



Dollarization or Dedollarization?

Dollarization in Cambodia Policy to Promote the Usage of Riel

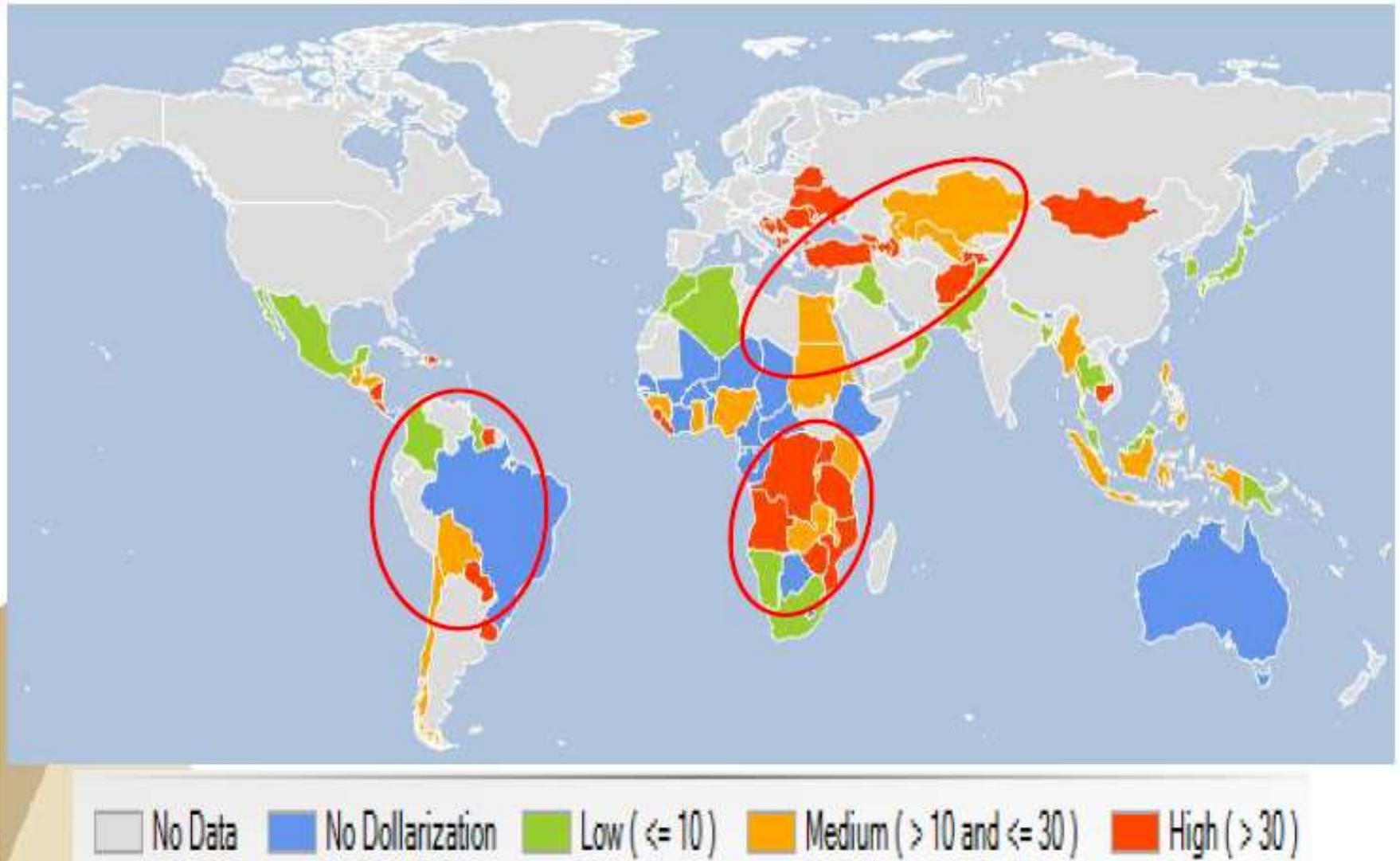
February 18, 2015

**Khou Vouthy, National Bank of Cambodia
Ken Odajima, JICA Research Institute**



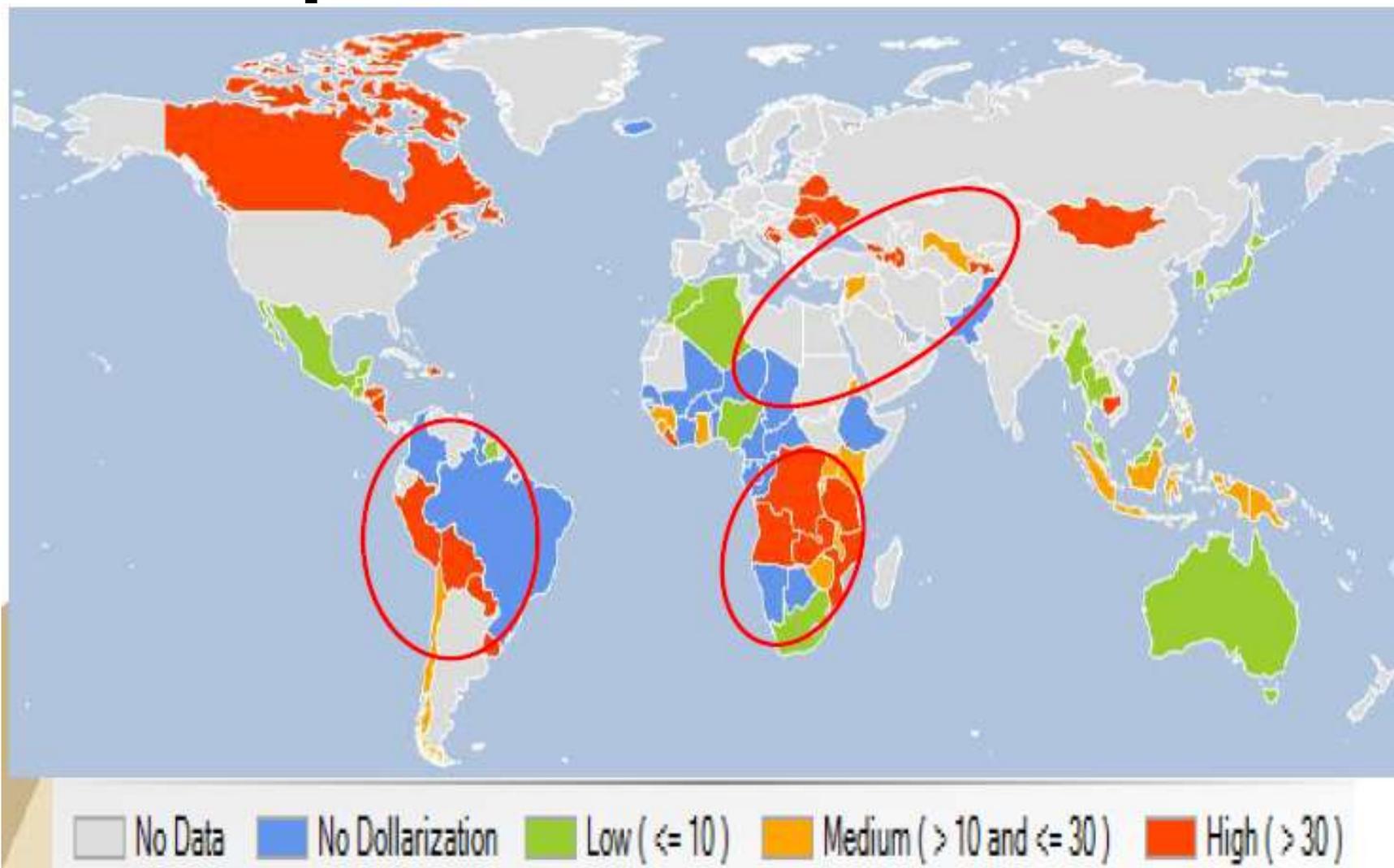
Japan International Cooperation Agency

Deposit Dollarization-2012



Source: De-Dollarization: A Cross-Country Perspective, May Nicholas Staines, IMF (May 2014) ²

