

Cambodia's economy is running out of steam

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Hun Sen's economic achievements are unraveling and everyone's getting hit.

It called itself "a nightclub that takes the Phnom Penh nightlife scene to the next level." It was part-owned by the nephew of a well-connected tycoon, and according to its website, was only for "the most refined clubbers, A-list celebs, and social jet-setters." A plate of french fries cost US\$6.

But in early July, Epic quietly shut down – a sign of the times for Cambodia's financially strained upper crust.

Patrons looking to cut costs switched from bottle service to beer, according to a Cambodian businessperson with knowledge of the situation. The eight-year-old hotspot in the heart of Phnom Penh had little choice but to close its doors.

"Don't believe what you see, the luxury cars, mansions, and guards. They're full of loans," the businessperson, who asked not to be named for safety reasons, told RFA. The wealthy are now finding themselves having to "urgently sell their property at half market price or lower," the person added.

It's not just the wealthy feeling the strain.

As Cambodians head to the polls on July 23, a cloud hangs over the nation's usually robust economy.

Tourism, which in 2017 was [estimated](#) to represent a third of Cambodia's GDP, was down 33% the first quarter of the year against the same period in 2019. The garment sector, which last year employed 750,000 people but accounted for another third of Cambodia's GDP, is equally struggling, with 50,000 garment workers unemployed as of March this year.

But it's in real estate and construction, a bellwether of prosperity in this rapidly developing nation, where the full measure of economic problems can be seen.

These problems touch every sector of society from the richest down to the poorest and are leaving banks holding a worrying amount of outstanding loans – a possible precursor to financial crisis, according to the World Bank.

Nonperforming loans are on the rise, suburban residents are being evicted for missed mortgage payments, and construction has plateaued to such an extent that even what experts have called "enslaved" workers are being laid off.

Having outlawed the only viable opposition party, the premier and his ruling Cambodian People's Party are guaranteed an electoral sweep come Sunday. But with an economic malaise settling over the country, a government that long defended its legitimacy by pointing to rapid GDP growth likely has a rocky road ahead.

Foreclosures mounting

Weeks before Epic shut down, with the election looming, Hun Sen set out to ensure middle class homeowners could keep a roof over their heads.

In early June, the prime minister [ordered](#) developers of semi-gated communities known as boreys to stop evicting homeowners amid a wave of nonpayments.

For Cambodians like Pot Srey Pov, a vendor who recently lost her home in Phnom Penh's Borey Thmey, her US\$1000 a month mortgage was too much to bear.

After paying nearly half of her mortgage off over the course of three years, she was denied a refinancing that would have helped her keep her home.

"Since I bought the house, I never took holidays or took the kids out," she said.

The evictions are a sign of the mass problem of household debt that has gripped every level of Cambodian society.

The average ratio of household debt to household expenditure in Cambodia stood at 65% in 2019 – "exceptionally high" for a country at Cambodia's stage of development, according to a recent World Bank report.

The report [cautioned](#) that the debt is not being productively used; that is, it is not generating income that could be used to repay it. This is "raising concern that excessive borrowing can force households to fall into a vicious debt trap."

Outstanding loans, meanwhile, have ballooned from just 9.6% of GDP in 2009 to 180% in January 2023. The report noted that a large body of research "views rapid credit expansion as a prelude to financial crises."

The government asked developers to allow loan refinancing, and so should take strict measures against companies that continue to confiscate homes, said Yong Kim Eng, president of rights NGO PDP-Center.

But it would likely have to give some incentives to the companies, which are also struggling financially.

"Some companies are losing money as well, they might face bankruptcy," he said.

Developers struggling

Shielding borey residents from eviction not only curries favor with CPP rank and file, it cannily outsources the financial burden of addressing a symptom of the unfolding economic crisis onto property developers.

Whether developers can shoulder the burden remains to be seen.

Real estate and construction sectors accounted for some 15% of the Cambodian economy as of January 2023.

But a rapid cooling of a market has been deeply affected by the COVID-19 pandemic – and may never recover to its previous highs.

"The market pre-Covid was super-hot, it was like a gold rush. It didn't really matter what people built, they seemed to be able to sell it," Tom O'Sullivan, who runs a Cambodian real estate listing website, told RFA.

