 borrowers.¹⁵ Whereas the loan restructuring programmes have eased borrowers' financial difficulties in terms of cash flows and repayments, a more systematic solution to growing household indebtedness must be pursued.

Household indebtedness and its associated risks need to be closely examined and addressed in a timely manner to prevent financial instability that could lead to another crisis on top of the ongoing one resulting from the pandemic. It is vitally important to protect people's livelihoods and well-being for sustainable and inclusive socioeconomic recovery.

4. Concluding Remarks and Policy Recommendations

The integrated modelling framework on possible socioeconomic recovery scenarios in Cambodia yielded several findings, as following:

Key Findings

- The simulation outcomes suggest that GDP growth will likely return to a positive zone in 2021. Early optimism based on first quarter data may now seem unrealistic, however, given increased uncertainty at the global and regional levels around the surge of the Delta variant. The GDP growth rate will likely range between 1.7 percent and 2.3 percent with social protection and other economic stimulus in place. The stimulus package adds around 0.4 percentage points to economic growth, reinforcing its relevance in both social and economic terms.
- The unemployment rate improves to 2.9 percent in the baseline scenario, considering the effect of social protection and other economic stimulus, from an estimated rate of 4.3 percent in 2020. The rate may be 1.4 percentage points less than the one reported last year. Even the less optimistic scenario, with no economic stimulus, would see a lower unemployment rate than last year, at 3.9 percent.
- Both consumption and poverty rates improve under the recovery scenarios compared to the 2020 estimated values, but the impacts are larger under the recovery scenarios with social protection and other forms of stimulus. Additional gains in household consumption would lead to around a 3-percentage-point reduction in the poverty rate under the scenarios with a stimulus compared to those without a stimulus. Given the fact that social protection is in place, the estimated poverty rate for 2021 might range between 11.5 and 12.5 percent.

Recommendations

- Higher gains in poverty reduction along with GDP growth and employment generation under the scenarios with a stimulus, including social protection transfers to vulnerable households, suggest the efficacy of social protection. It enhances the welfare of the poor and promotes economic growth. The social protection system could, therefore, be strengthened, considering the following strategies.
 - Strengthen, adapt, and expand policies towards achieving universal access to social protection and promoting a more inclusive, resilient, and sustainable society and economy, while considering fiscal space and macroeconomic stability, making efficient use of resources, harmonizing interventions, innovating, creating synergies, accelerating digitalization and avoiding duplication.
 - Given the susceptibility of the near-poor to shocks, adopt a ‘preventive and shock responsive’ social protection system to anticipate and respond to climate risks and other disasters, including health measures to contain the COVID-19 pandemic.
 - Since women have been affected disproportionately during the pandemic, in addition to pre-existing inequalities and deprivations, develop a road map for establishing a gender-responsive social protection system, and mainstream gender across current programmes while also promoting specific policies for women and girls.

- Adopt a multidimensional perspective on progress that goes beyond income to address the multiple sources of deprivation that limit people's abilities to thrive, including indebtedness, a prevailing issue that could hinder progress in the near future.
- In addition to social protection, Cambodia might also consider the following measures.
 - Support depressed income and employment generating economic sectors to recover faster, in particular tourism, as they have seen prolonged and sustained negative shocks, and consider opening the borders to vaccinated tourists, reduce quarantine periods and seek safe visitor schemes such as the 'sand box' model.
 - Prioritize trade diversification and competitiveness to accelerate recovery through export markets and products diversification, moving to new and green market value chains (e.g., standardization, certification, etc.) and improving competitiveness through trade facilitation and fiscal and monetary measures.
 - Consider pro-poor growth policy measures that could include increased risk-informed public investments in local economic production; support for micro, small and medium-sized enterprises; implementation of measures to increase workers' productivity; acceleration of digital literacy to close the digital divide and adoption of progressive taxation.

Annex 1: Assumptions of the Impact Channel

Agriculture

- a) Agricultural exports increased by **20.5 percent** from \$431 million in the first half of 2020 to \$520 million in the same period of 2021.
- b) Rice exports, however, dropped by 23.1 percent from \$263.8 million in the first half of 2020 to \$202.8 million in the same period of 2021 due to the rising costs of shipping and logistics.
- c) Prices of paddy rice dropped significantly 2021 due to declining demand or difficulties for exports. Due to border closure measures imposed by Thailand and Viet Nam to curb COVID-19 infection, Cambodia has seen a sharp drop in demand for paddy rice from these two countries.
- d) Assuming that agricultural exports could maintain a growth rate of around 20 percent in 2021, similar to the growth rate in 2020, the agricultural sector would grow around **1 percent in 2021**.