Deposit Dollarization-2001



Outline

- I. Dollarization in Cambodia
- II. NBC & JICA Joint Research (Outline and Preliminary Findings)
- III. Policy to Promote the Usage of Riel
- IV. Discussions

Dollarization in Cambodia

<Feature>

–30 years of Civil War

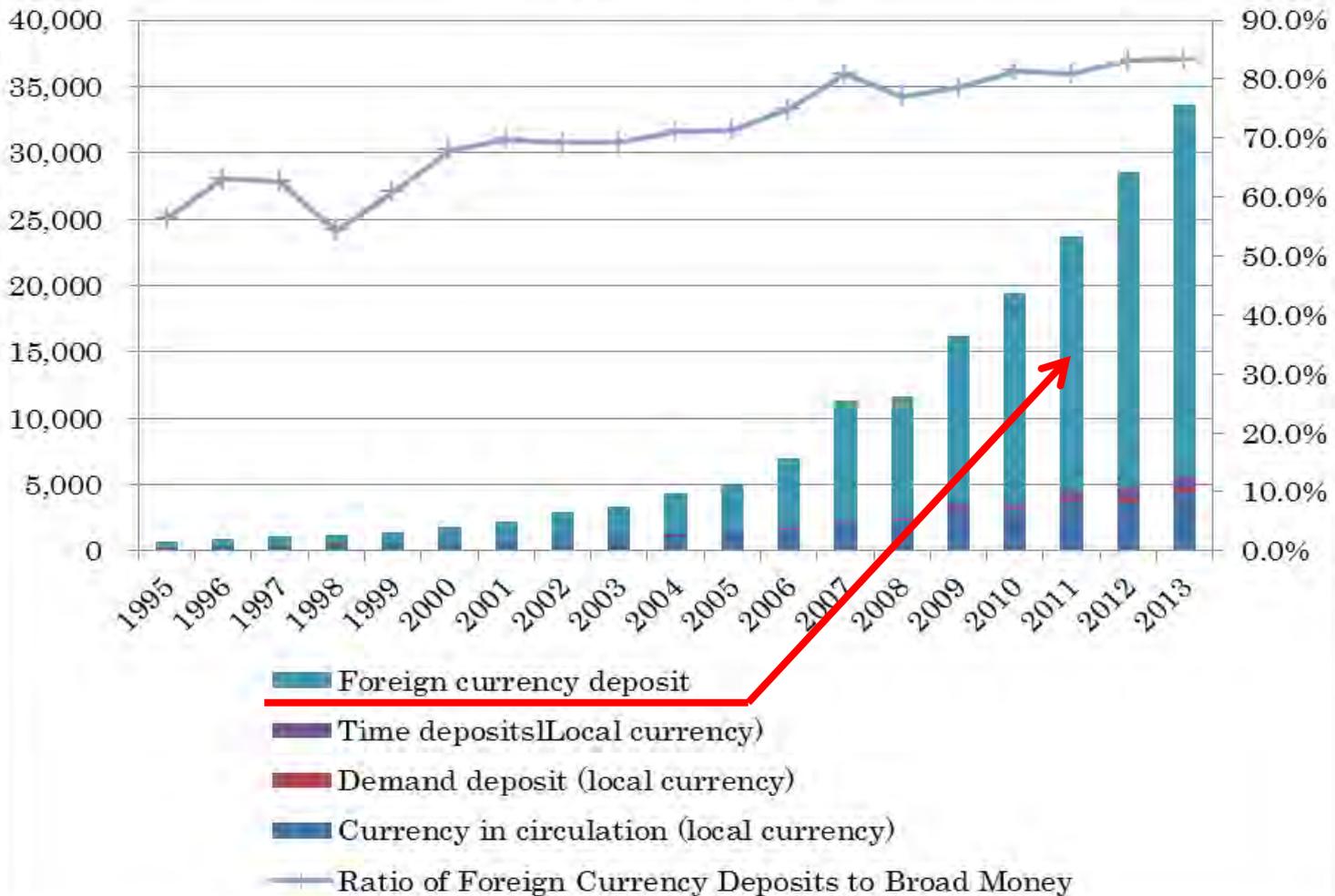
- The Pol Pot Regime (*No Banks, No Money*)

–Massive Inflow of Dollar Notes during UNTAC Operation

- 1.7 billion, two-thirds of GDP in 1993

–Persistent High Level of Dollarization

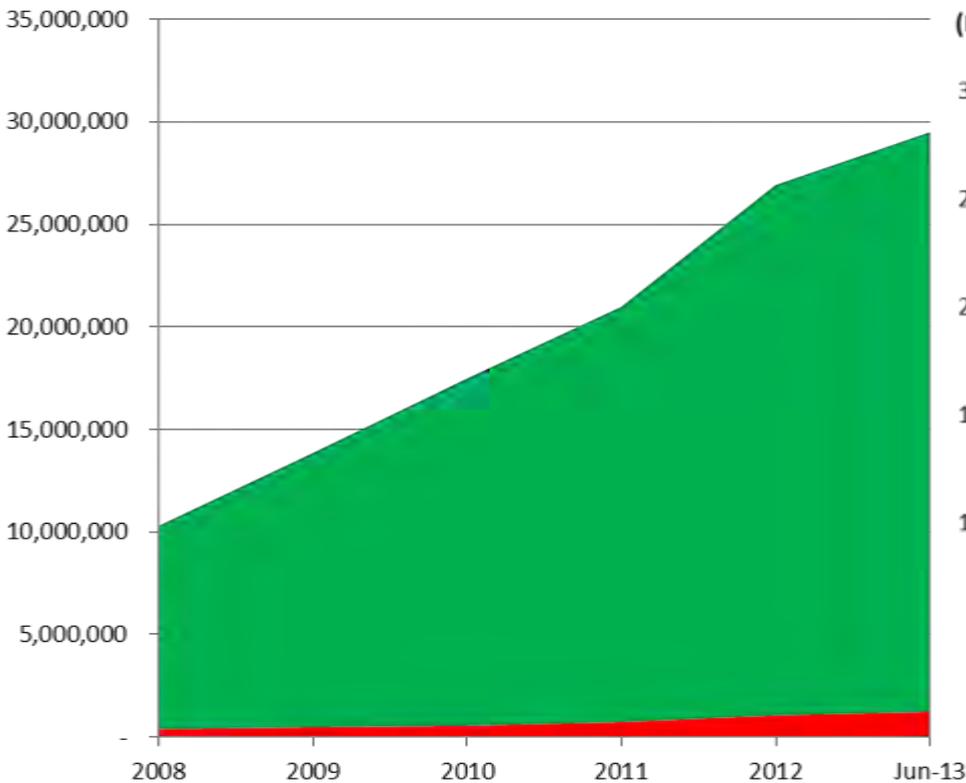
Composition of Broad Money (in billions of riels), Ratio of Foreign Currency Deposit to Broad Money



