



Budget 2020 Debrief

An overview of Draft Budget Law 2020 to support parliamentarians
through the approval process

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About the report

The following budget overview report has been prepared by the staff of the Senate of Cambodia. It is a training exercise aimed at providing intuitive and supplementary economic and financial planning information to parliamentary commissions as they assess the government's 2020 budget. It describes the government's planning assumptions and provides additional context using analysis from the senate staff and international organizations such as the World Bank and IMF.

The Senate has a small team of research staff and limited access to real-time economic and fiscal data and government decisions. Parliamentarians and other stakeholders should continue to rely on official government information for planning purposes. This report is intended only to bring together additional benchmarks and analysis to identify any areas of fiscal policy to which parliamentarians should devote further attention.

Executive summary

Summary budget plan

Table S-1: Summary budget plan for 2020 compared to previous years

	Implementation			Budget		Annual Growth	Average change
	2016	2017	2018	2019	2020	2020	2016-2019
Revenues¹							
Taxes on income	2,953	3,798	4,059	4,330	5,080	17.3%	15.8%
Indirect taxes	4,189	4,936	5,729	5,902	7,373	24.9%	15.1%
Excise tax	2,955	3,676	4,969	4,137	5,734	38.6%	19.0%
Taxes on trade	2,010	1,977	2,371	2,411	2,769	14.9%	7.0%
Other tax revenue	91	133	168	100	135	35.7%	16.2%
Non-tax revenues	2,080	2,446	2,851	2,714	2,808	3.5%	16.2%
Capital Revenue	120	142	195	193	193	0.1%	10.7%
Total domestic revenue	14,398	17,108	20,342	19,787	24,092	21.8%	18.0%
Expenses							
Wages	5,506	6,839	8,001	7,863	8,540	8.6%	14%
Purchase of Goods	1,300	1,408	1,529	NA	NA	NA	NA
Purchase of Services	1,357	1,582	1,687	NA	NA	NA	NA
Social assistance	973	1,087	1,336	NA	NA	NA	NA
Subsidies	1,018	1,381	1,349	NA	NA	NA	NA
Other spending	299	452	472	NA	NA	NA	NA
Financial Charge (Interest on debt)	335	342	387	525	542	3.2%	21%
Current expenditure	10,876	13,237	14,973	16,827	18,037	7.2%	15%
Capital expenditure	6,051	6,779	7,579	8,938	13,059	46.1%	19%
Total expenses	16,928	20,016	22,551	25,765	31,096	20.7%	16%
Current Balance	3,402	3,729	5,174	2,767	5,862	112%	24.2%
Overall balance	(2,530)	(2,908)	(2,209)	(5,978)	(7,004)	17.1%	37.8%
Public debt (% GDP)	22.5	22.8	21.5	21.3	NA	NA	NA

Source: Draft Budget Law 2020[1, 2, 3]

The government expects total revenues in 2020 to grow by 21.8% compared to Budget 2019, driven mainly by excise taxes, which are assumed to increase by 38.6%, and indirect taxes, which are

¹ Total domestic revenue only

assumed to increase by 24.9% (Table S-1). Income taxes are expected to grow at 17.3%, taxes on trade at 14.9%, and non-tax revenues are expected to increase by 3.5%.

Total planned expenditure in 2020 has been raised by 20.7% compared to Budget 2019, mainly as the result of higher capital investment, which increased by 46.1%. Current expenditure is planned to increase by 7.2% compared to the 2019 budget, part of which reflects the government’s plan to raise public sector wages by 8.6%.

Overall, the government expects a budget deficit of 7,004 billion riels, equal to 5.9% of GDP, up from 5,978 billion riels in 2019. The current surplus, however, is expected to grow once more to 5,862 billion riels in 2020 from 2,767 billion riels in 2019. The additional borrowing, therefore, reflects greater capital investment than previous years.

New measures

The RGC has proposed several new tax and spending measures, as well as planned amendments to bring consistency between tax law and regulations:

- **Salary tax threshold.** Amend Article 47 (II) of the Tax Law to raise the minimum taxable salary from 1,200,000 riels to 1,300,000 riels for 2020.
- **Penalties for late payments.** Amend articles 131 and 132 of the Tax Law to reduce the penalty rate from 2% to 1.5% for individuals and enterprises making late tax payments.
- **Stamp tax devolution.** Transfer stamp tax collection from the national level to the provincial/capital administrations from 2020.
- **Spending on public sector wages.** Increase public sector wages by 7% in 2020, a decline from the 10% increase in Budget 2019 and 12% increase in Budget 2018.
- **Stimulus expenditure package.** A new intervention package is proposed for additional subsidies for Commune/Sangkat investment spending. The package is equivalent to 1% of current revenues of the national budget.

Expenditure plan by program area

National defense and security has the highest planned expenditure growth, reaching 4,660 billion riels in 2020—an increase of 9.3% compared to Budget 2019, followed closely by the social sector, with an increase of 8.9% (Table S-2). The budget allocation to the economic sector has the smallest increase, at 3.3%.

Table S-2 National current expenditure by main sectors (in billion riels)

Sectors	Implementation			Budget		Annual change 2020	Average change 2016-19
	2016	2017	2018	2019	2020		
General administration	1,885	2,536	2,471	2,246	2,351	4.7%	10.8%
National Defense and Security	2,859	3,405	3,989	4,264	4,660	9.3%	16.2%
Social sector	4,007	4,841	5,756	6,197	6,748	8.9%	15.0%
Economic sector	1,141	1,323	1,387	1,507	1,557	3.3%	9.2%
Unallocated expenditure	984	1,132	1,368	2,614	2,721	4.1%	26.5%

Source: Draft Budget Law 2019 and 2020 and Budget Settlement 2016-2018.

Top five ministry increases and decreases

The Ministry of Mines and Energy will receive the highest spending increase at 30.8% compared to Budget 2019, followed by the Constitutional Council with an increase of 18.9% (Table S-3).

The National Election Committee's budget will receive the highest decrease for 2020, reduced by 18.3% compared to Budget 2019, followed by the Ministry of Land Management, Urban Planning and Construction with a 16% reduction compared to the previous year.