For years before the pandemic, the market had been propped up by Chinese buyers seeking a safe haven for their money. In 2016, the Chinese yuan plummeted 7% against the dollar. In response, Cambodian property developers rapidly built towers full of condos that Chinese investors, seeking to escape the volatility of the yuan currency fluctuation, eagerly snapped up. Often, they paid cash for properties they had never set foot in.

Two events in rapid succession pricked Cambodia's real estate bubble. In August 2019, Prime Minister Hun Sen announced a ban on online casinos.

China-facing gaming websites operating primarily out of Cambodia's largest port city, Sihanoukville, had been the driving force for US\$5.8 billion of approved construction projects in 2019-2020, according to the [World Bank](#). Overnight, the industry underpinning the city's economy disappeared.

Then came Covid. Beijing's [response](#) to the pandemic in 2020 – driving up exports and drastically reducing international travel – curbed investors' desire and ability to offshore their money.

The result has been dire for Cambodian real estate. Approvals for construction by the Ministry of Land Management in 2022 were down by nearly half compared to the previous year, from US\$5.3 billion to US\$2.97 billion.

Even when travel restrictions were removed, China's struggling economy appears to have cut into the purchasing power of would-be investors.

"There's been a decrease in demand," O'Sullivan said. "Chinese buyers haven't rebounded like everyone thought they would."

Ripple effects

Greeted by a dearth of buyers, developers who had loaded up on loans to build low-grade condos have been forced to stop work, often mid-construction, and will almost certainly default on their debts.

Further down the food chain, construction workers, who are largely informally employed migrant workers from the countryside, will be finding themselves out of work in increasingly large numbers.

That, in turn, will lead to more non-repayment problems, spreading beyond cities.

Some 2.1 million Cambodians have an outstanding debt with a microfinance institution, with an average remaining balance to pay of US\$4,476. With many rural families relying on relatives working in the cities to repay their loans, the slowdown in the construction sector will send shockwaves deep into Cambodia's provinces.

The situation is so stark that even brick kiln workers – who are among the poorest of the poor and are typically held in bonded labor – are finding themselves out of a job.

With so little construction happening, those making the raw materials have either been temporarily released until the kiln resumes work or permanently released from their contract and the kiln shut down, according to Laurie Parsons, a lecturer at London's Royal Holloway University who studies enslaved laborers.

Those laborers who have been retained in their bonds, forced to undertake the dangerous, back-breaking work until their debts are paid off, are now given work only sporadically, placing them in an even more precarious situation.

Lenders wary

For banks, the shifting economic headwinds have led to a slowdown in lending.

In January and February, lending by Cambodian banks shrunk, according to National Bank of Cambodia data. That has never happened for two consecutive months at any point in the last decade.

CPP spokesperson Sok Ey San insisted that the dip in lending suggests financial improvement. “People don’t need cash because they are getting better financially, so they don’t need bank loans or microfinance loans,” he told RFA.

But analysts and business insiders say the slowdown suggests banks are wary of lending amid economic uncertainty and rising levels of non-performing loans, those on which the debtors have failed to make repayments for 90 days or more.

National Bank of Cambodia data show non-performing loans, which includes everything from business loans to mortgages, credit cards and overdrafts, almost doubled from US\$700 million in 2021 to US\$1.3 billion by the end of 2022, accounting for 3% of all credit extended by banks.

“The banks stopped loaning money, it’s on a real decline now,” the Cambodian businessperson told RFA.

No easy out

While many Cambodians have long struggled to get by, those in the middle and upper classes have traditionally been shielded from precarity. Cambodia has also avoided the pandemic-related inflation that has imperiled neighboring Laos.

But with the wealthy, developers and homeowners all struggling amid debt, with banks holding more nonperforming loans than ever, the government faces a challenge going forward. Not least with regard to the 37% of the population [estimated](#) by the United Nations to be either suffering from or at risk of what it terms “multidimensional poverty.”

For more than three decades the CPP has sold itself to voters, its neighbors and the international community as the guarantor of both political and economic stability in Cambodia.

Political continuity looks assured through the planned transfer of power from Prime Minister Hun Sen to his son Hun Manet, who happens to hold a PhD in economics. He will have to navigate a set of economic challenges unlike any his father ever dealt with.

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