Source: National Bank of Cambodia

Currency Composition of Deposit in the Commercial Banks

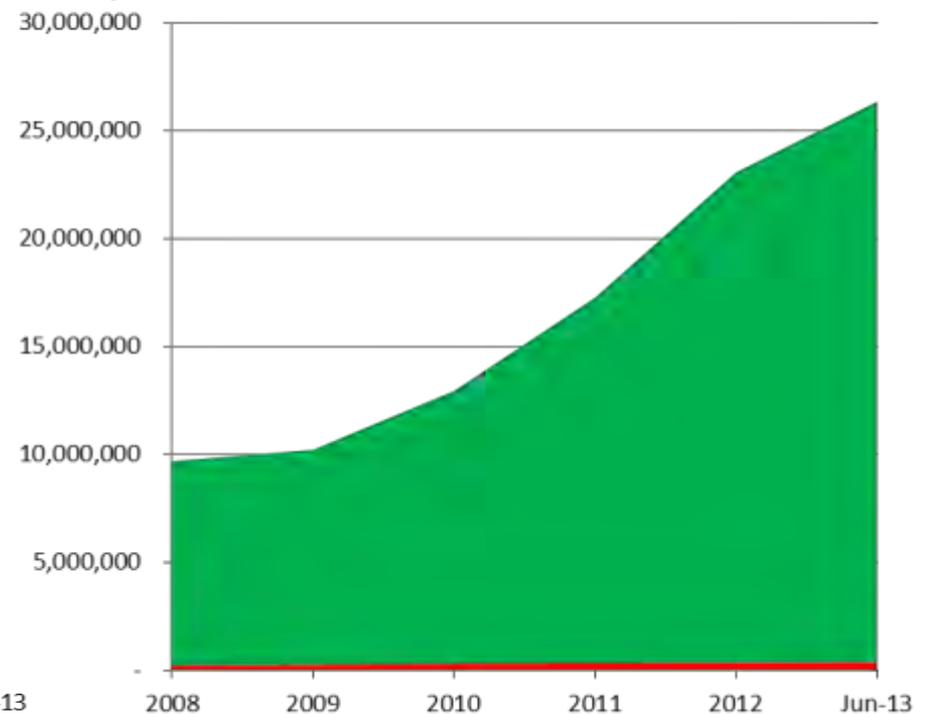
(In Millions of Riel)



■ Riel ■ Foreign Currency

Currency Composition of Loans and Advances in the Commercial Banks

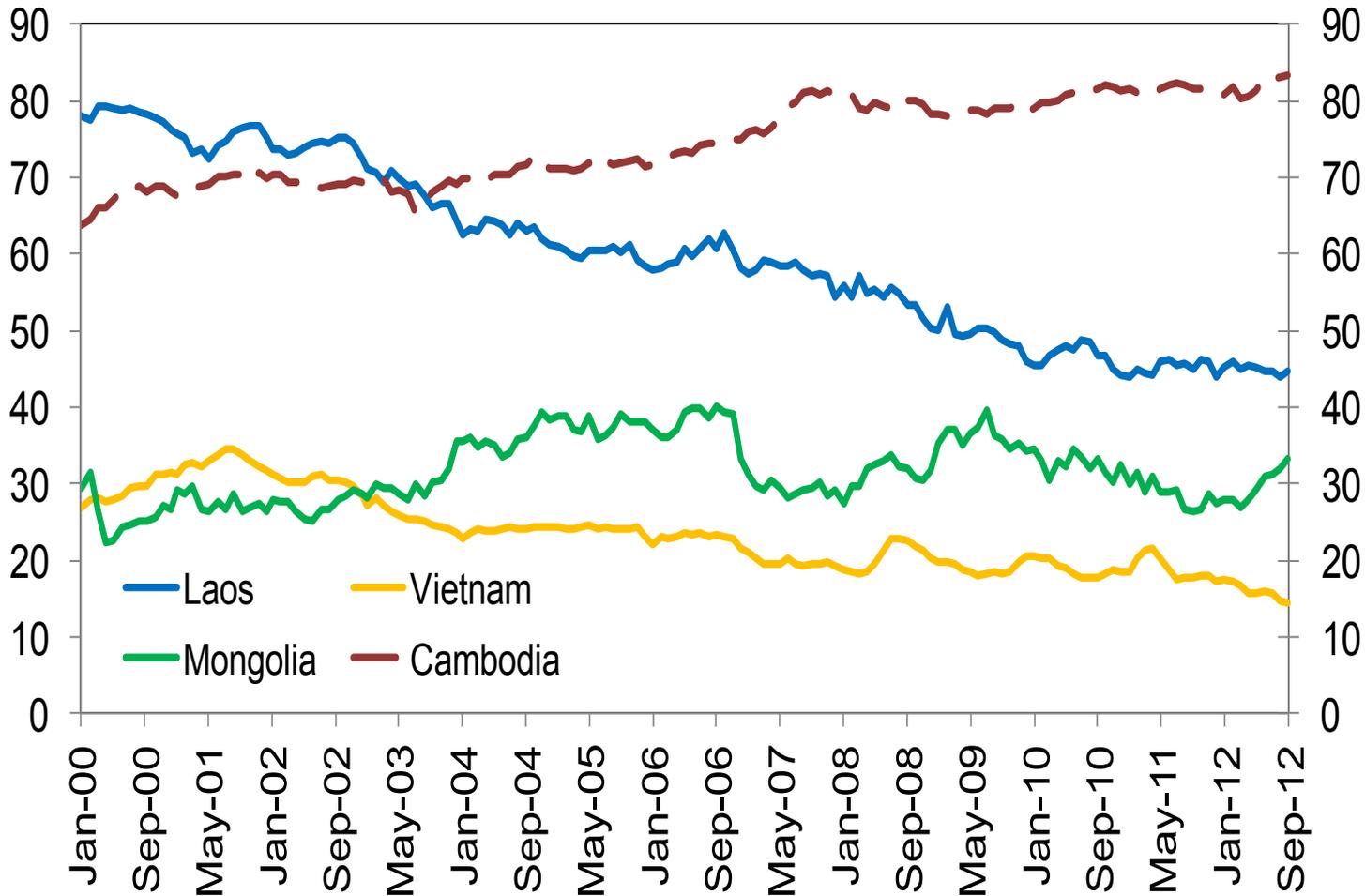
(In Millions of Riel)



■ Riel ■ Foreign Currency

Ratio of Foreign Currency Deposits to Broad Money (M2), 2000-12

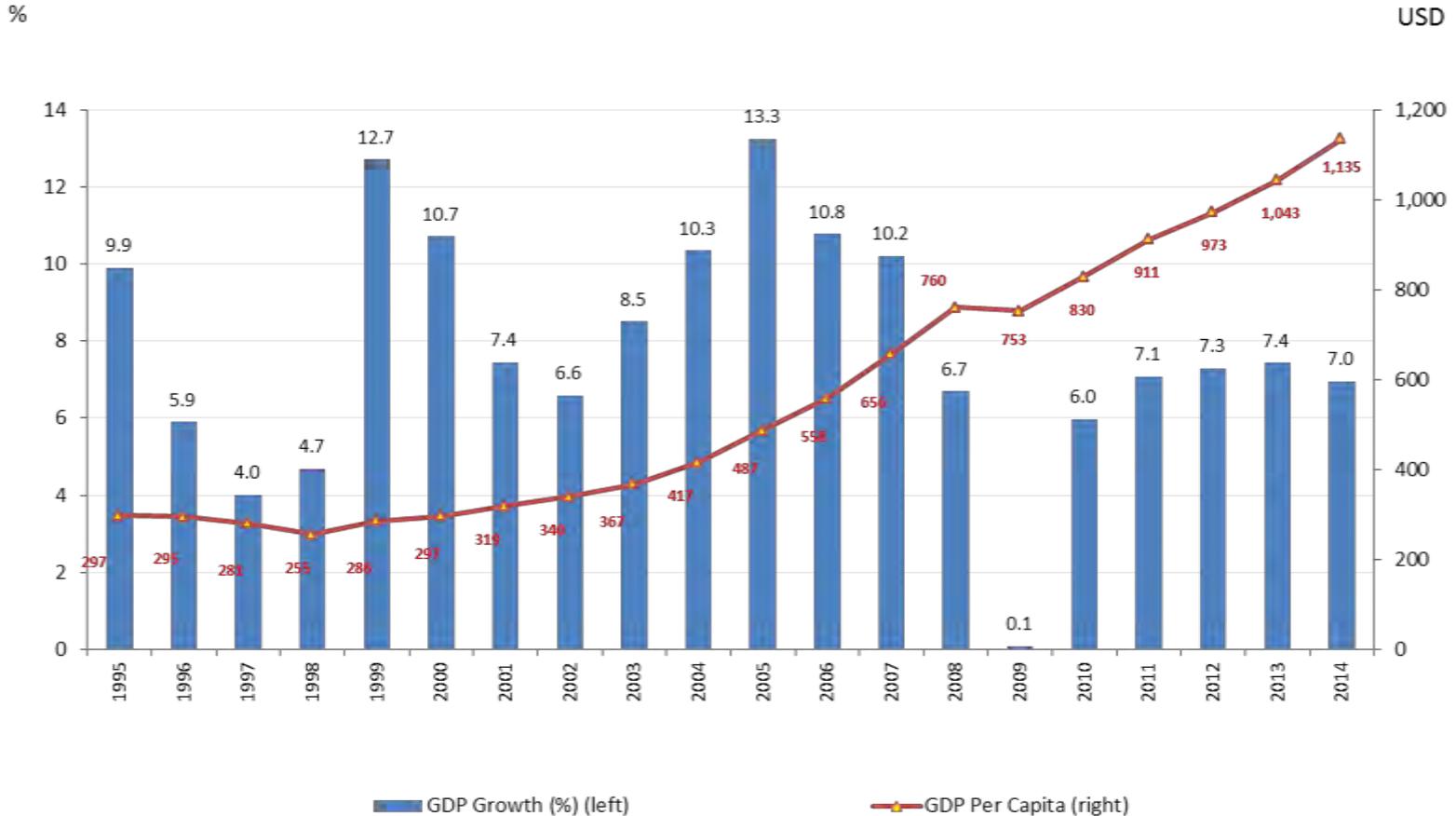
(In percent)