Table S-3: Top five ministry increases and decreases

Current expenditure by ministries	Current Expenditure (Billion Riels)						Growth rate 2019-2020
	2015	2016	2017	2018	2019	2020	
Ministry of Mines and Energy	21	28	49	42	57	74	30.8%
Constitutional Council	8	8	11	12	12	14	18.9%
Ministry of Interior	1,325	1,151	1,391	1,635	1,697	1,959	15.4%
Ministry of Social Affairs, Veterans and Youth Rehabilitation	600	687	797	902	993	1,137	14.5%
Ministry of Civil Service	28	35	43	51	54	61	14.4%
Senate	57	60	65	76	87	87	0.1%
Ministry of Public Works and Transport	334	379	387	386	409	407	-0.6%
Ministry of Commerce	117	121	133	152	148	126	-14.6%
Ministry of Land Management, Urban Planning and Construction	90	111	148	165	163	137	-15.8%
National Election Committee	11	88	156	186	79	65	-18.3%

Source: Draft Budget Law 2020, previous budgets and Budget Settlement reports.

Risks and issues for further consideration by Parliamentarians

Although Cambodia's budget is in a position of strength, the following issues could affect the economy and public finances and should be closely monitored (among the others identified in the report that follows):

- **Trade agreements and trade uncertainty.** Cambodia faces several threats to its exports and the revenues associated with trade. First, ASEAN free-trade agreements will reduce tariff revenues on imports, and increased competition among member states could reduce exports. Second, the European Union has flagged the possibility of removing Cambodia's Everything-But-Arms preferential tariff access, which could significantly reduce exports of the garment industry. Finally, Cambodia's success in rising to middle-income status could mean that other countries look to remove Cambodia's preferential tariff status. That said, there are also many trade opportunities on the horizon, with signs that global companies formally based in China are shifting their production to Cambodia, Vietnam, and other Southeast Asian countries as US-China trade tensions are drawn out.
- **Lack of diversity of growth drivers.** The strong inflow of FDI that has supported the Cambodian economy has been primarily from one source (China) and has been concentrated in only a few sectors, including construction and real estate.
- **Ministry of Mines and Energy budget uncertainty.** The Kingdom's electricity supply is a priority area of the RGC. The latest Budget Settlement report shows that the Ministry of Mines and Energy had the largest decrease in actual spending in 2018. It has the largest increase in Budget 2020. This seems to be a logical response to address the priority area. Nevertheless, Parliamentarians may benefit from learning more about the projects and cost drivers of the Ministry of Mines and Energy to see how the annual appropriations process can be improved for this key area.
- **High growth of credit to construction and real estate sectors.** If there is a slowdown in real estate speculation, for example if demand falls with a global economic downturn, the solvency of many Cambodian households could be threatened.

Economic planning assumptions

Government planning assumptions

Table 1: Cambodia's main economic indicators

Indicator	2017	2018	2019	2020	average
	Implementation	Implementation	Estimate	Projection	2017-2020
Nominal GDP (Billion Riel)	88,647	98,786	108,590	119,034	88,647
Real GDP growth (%)	7.00	7.50	7.10	6.50	7.03
Nominal GDP per capita (USD)	1,427	1,548	1,679	1,816	1,618
GDP per capita growth (%)		8.48	8.46	8.16	8.37
Inflation (%)	2.9	2.5	2.8	2.9	2.8
Exchange rate (USD/Riel)	4,045	4,045	4,054	4,054	4,049.50
Current account balance (% GDP)	(6.7)	(11.5)	(9.6)	(9.3)	(9.3)
Foreign reserve (million USD)	8,758	10,144	11,505	13,007	10,854
Foreign reserve growth		15.8	13.4	13.1	14.1
Foreign reserve (monthly of import)	6.40	5.6	5.8	6.1	6

Source: Ministry of Economy and Finance of Cambodia.[1, 4]

Cambodia's macro economy remains strong, although the RGC expects it to slow slightly in 2020. Table 1 shows the RGC's assumptions for Cambodia's main economic indicators in 2020 compared to their trends from 2017.

Nominal GDP has increased significantly from 88,647 billion riels in 2017 to 108,590 billion riels in 2019 and is projected to reach 119,034 billion riels in 2020—a growth rate of 6.5%. This is down somewhat from average GDP growth from 2017 to 2019, which was approximately 7.0%, among the highest in the region and the world. Meanwhile, GDP per capita rose from US\$1,427 in 2017 to \$1,679 in 2019—a growth rate of 8.4% on average—and is projected to increase by 8.2% in 2020 to \$1,816.

Inflation is projected to remain lower than 3.0% in 2020, in-line with its average rate of 2.8% since 2017. The exchange rate will be held steady at around 4,050 riel per US dollar, its average over the same period. The current account deficit reached 11.5% of GDP in 2018 but has narrowed and is projected to be 9.3% in 2020.

Foreign reserves also increased significantly, from \$8,758 million in 2017 to \$11,505 million in 2019 and are projected to reach \$15,007 million in 2020, a growth rate of 14.1%, equal to 6.1 months of imports.

Assessment of reasonableness

To assess the RGC's economic planning assumptions for reasonableness, comparisons are made to other external forecasters including the World Bank (WB), International Monetary Fund (IMF), and Asian Development Bank (ADB) in Table 2.

Table 2: The comparison of economic planning assumptions in 2020

Indicator	RGC	WB	IMF	ADB	Average (WB, IMF & ADB)
Nominal GDP (million USD)	29,362	29,619	28,069	28,112	28,600
Real GDP growth (%)	6.5	6.9	6.7	6.8	6.8
Nominal GDP per capita (USD)	1,816	1,790	1,731	1,700	1,740
Inflation (%)	2.9	3.0	2.9	2.5	2.8
Current account balance (% GDP)	-9.3	-9.1	-9.4	-13.5	-10.7
Export growth (%)	6.42	8.6	9.6	NA	9.1
Import growth (%)	7.19	7.1	8.3	NA	7.7
Foreign reserve (million USD)	13,007	11,184	10,970	12,300	11,485
Foreign reserve (monthly of import)	6.1	6.2	4.9	6.0	5.7

Source: MoEF, IMF, ADB and World Bank.[4, 6, 7, 8]