Garments, Footwear and Travel Goods

- a) Garments, footwear and travel goods exports in the first half of 2021 totalled \$4.63 billion, increasing only 1 percent from \$4.58 billion in the same period of 2020.
- b) The second half of 2021 may see export growth accelerate due to rising demands from major markets such as the United States and European Union, and the easing of the domestic COVID-19 situation. The sector was strongly affected in the first half of 2021 due to a three-week lockdown from April to May, and a COVID-19 outbreak at some factories.
- c) The sector may also be aided by the diversion of demand from Myanmar which faces a challenge in terms of political stability.
- d) The garments, footwear and travel goods sector is anticipated to grow by around 3-5 percent in 2021.

Construction

- a) The number of construction projects approved in the first half of 2021 decreased by 11.4 percent compared to the same period in 2020.
- b) Project value, however, dropped by 34.3 percent in the first half of 2021 to \$2.5 billion compared to the same period in 2020.
- c) The construction sector decelerated due to a drastic decline in foreign direct investment, especially in the tourism and housing subsectors.
- d) The volume of construction material imports decreased by 5.1 percent in the first half of 2021.
- e) The construction sector is expected to grow slightly by around **1 percent** at the most optimistic projection.

- f) For the worst case, the sector may experience a negative growth rate if demand remains sluggish.

Tourism

- a) International tourist arrivals in Cambodia in the first five months of 2021 reached 91,596, dropping by 92.2 percent compared to the same period in 2020.
- b) Assuming that international tourist arrivals in the remaining period of 2021 are the same as in 2020, arrivals would drop by **82.6 percent for the whole year**.
- c) Domestic tourism decreased by 29.6 percent in the first five months of 2021.
- d) Assuming that domestic tourism will somewhat pick up in the remaining period of 2021 to reach the same level of 2020, domestic tourism would drop by **11.3 percent for the whole year**.
- e) Based on the current trend in infection rates and deaths due to COVID-19, it is unlikely that community outbreaks or transmission can be well contained soon.
- f) The domestic situation could get better to a certain extent, however, with more travelling and visits as the vaccination target of 10 million people would be completed before the end of the year.
- g) Neighbouring countries, including Thailand and Viet Nam, are still struggling with severe COVID-19 infections throughout the country, and lockdown and travel restriction measures are in place.
- h) As the global COVID-19 situation remains severe and the regional situation deteriorates, it is highly unlikely that international tourism will recover this year.
- i) Given the ratio of 65 percent to 35 percent between international and domestic tourists, the tourism sector is anticipated to drop by **57.6 percent**.

Transportation and Communication

- a) The volume of petroleum imports in the first half of 2021 decreased. While gasoline imports increased by 9.1 percent, diesel imports fell by 14.7 percent.
- b) The volume of lubricants and gas imports dropped by 9.4 percent and 11.8 percent, respectively.
- c) The logistics sector lost around 70-80 percent due to suspended operations and low productivity during the large-scale lockdown in Phnom Penh and adjacent Ta Khmao city of Kandal province.
- d) Mobile Internet subscribers edged up to 17.48 million as of April 2021, a 7 percent increase compared with the same period last year.
- e) Fixed Internet subscribers increased to 236,962 as of April 2021, a 16 percent increase compared with the same period last year.
- f) The number of social media users rose by 2.3 million, a 24 percent increase between 2020 and 2021. There were 12 million social media users in Cambodia in January 2021.

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Endnotes

1. United Nations 2021b.
2. World Bank 2021.
3. Mekong Strategic Partners 2021.
4. Ibid.
5. The 2020 estimation included the social protection stimulus equivalent of around 3.5 percent of GDP. Without the stimulus, GDP growth was estimated to drop by 4.1 percent and the poverty rate to rise by 17.6 percent. Data for 2020 align with recent government statistics (overall as well as sectoral GDP values) through the recalibration of the CGE model, however. The values for key indicators (e.g., GDP, unemployment rate and poverty rate) may not be exactly the same as those in the simulation outcomes reported in last year's policy brief.
6. Baseline and moderate scenarios include a social protection stimulus of 2.1 percent of 2020 GDP.
7. The estimation of poverty rate in this modelling exercise is based on a poverty module from social accounting matrix (SAM) and stimulated by the assumptions in Table 1. The national poverty rate approved by the RGC and released by the Ministry of Planning is an estimated poverty rate using observed consumption data from Cambodia Socio-Economic Surveys. The stimulated poverty rate could be different from the estimated one due to the soundness of the modelling. Given the differences between the methodologies applied for the estimation of poverty rate, these two poverty figures are incomparable and the stimulated poverty rate in this modelling exercise will not be used for official purposes in lieu of the national one.
8. World Bank 2019.
9. National Bank of Cambodia 2021.
10. United Nations 2021a.
11. Results from UNDP Surveys on Socio-Economic Implications on Informal Workers since COVID-19 Outbreak (forthcoming).
12. UNICEF et al. 2021.
13. Asian Development Bank, UNICEF and World Food Programme 2021.
14. Bloomberg and Dara 2021.
15. Khmer Times 2021.