Source: IMF
Sources. Data provided by the authorities, and IMF staff estimates.

Sustainable Economic Growth

GDP Growth and GDP Per Capita (1995-2014)

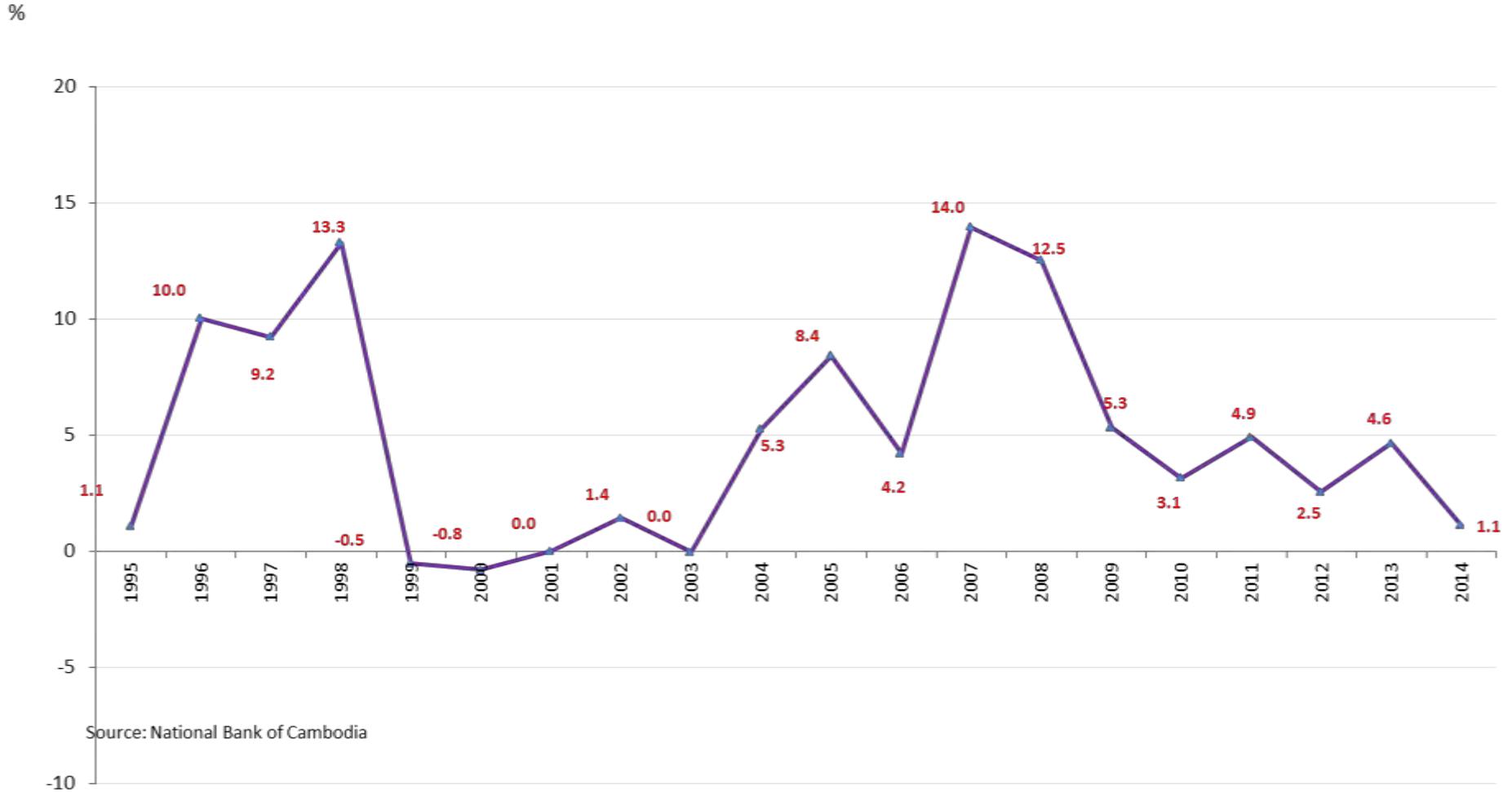


Source: National Bank of Cambodia

Source: National Bank of Cambodia

Price Stability

Inflation (1995-2014)



NBC & JICA Joint Survey

Purpose of the survey:

- Deepen the understandings of behaviors and motivations on the usage of foreign currencies from the household's, enterprise's, financial institution's, and Money changer's perspectives.
- Questionnaire covers relevant aspects of activities including income (revenue), expenditure, saving (assets), borrowing, etc.

Schedule:

- Phase 1: From October 2014-March 2015
- Phase 2: (TBD)
- Phase 3: (TBD)

Samples:

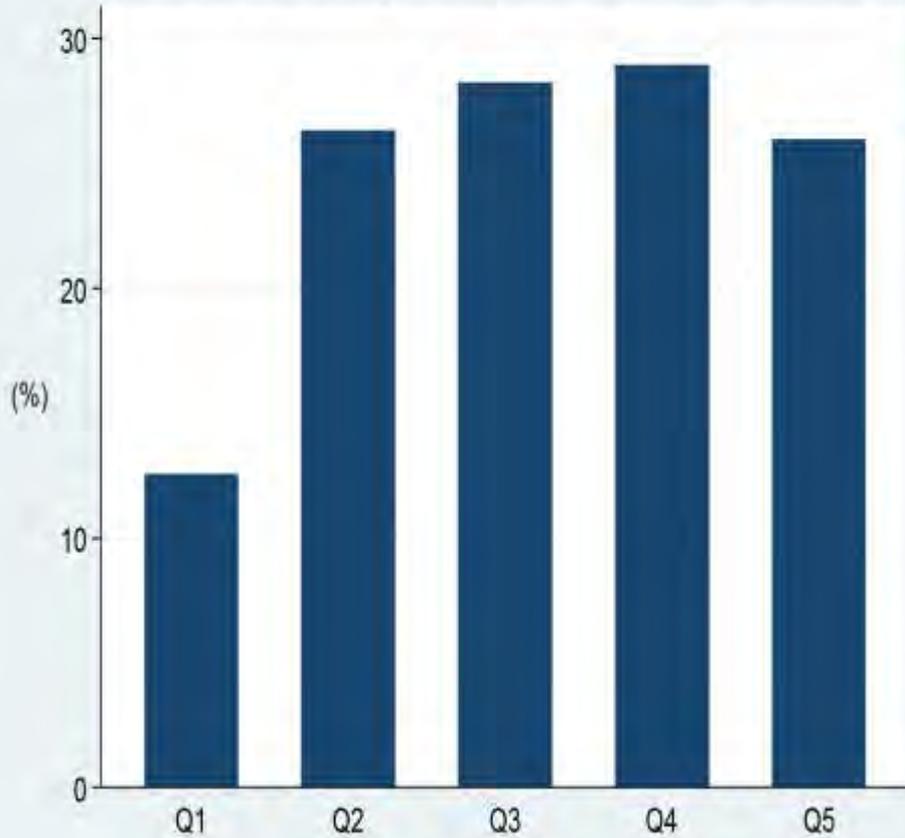
- **Households:** 2100 from 25 provinces
- **Enterprises:** 720 from 25 provinces
- **Commercial Banks:** 435 branches of top 10 banks from 25 provinces
- **Microfinance Institutions:** 230 branches of top 5 institutions from 25 provinces
- **Money Changers:** 30 institutions including 6 largest in Phnom Penh and other provinces