Although the government’s forecast of the level of nominal GDP—the broadest measure of the tax base—is somewhat optimistic compared to external forecasters, the RGC’s planning assumptions are largely reasonable. Specifically,

- The RGC expects nominal GDP in 2020 to be \$29,362 million, with a growth rate of 6.5%. The average of external forecasters is \$28,600 million, with a growth rate of 6.8%. This seemingly contradictory result stems from differences in the estimates for nominal GDP in 2019—the RGC assumes a higher starting point of \$27,222 million in 2019, while the external average is \$26,482 million.
- Nominal GDP per capita is assumed to reach \$1,816 in 2020, which is also somewhat higher than the average of external sources of \$1,740—again owing to different starting points in 2019 and possibly different population data, given the recent census release.
- Inflation is assumed to be roughly in-line with the average.
- The current account balance is roughly in-line with the World Bank and IMF, but the ADB assumes a high rate of growth of 13.5%.
- The government assumption for export growth is considerably more conservative than the average of external sources (6.4% versus 9.1%) while imports are assumed to grow slightly less than the average (7.2% versus 7.7%).
- Foreign reserves forecast by the government are higher than the average of external sources—\$13,007 million versus \$11,485 million—and are equal to monthly imports of 6.1 months compared to 5.7 months.

Economic risk assessment

The RGC and external observers have recognized several risks to the Cambodian economy, both from external and domestic considerations[4]:

External considerations

Slowdown in the global economy. The global economy is expected to slow, including the two largest economies (growth in the U.S. economy is expected to decline from 2.3% in 2019 to 1.9% in 2020, while China’s economy will fall from 6.3% to 6.1%, largely as a result of their trade war). Other factors that could affect China’s outlook include the concerning run-up of Chinese credit and other political and social issues including the protests in Hong Kong, climate change, and natural disasters [6].

Trade agreements and trade uncertainty. Cambodia faces several threats to its exports and the revenues associated with trade. First, ASEAN free-trade agreements will reduce tariff revenues on imports, and increase competition among member states, potentially reducing exports. Second, the European Union has flagged the possibility of removing Cambodia's Everything-But-Arms preferential tariff regime, which could significantly reduce exports of the garment industry. Finally, Cambodia's success in rising to middle-income status could mean that other countries look to remove preferential tariff status. That said, there are also many trade opportunities on the horizon, with signs that global companies formally based in China are shifting their production to Cambodia, Vietnam, and other Southeast Asian countries as US-China trade tensions are drawn out [9].

Domestic considerations

Structural challenges. The RGC has identified several structural challenges in Cambodia that need to be overcome in order to boost growth. The challenges include: (1) higher electricity prices for producers and retailers compared to neighboring countries, (2) logistics weaknesses, (3) low workforce productivity, (4) a lack of skilled labor, and (5) complex and costly business procedures[4].

Financial sector vulnerabilities. The IMF has identified financial sector vulnerabilities as a threat to the outlook, particularly rapidly growing domestic credit tied to real estate speculation.[8]

Higher borrowing costs. External financiers may withdraw concessionary lending terms as Cambodia's economy progresses further as a middle-income country. This would result in higher financing costs and greater opportunity costs of running deficits.

Lack of diverse growth drivers and reliance on construction and real estate sectors. The World Bank has identified Cambodia's reliance on the construction and real estate sector as a source of risk, being more prone to boom and bust cycles and threatening spillover to domestic credit markets, increasing the financial sector's vulnerabilities.[7]

Fiscal outlook

Budget Revenues

Table 3: Summary of revenue (billion riel)

	Actual			Budget		Growth (%)	Average 2016-2019
	2016	2017	2018	2019	2020		
Domestic revenue	14,398	17,109	20,341	19,786	24,093	21.8%	14.6%
Domestic tax revenue	10,188	12,543	14,925	14,468	18,322	26.6%	16.2%
Taxes on income	2,953	3,798	4,059	4,330	5,080	17.3%	15.8%
Indirect taxes	4,189	4,936	5,729	5,902	7,373	24.9%	15.1%
Excise	2,955	3,676	4,969	4,137	5,734	38.6%	19.0%
Other tax Revenue	91	133	168	100	135	35.7%	16.2%
Taxes on trade	2,010	1,977	2,371	2,411	2,769	14.9%	7.0%
Non-tax revenues	2,080	2,446	2,851	2,714	2,808	3.5%	16.2%
Capital Revenue ²	120	142	195	193	193	0.1%	10.7%
% of GDP							
Domestic revenue	17.7%	19.1%	20.6%	18.2%	20.2%		
Domestic tax revenue	12.5%	14.0%	15.1%	13.3%	15.4%		
Taxes on income	3.6%	4.2%	4.1%	4.0%	4.3%		
Indirect taxes	5.2%	5.5%	5.8%	5.4%	6.2%		
Excise tax	3.6%	4.1%	5.0%	3.8%	4.8%		
Other tax revenue	0.1%	0.1%	0.2%	0.1%	0.1%		
Taxes on trade	2.5%	2.2%	2.4%	2.2%	2.3%		
Non-tax revenues	2.6%	2.7%	2.9%	2.5%	2.4%		
Capital Revenue	0.1%	0.2%	0.2%	0.2%	0.2%		

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020.

Planning assumptions

Domestic revenue is expected to reach 24,093 billion riels in 2020—an increase of 21.8% compared to 2019 (Table 3). The increase is driven by an anticipated rise in indirect tax (mainly VAT) and excise taxes.

Indirect tax is expected to increase by around 24.9% from Budget 2019, exceeding its average growth of 15.1% from 2016 to 2019. Indirect taxes are the RGC's main source of revenue and are expected to account for 35.0% of total tax revenues, or 6.2% of GDP in 2020.

Excise taxes are expected to grow by 38.6%, exceeding their average growth of 19.0%. Excise taxes account for 27.2% of total tax revenue, or 4.8% of GDP.

Taxes on income are expected to grow by 17.3% in 2020, higher than their average growth of 15.8% over 2016 to 2019.

Taxes on trade are expected to increase by 14.9% compared to Budget 2019, over twice the average growth of 7.0% from 2016 to 2019.

² Includes revenue from direct sources but not external sources.

Budget Expenditure

Planning assumptions: economic classification

Table 4: Summary of expenses

Expenditure (Billion riels)	Actual			Budget		Growth	Average
	2016	2017	2018	2019	2020		
Total expenditure	16,928	20,016	22,551	25,765	31,096	21%	16%
Current Expenditure	10,876	13,237	14,973	16,827	18,037	7%	15%
Wages	5,506	6,838	8,001	7,863	8,540	9%	14%
% of Current expenditure	51%	52%	53%	47%	47%		
Civil wage	3,432	4,265	4,946				
Defense and security wage	2,074	2,573	3,055				
Non-wages	5,370	6,399	6,971	8,965	9,497	6%	17%
% of Current expenditure	49%	48%	47%	53%	53%		
Purchasing of goods	1,300	1,408	1,529				
Services	1,357	1,582	1,687				
Financial charges	335	342	387	525	542	3%	21%
Subsidies	1,018	1,381	1,349				
Financial benefits	973	1,087	1,336				
Taxes	299	452	472				
Others (project implementation)	89	147	210				
Capital expenditure	6,051	6,779	7,579	8,938	13,059	46%	19%
% of GDP							
Total expenditure	21%	22%	23%	24%	26%		
Current expenditure	13%	15%	15%	15%	15%		
Wages	7%	8%	8%	7%	7%		
Civil wages	4%	5%	5%	NA	NA		
Defense wages	3%	3%	3%	NA	NA		
Non-wages	7%	7%	7%	8%	8%		
Purchases of goods	2%	2%	2%	NA	NA		
Purchases services	2%	2%	2%	NA	NA		
Financial charges	0.4%	0.4%	0.4%	0.5%	0.5%		
Subsidies	1%	2%	1%	NA	NA		
Social benefits	1%	1%	1%	NA	NA		
Taxes	0.4%	0.5%	0.5%	NA	NA		
Other non-wage	0.1%	0.2%	0.2%	NA	NA		
Capital expenditure	7%	8%	8%	8%	11%		

Source: Budget Settlement 2015 to 2018, Budget Law 2019 and 2020 and Ministry of Economy and Finance

Total expenditure is expected to reach 31,096 billion riels, an increase of 21% compared to 2019, and equal to 26% of GDP in 2020 (Table 4). Capital expenditure is expected to rise to 13,059 billion riels, a significant increase of 46% compared to 2019, accounting for 11% of GDP. The rise is the result of a rapid increase in unallocated public investment which is expected to be 3,886 billion riels in 2020 compared to 636 million riels in 2019. Capital expenditure in 2020 has been allocated to support a three-year rolling public investment program (2020-2022) by using both internal and external financing.

Total current expenditure is budgeted to be 18,037 billion riels in 2020, a rise of 7% compared to 2019, accounting for 15% of GDP. Total wages are expected to rise to 9% compared to 2019, accounting for 47% of total current expenditure or 7% of GDP. Similarly, total non-wage expenditure is budgeted to increase by 6%, accounting for 8% of GDP in 2020.

Planning assumptions: Functional and Ministry basis

Cambodia's national budget is organized by five functional sectors. Current expenditure allocated to the social sector is budgeted to reach 6,748 billion riels in 2020—an increase of 8.9% from 2019. The social sector will remain the highest share of total expenditure, at 37.4%, in line with being the government's top priority—a focus on human resource development, including education, health, labour and social affairs (Table 5). The allocation for National defense, security and public order increased by 9.3% and accounts for 25.8% of total current expenditure. The economic sector will grow the least, at 3.3%, but this does not account for capital investment—a key component of the government's economic development plan.

Unallocated spending is expected to grow by 4.1%, reaching 2,721 billion riels in 2020, sharing 15.1% of total current expenditure and roughly in line with the level in Budget 2019.

Table 5: Summary of expenditure by sector (2016-2020)

Current Expenditure by sectors	Share of total national current expenditure (%)					Growth 2019-2020	Average growth (%) 2016-2019
	2016	2017	2018	2019	2020		
General Administration	17.3%	19.2%	16.5%	13.3%	13.0%	4.7%	10.8%
National Defense, Security and Public Order	26.3%	25.7%	26.6%	25.3%	25.8%	9.3%	16.2%
Social Sector	36.8%	36.6%	38.4%	36.8%	37.4%	8.9%	15.0%
Economic Sector	10.5%	10.0%	9.3%	9.0%	8.6%	3.3%	9.2%
Unallocated Expenditures	9.0%	8.6%	9.1%	15.5%	15.1%	4.1%	26.5%

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020

Table 6 lists the top ten ministries receiving the highest share of total national current expenditure in 2020 (the full table is provided in the appendix). The list reflects the government's strategy to improve prioritized sectors. According to the national development strategy, the first priority is the Ministry of Education, Youth, and Sport, which has been allocated 17.8% of current expenditure—an increase of 8.7%, which is slower than the average. The Ministry of National Defense and Ministry of Interior continue to rank second and third in the list, with shares of current expenditure equal to 14.1% and 10.9%, respectively. The Ministry of Health is also a top priority, sharing 9.1% of total current expenditure. The Ministry of Public Works and Transport expects to have its budget reduced slightly in 2020.

Table 6. Summary of current expenditure by ministry (2016-2020)

Current expenditure by ministries	Share in total current expenditure (%)					Growth 2020	Average Growth 2016-2019
	2016	2017	2018	2019	2020		
Ministry of Education, Youth, and Sport	17.0%	17.1%	17.9%	17.5%	17.8%	8.7%	16.7%
Ministry of National Defense	14.9%	14.4%	14.9%	14.4%	14.1%	5.0%	14.0%
Ministry of Interior	10.6%	10.5%	10.9%	10.1%	10.9%	15.4%	8.9%
Ministry of Health	9.7%	8.9%	9.2%	9.2%	9.1%	5.9%	11.3%
Ministry of Social Affairs, Veterans and Youth Rehabilitation	6.3%	6.0%	6.0%	5.9%	6.3%	14.5%	13.7%
Ministry of Economy and Finance	5.3%	7.0%	5.4%	4.7%	4.9%	11.3%	20.4%
Office of Council of Ministers	5.2%	5.0%	3.9%	2.5%	2.4%	2.8%	3.8%
Ministry of Public Works and Transport	3.5%	2.9%	2.6%	2.4%	2.3%	-0.6%	4.1%
Ministry of Agriculture, Forestry, and Fisheries	1.6%	1.6%	1.6%	1.6%	1.6%	6.9%	13.8%
Ministry of Labor and Vocational Training	1.5%	1.7%	2.0%	1.4%	1.5%	14.3%	21.0%

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020

Sub-national administrations

Table 7 shows the planned sub-national government revenue/expenditure in 2020 is 3,329 billion riels or 2.8% of GDP—a 51.0% increase compared to 2019 and a seven-fold increase from 2016.