Preliminary Findings

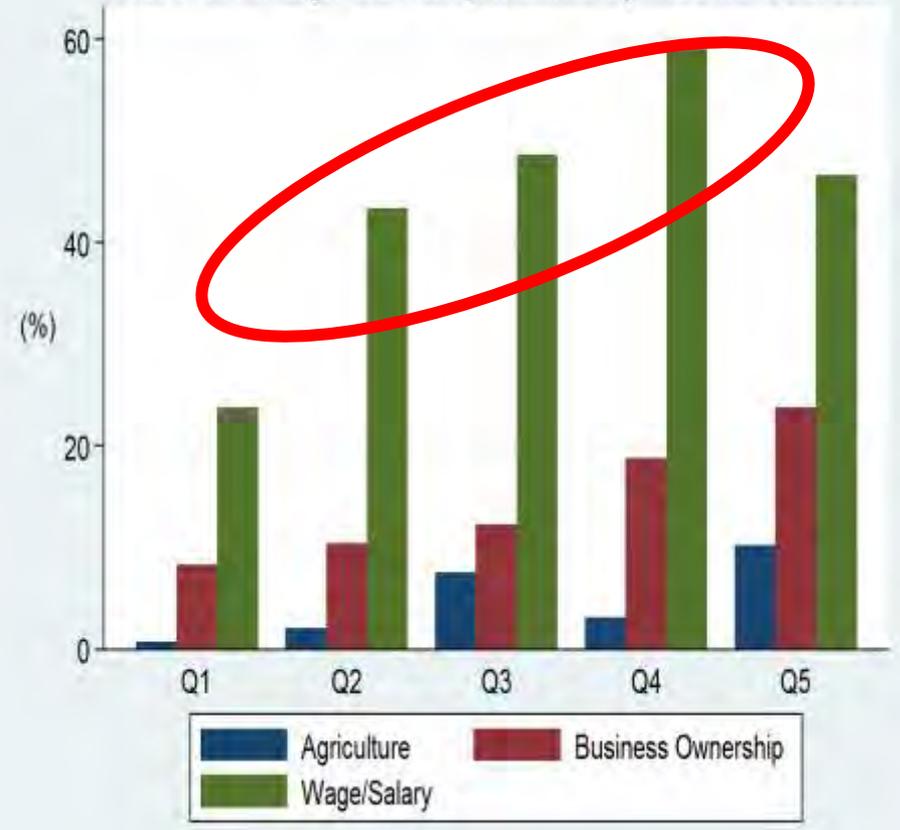
- Household:
 - Currently only 1143 samples from 10 provinces (out of total 25 provinces) including Phnom Penh are available.
- Enterprise:
 - Currently only 230 samples from 6 provinces (out of total 25 provinces) including Phnom Penh are available.

Dollarization of Household Income (Income Level, Income Source)

Household Survey: Ratio of Foreign Currency Income to Total Income (by Income levels)

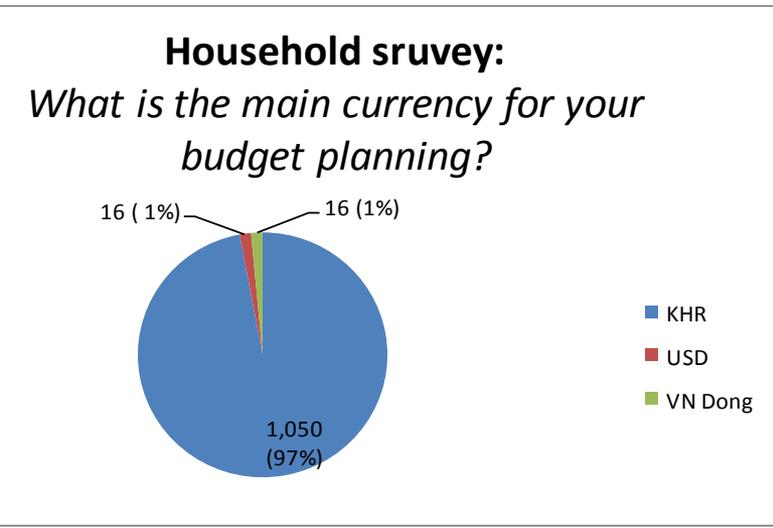
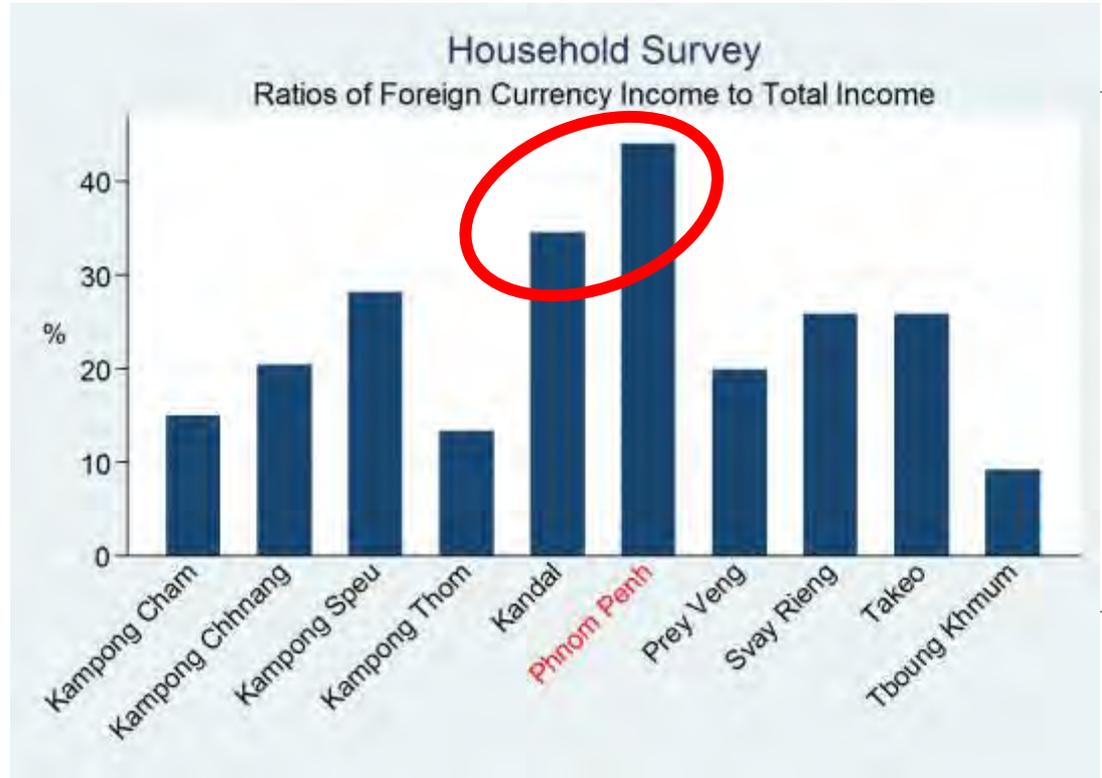