The Province/Capital (PC) administration's budget is the largest share, accounting for 1.9% of GDP or 68.4% of total sub-national expenditure, while the District/Municipality (DM) administration and Commune/Sangkat (CS) administration accounts for 0.2% and 0.7% of GDP, respectively.

Table 7 also shows that SNA budgets rely largely on subsidies from the national level, accounting for 36.2% on average from 2015-2020, particularly to finance CS and DM administrations. The subsidies to SNA have been rising each year and continued to do so significantly in 2020 to 1,085 billion riels, a 34.7% compared to Budget 2019. The increase is the result of increasing allowances for CS councillors as well as village officers starting in April 2020. The CS development budget will also double to 284 million riel or \$70,000 on average for each CS in 2020 due to the newly established intervention package.

Table 7: Sub-national expenditure, 2020

SNA Revenue/Expenditure	Amount (Billion riels)	% to GDP (Projected)	% to total Budget Expenditure	% to total Subnational budget
Province/Capital (PC)	2,279	1.91%	6.62%	68.44%
District/Municipality (DM)	247	0.21%	0.72%	7.43%
Commune/Sangkat (CS)	803	0.67%	2.33%	24.13%
Total SNA Revenue/Expenditure	3,329	2.80%	9.67%	
Total Subsidy from National Budget	1,085	0.91%	3.15%	32.60%
Total Current Expenditure	2,244	1.88%	6.52%	67.40%

Source: Draft Budget Law 2020[3]

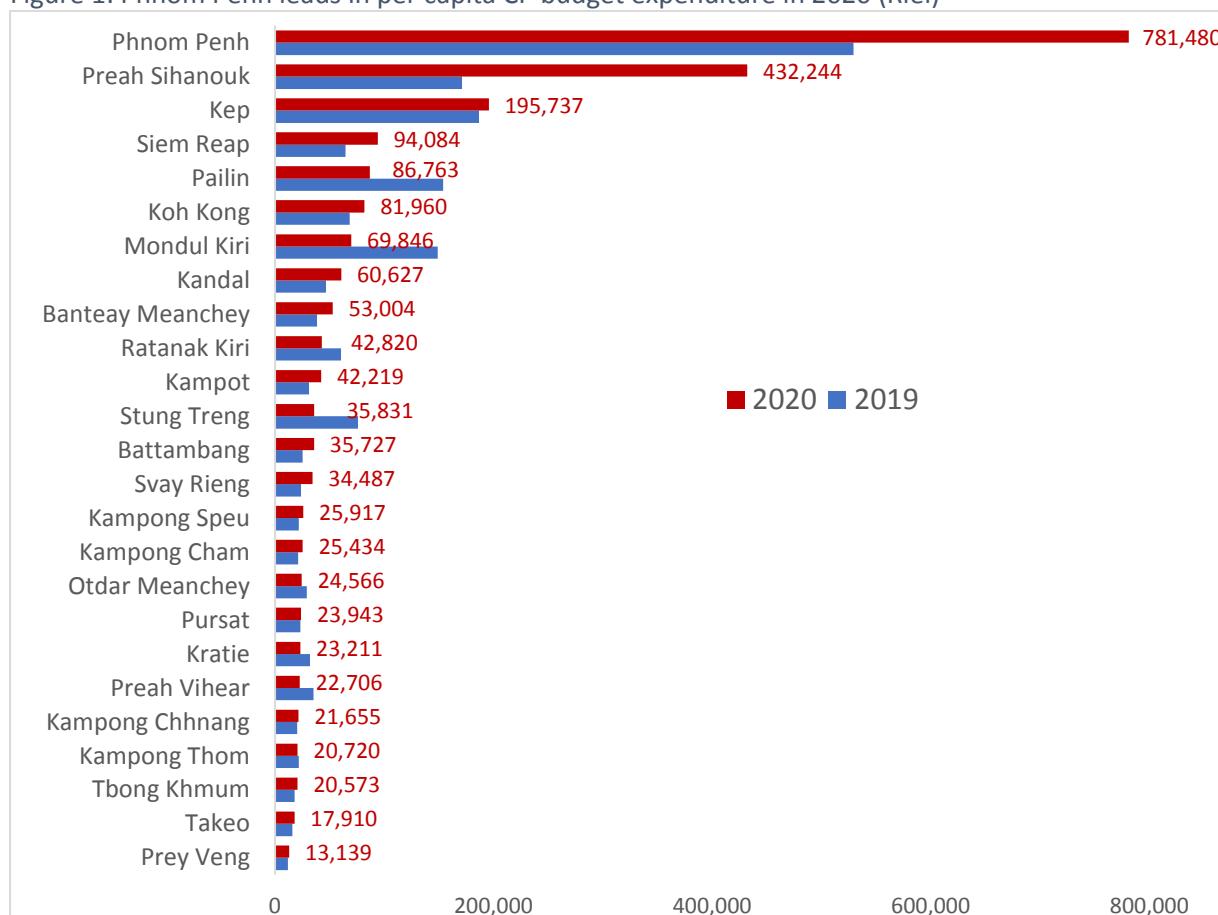
Table 8: Sub-national administration expenditure from 2015-2020 (in billion riel)

Subnational Expenditure	2015	2016	2017	2018	2019	2020	Growth 2020	Average 2016-2020	Growth
Province/Capital	896	946	1,177	1,891	1,477	2,279	54%	25%	
District/Municipality	98	118	147	176	199	247	24%	20%	
Commune/Sangkat	294	312	352	430	524	803	53%	23%	
Total SNA Budget Expenditure (1)	1,288	1,376	1,676	2,497	2,200	3,329	51%	23%	
Total Subsidy from National Budget (2)	443	560	653	852	800	1,085	35.74%	20.65%	
% (2) of Total SNA Expenditure	34%	41%	39%	34%	36%	33%			
% (1) of Total Budget Expenditure	8%	7.5%	7.7%	9.9%	7.8%	9.6%			

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020

On a per capita basis of the CP budget, expenditure in the Phnom Penh capital remains the highest and has increased considerably, reaching 781,480 riels. Preah Sihanouk province's per capita budget has more than doubled, to 432,244 riels from 171,244 riels in 2019. Several provinces, such as Pailin and Mondul Kiri had significant decreases. Prey Veng's spending per capita remains the lowest, with only 13,139 riels.

Figure 1: Phnom Penh leads in per capita CP budget expenditure in 2020 (Riel)



Source: Draft Budget Law 2020 and Ministry of Planning 2019: General Population Census of the Kingdom of Cambodia 2019[3, 10]

Budgetary balance and financing

Budgetary balance

The overall budget deficit in 2020 is expected to reach 7,003 billion riels in 2020, equal to 5.8% of GDP, up from a deficit of 5,979 billion riels in 2019 (Table 9).

The current balance remains in surplus and is growing, reaching 5,862 billion—and increase of 112% compared to 2019.

Rising borrowing is therefore largely related to the government's capital investment, namely the stimulus program to scale up investment.

Table 9: Budget Balance (2016-2020)

Budgetary balance		Implementation			Budget	
		2016	2017	2018	2019	2020
Current deficit/surplus	Billion riels	3,401	3,730	5,174	2,766	5,862
	% GDP	4.4	4.4	5.6	2.8	5.3
Overall deficit/surplus	Billion riels	(2,530)	(2,907)	(2,210)	(5,979)	(7,003)
	% GDP	-3.1	-3.2	-2.3	-5.5	-5.9

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020.

Planned borrowing and debt

To finance the deficit, the government seeks grants and loans from bilateral and multilateral parties. Table 10 shows that borrowing is expected to reach 5,183 billion riels in 2020.

Table 10: Summary of borrowing (2016-2020)

(Billion Riels)	2015	2016	2017	2018	2019	2020
Total Borrowing	2,468	2,218	2,922	2,613	4,384	5,183
% to GDP	3%	2.73%	3.26%	2.65%	4.04%	4.35%

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020.

By the end of 2019, the government projects that Cambodia will have total outstanding public debt of 21.3% of GDP, of which 0.04% is public domestic debt (Table 11). All indicators are sustainable and well lower than the thresholds that would cause concern.

Overall, debt service costs remain highly concessional with a weighted average interest rate of 0.5%, a maturity of 25.5 years, and a grace period 8 years.

Table 11: Outlook for debt

Indicators (Ratio)	2015	2016	2017	2018	2019e	Threshold
PV of Public Debt to GDP	23.2	22.5	22.8	21.5	21.3	55
PV of Public External Debt to GDP	33.5	31.6	22.8	21.5	21.3	40
PV of Public External Debt to Exports	147.6	138.2	30.8	28.4	27.5	180
Gross debt to GDP (Budget research department calculation)	31.2	29.3	30.1	28.8	29.2	NA
Public External Debt Service to Exports	1.3	1.4	1.3	1.4	1.5	15
Public External Debt Service to Revenue	5.7	6.1	4.7	4.9	5.1	18

Source: MoEF and senate staff calculations[11].

Risks to the fiscal outlook

Ministry of Mines and Energy budget uncertainty. The Kingdom's electricity supply is a priority area of the RGC. The latest Budget Settlement report shows that the Ministry of Mines and Energy had the largest decrease in actual spending in 2018. It has the largest increase in Budget 2020. This seems to be a logical response to address the priority area. Nevertheless, Parliamentarians may benefit from learning more about the projects and cost drivers of the Ministry of Mines and Energy to see how the annual appropriations process can be improved for this key area.

Public service wage growth. Public service wage growth is 8.6% compared to Budget 2019, reaching 7.2% of GDP and 47.3% of total national current expenditure. However, actual settlement from 2015 to 2018 has grown by around 20% on average annually and has tended to exceed planned spending in recent history. If this trend continues, wage growth could put pressure on the public finances. Accounting changes to the treatment of social security contributions and pensions has made trend analysis difficult³.

Casino revenues. Following the recent shut-down of online gaming in the country, the government expects a fall in Casino and lottery-related revenue by about 11.7% compared to last year⁴[4].

³ Based on monthly "Budget Implementation" report (TOFE) by Ministry of Economy and Finance, social security accounting has been moved to Non-wage expenditure starting from 2019.

⁴ This was stated in the Statement of Reason in the Draft Law on Financial Management 2020 (Non-tax revenue, p.18).

Further compliance and enforcement gains may slow. The gains from increased enforcement and compliance of income taxes and indirect taxes has improved revenues significantly in recent years, but the gains may be expected to slow in the future, with tax revenues now accounting for a share of GDP that equals or exceeds many peer countries.

Trade tax revenues could fall. Revenues from international trade taxes could fall in the medium term as Cambodia fully integrates in ASEAN and competes with other member states.

Grants and subsidies may fall. Revenues and financing from grants and subsidies are also expected to decline over the medium term as Cambodia further approaches middle-income status⁵[12] .

Analysis to support parliamentarians

Alternative planning scenarios

Sensitivity of the budget to wage growth assumptions

Public service wages increased by 21% on average according to outturn data from 2016 to 2018, considerably higher than the current planned growth rate of 8.6% (although accounting changes to social security contributions complicate analysis).

It may be informative to test three different wage growth scenarios and their impact on the budget balance in Budget 2020, as in Table 12.

Table 12: Comparison of the forecasts of wage spending (billion riels)

Public Service Wage in National budget	Budget plane of Government in 2020	Scenario 1: 3 years average growth rate 21%	Scenario 2: Double of 2020 Growth rate 17%	Scenario 3: Half of 2020 Growth rate 4%
Total Domestic Revenue	24,093	24,093	24,093	24,093
Total Expenditure	31,096	32,074	31,772	30,758
Overall Balance	(7,003)	(7,981)	(7,679)	(6,665)

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020 (MoEF).