Ratio of Foreign Currency Income by Income Sources



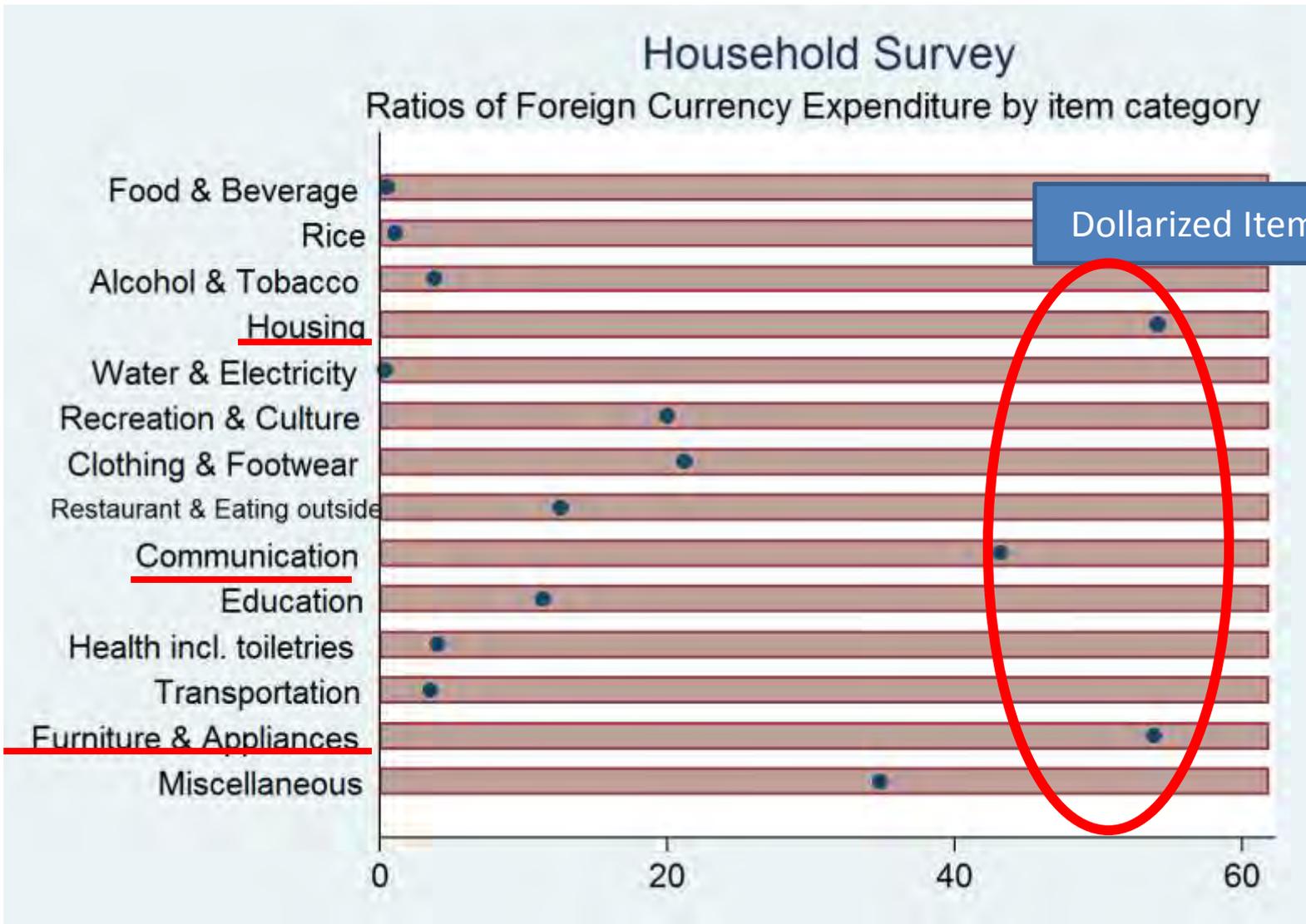
(in quintile from the lowest 20%(Q1) to the highest 20%(Q5))

Dollarization of Household Income (Province)



Currency for Planning

Dollarization of Household Expenditure



Household Survey:

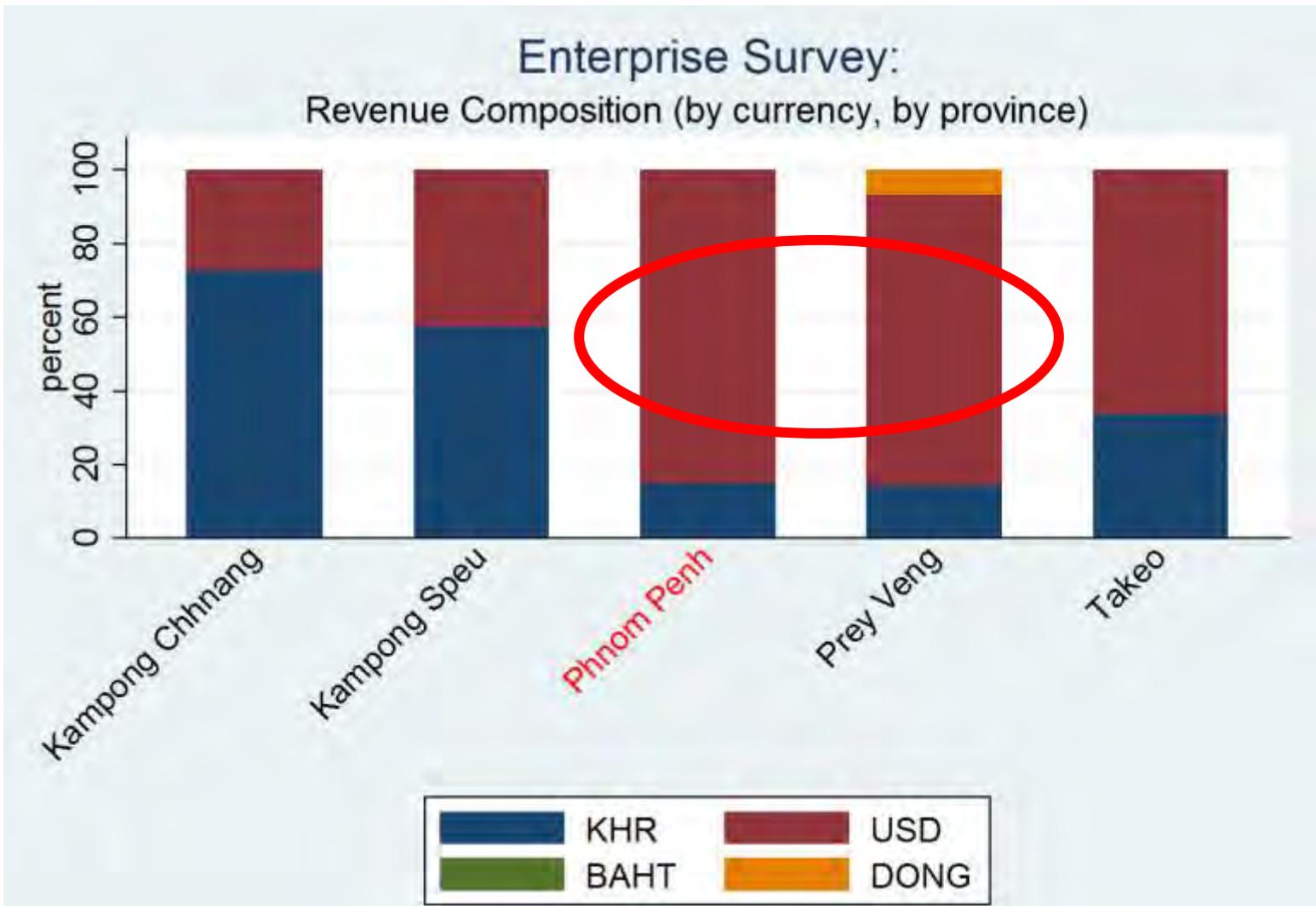
Ratios of Foreign Currency Expenditure (by income level, by item)