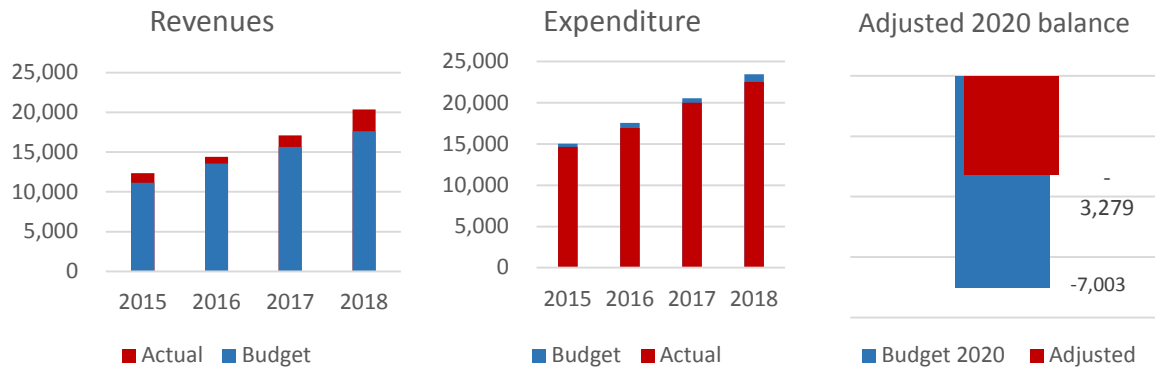
Each scenario has a relatively small impact on the budget balance:

- Scenario 1 assumed that wages in 2020 will grow by the three-year average of recent history (21%). Under this scenario, the overall deficit would widen by 987 billion riels to 7,981 riels compared to the overall balance in Budget Law 2020.
- Scenario 2 assumes that the growth rate of public service wages in 2020 is twice the budget plan, rising by 17% instead of 8.6%. As a result, the overall budget deficit of would increase to 7,679 billion riels compared to the planned deficit of 7,003 billion riels.
- Scenario 3 assumes the growth rate of public service wages in 2020 is half the planned increase, 4.3% instead of 8.6%. Under this scenario, the overall deficit would decline by 338 billion riels to 6,665 billion riels.

⁵ Grant-funding may fall and be replaced by concessional loan while official development assistance is reduced or off-set by loan amortization.

Adjusted budget (neutral planning scenario)

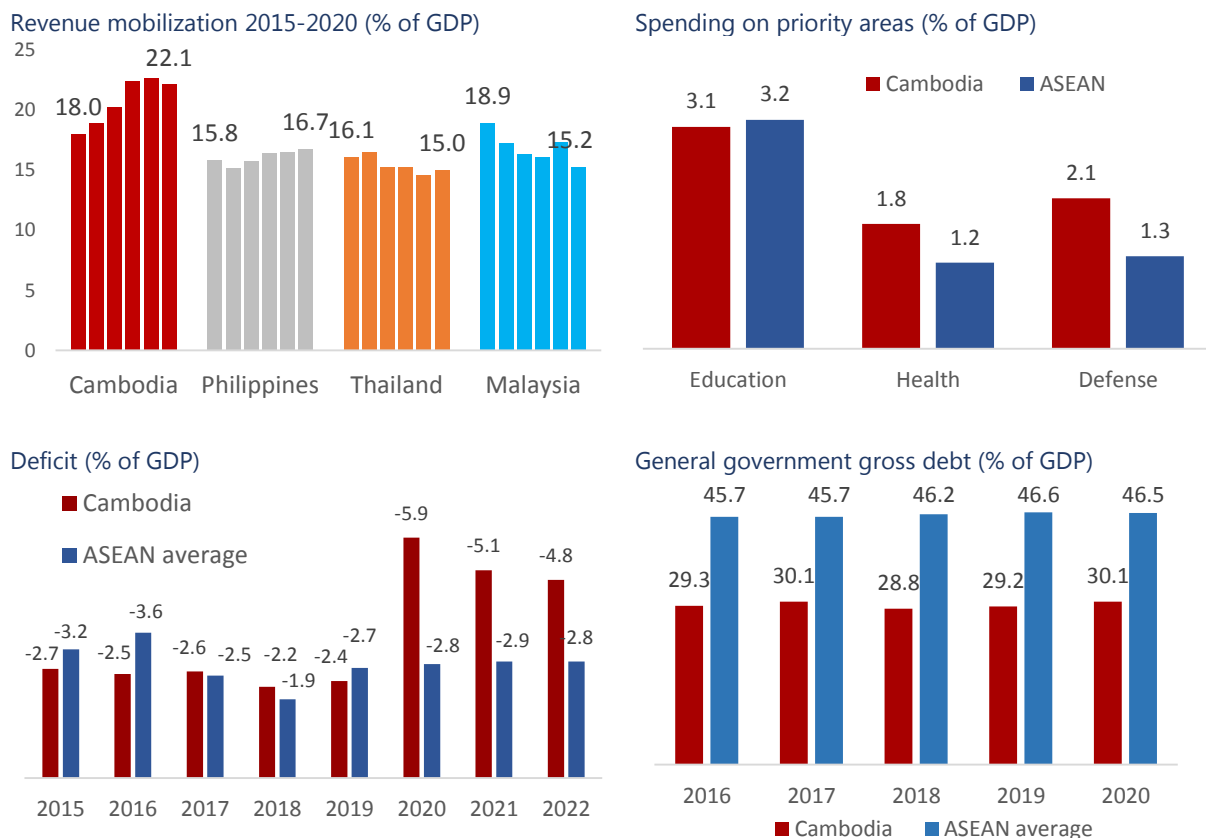
From 2015 to 2018, actual revenues have been higher than the budget plan each year by 10% on average. At the same time, actual expenditure has been lower than the budget ceiling by 3% on average. If similar trends hold in 2020, the budget deficit would be expected to be \$3,279 instead of \$7,003 billion riels.