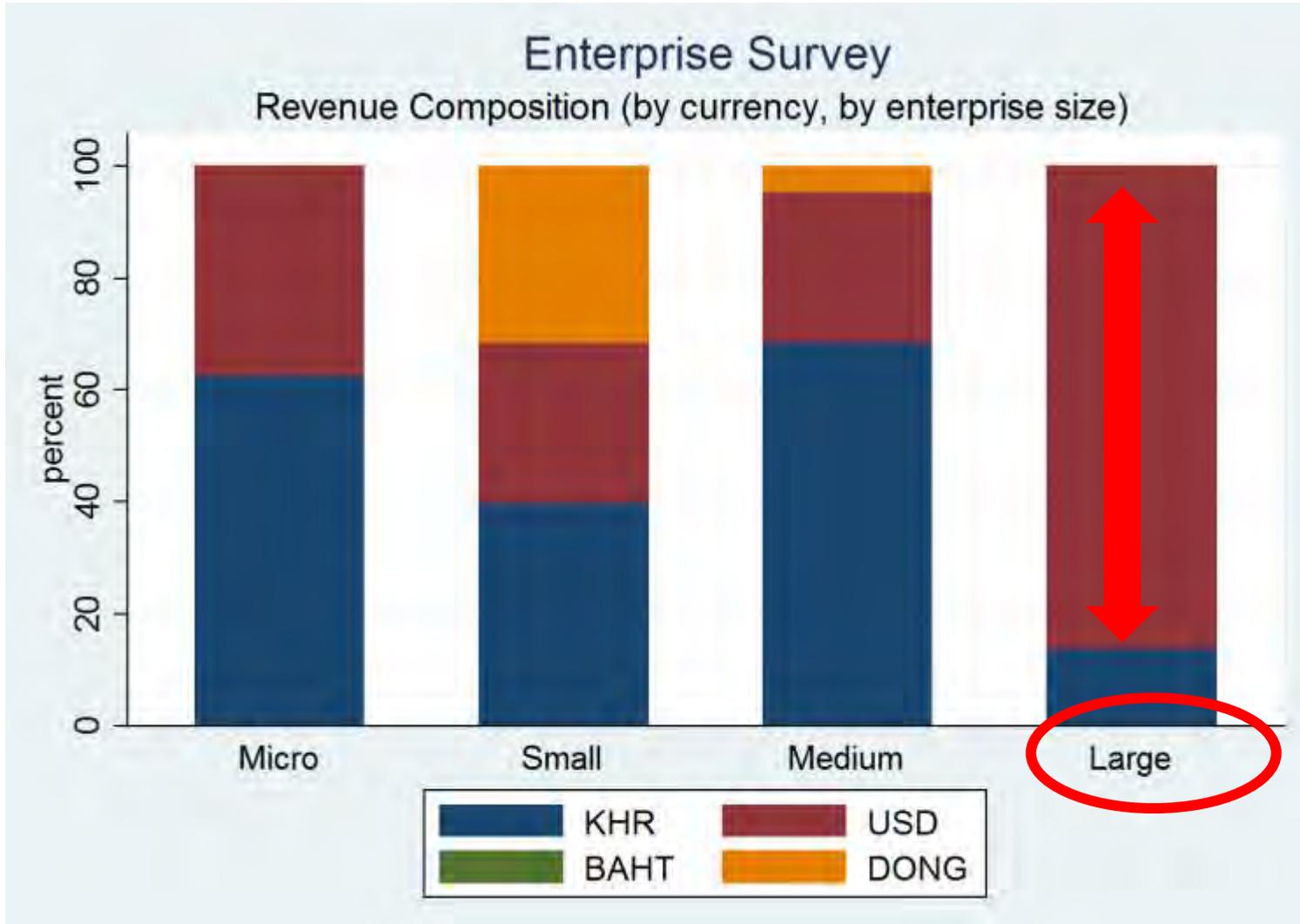
The rich use more dollar.

(in quintile from the lowest 20%(q1) to the highest 20%(q5))

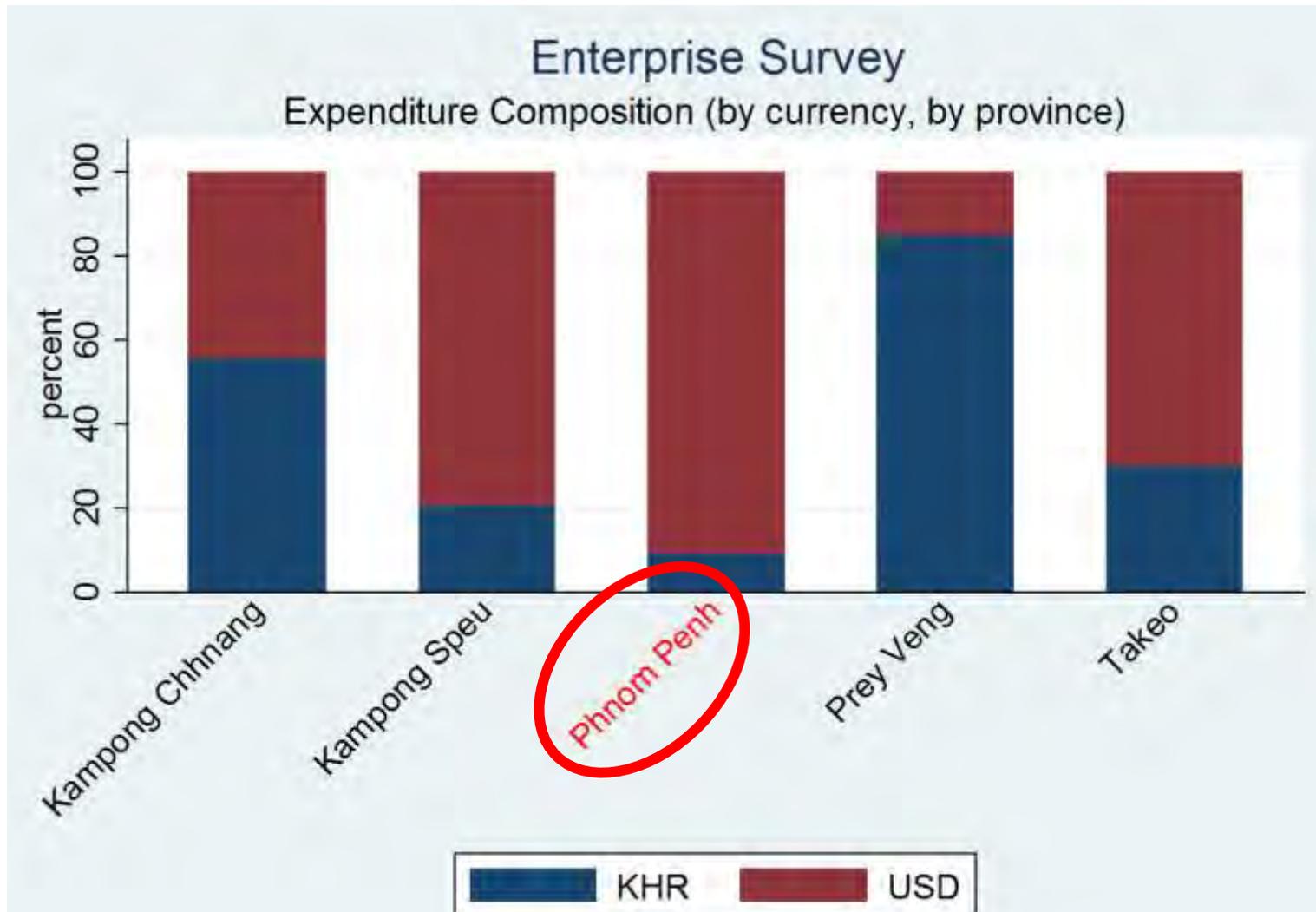
Dollarization of Business Revenue (by province)