Comparison to ASEAN peers

Cambodia's revenue mobilization efforts have performed well, leading to a high ratio of revenues to GDP (22.5% in 2020), exceeding those of the three selected peer countries: Philippines (16.7%), Thailand (15%), and Malaysia (15.2%) (Figure 6).

Figure 6: Performance against ASEAN peers



Source: National budgets

Spending on priority areas exceeds the ASEAN average in the health and defense sectors but is lower for education (3.1% compared to ASEAN spending of 3.2%). However, this measures only inputs, not outcomes.

Cambodia expects its deficit to be 5.9% of GDP in 2020, which is twice the ASEAN average; however, Cambodia's general government gross debt (outstanding) is among the lowest in the region, and much lower than the ASEAN average of 46.5% of GDP.

Issues for further consideration by Parliamentarians

Parliamentarians may wish to consider some of the following points in their deliberations on Draft Budget Law 2020:

- The significant run-up in capital investment may warrant further analysis as to the specific projects involved, to help achieve the government's investment program (2020-2022).
- The IMF has recommended that Cambodia look at how its tax system addresses e-commerce activity, particularly VAT (IMF 2018).
- The World Bank has recommended that Cambodia's property tax system be reviewed, with rates raised, and re-assessments of property values every 5 years at least (World Bank, 2019).
- In recent years salary tax thresholds have been changed annually to reflect inflation. If the government's intent is to make this a regular event, it may be worth exploring a permanent policy that sets the mechanism (such as indexing it to the annual rate of inflation from the previous year), to give employees and employers certainty in planning their business expenses and consumption for the years ahead.

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Appendix

Table A: Summary of current expenditure by ministry (2016-2020)

Current expenditure by ministries	% in total current expenditure					Growth 2020	Average Growth 2016-2020
	2016	2017	2018	2019	2020		
Ministry of Education, Youth, and Sport	17.0%	17.1%	17.9%	17.5%	17.8%	8.7%	16.7%
Ministry of National Defense	14.9%	14.4%	14.9%	14.4%	14.1%	5.0%	14.0%
Ministry of Interior	10.6%	10.5%	10.9%	10.1%	10.9%	15.4%	8.9%
Ministry of Health	9.7%	8.9%	9.2%	9.2%	9.1%	5.9%	11.3%
Ministry of Social Affairs, Veterans and Youth Rehabilitation	6.3%	6.0%	6.0%	5.9%	6.3%	14.5%	13.7%
Ministry of Economy and Finance	5.3%	7.0%	5.4%	4.7%	4.9%	11.3%	20.4%
Office of Council of Ministers	5.2%	5.0%	3.9%	2.5%	2.4%	2.8%	3.8%
Ministry of Public Works and Transport	3.5%	2.9%	2.6%	2.4%	2.3%	-0.6%	4.1%
Ministry of Agriculture, Forestry, and Fisheries	1.6%	1.6%	1.6%	1.6%	1.6%	6.9%	13.8%
Ministry of Labor and Vocational Training	1.5%	1.7%	2.0%	1.4%	1.5%	14.3%	21.0%
Ministry of Rural Development	1.3%	1.2%	1.1%	1.1%	1.1%	7.3%	10.2%
National Assembly	1.3%	1.2%	1.2%	1.1%	1.1%	5.5%	7.5%
Ministry of Culture and Fine Arts	0.6%	1.1%	1.5%	1.1%	1.0%	2.8%	37.2%
Ministry of Justice	0.8%	0.8%	0.9%	0.9%	0.9%	9.8%	21.3%
Ministry of Water Resources and Meteorology	0.8%	0.9%	0.9%	0.9%	0.9%	3.0%	17.3%
Ministry of Foreign Affairs and International Cooperation	0.8%	0.9%	0.8%	0.9%	0.9%	3.8%	15.3%
Ministry of Land Management, Urban Planning and Construction	1.0%	1.1%	1.1%	1.0%	0.8%	-15.8%	10.2%
Ministry of Commerce	1.1%	1.0%	1.0%	0.9%	0.7%	-14.6%	2.1%
Ministry of Tourism	0.6%	0.6%	0.6%	0.6%	0.6%	5.0%	15.8%
Royal Palace	0.7%	0.8%	0.6%	0.6%	0.6%	4.5%	6.7%
Ministry of Planning	0.5%	0.5%	0.5%	0.5%	0.5%	6.7%	17.8%
Ministry of Environment	0.5%	0.5%	0.6%	0.5%	0.5%	6.7%	20.1%
Ministry of Information	0.5%	0.5%	0.5%	0.5%	0.5%	5.9%	12.6%
Senate	0.6%	0.5%	0.5%	0.5%	0.5%	0.1%	9.1%
Ministry of Posts and Telecommunications	0.5%	0.7%	0.5%	0.4%	0.4%	7.6%	16.7%
Ministry of Mines and Energy	0.3%	0.4%	0.3%	0.3%	0.4%	30.8%	31.8%
Ministry of Cult and Religion	0.4%	0.4%	0.4%	0.4%	0.4%	6.9%	19.1%
National Election Committee	0.8%	1.2%	1.2%	0.5%	0.4%	-18.3%	140.5%
Ministry of Industry and Handicraft	0.3%	0.3%	0.3%	0.3%	0.3%	9.2%	18.7%
Ministry of Civil Service	0.3%	0.3%	0.3%	0.3%	0.3%	14.4%	17.2%
State Secretariat of Civil Aviation	0.5%	0.4%	0.4%	0.3%	0.3%	7.8%	-2.3%
Ministry of Women Affairs	0.3%	0.3%	0.3%	0.3%	0.3%	8.6%	12.3%
Anti-Corruption Unit	0.3%	0.3%	0.3%	0.3%	0.3%	8.2%	15.3%
Ministry of National Assembly-Senate Relations and Inspection	0.3%	0.3%	0.3%	0.2%	0.2%	6.4%	14.4%
Council for the Development of Cambodia	0.1%	0.1%	0.1%	0.1%	0.1%	5.0%	12.4%
National Audit Authority	0.1%	0.1%	0.1%	0.1%	0.1%	0.5%	10.6%
Constitutional Council	0.1%	0.1%	0.1%	0.1%	0.1%	18.9%	13.1%

Source: Budget Settlement 2015 to 2018 and Budget Law 2019 and 2020.