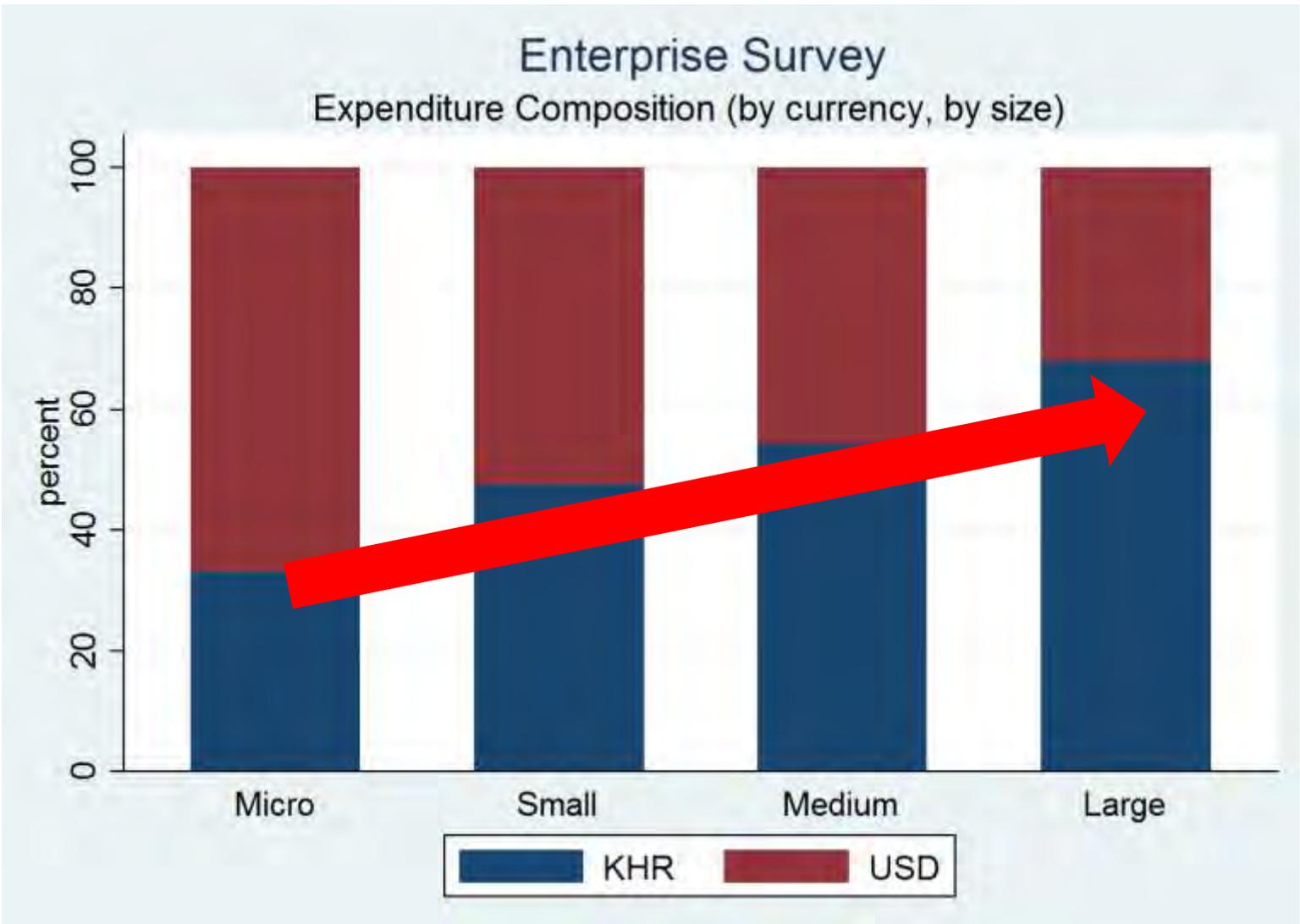
Dollarization of Business Revenue (by size)



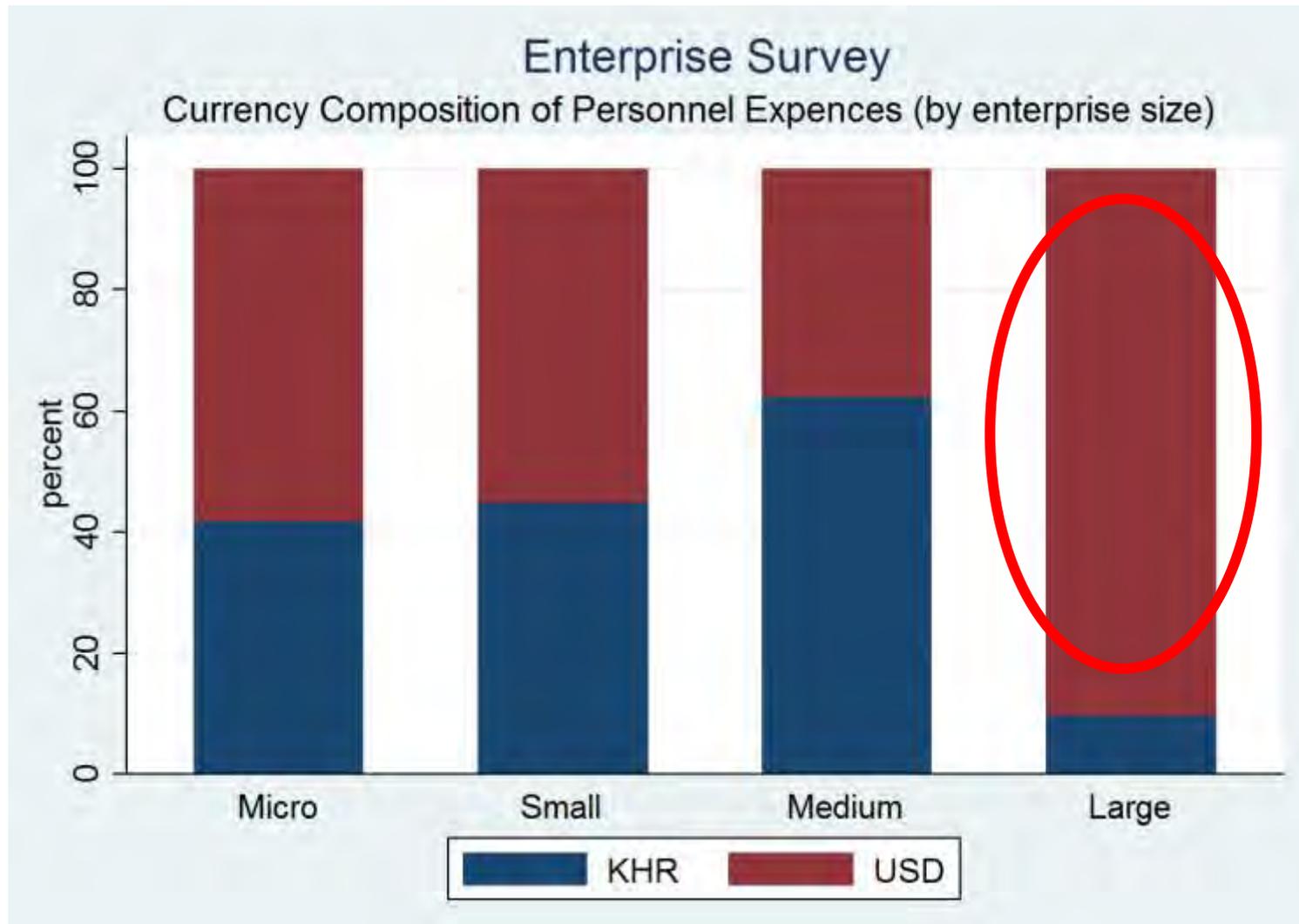
Dollarization of Business Expenditure (by province)



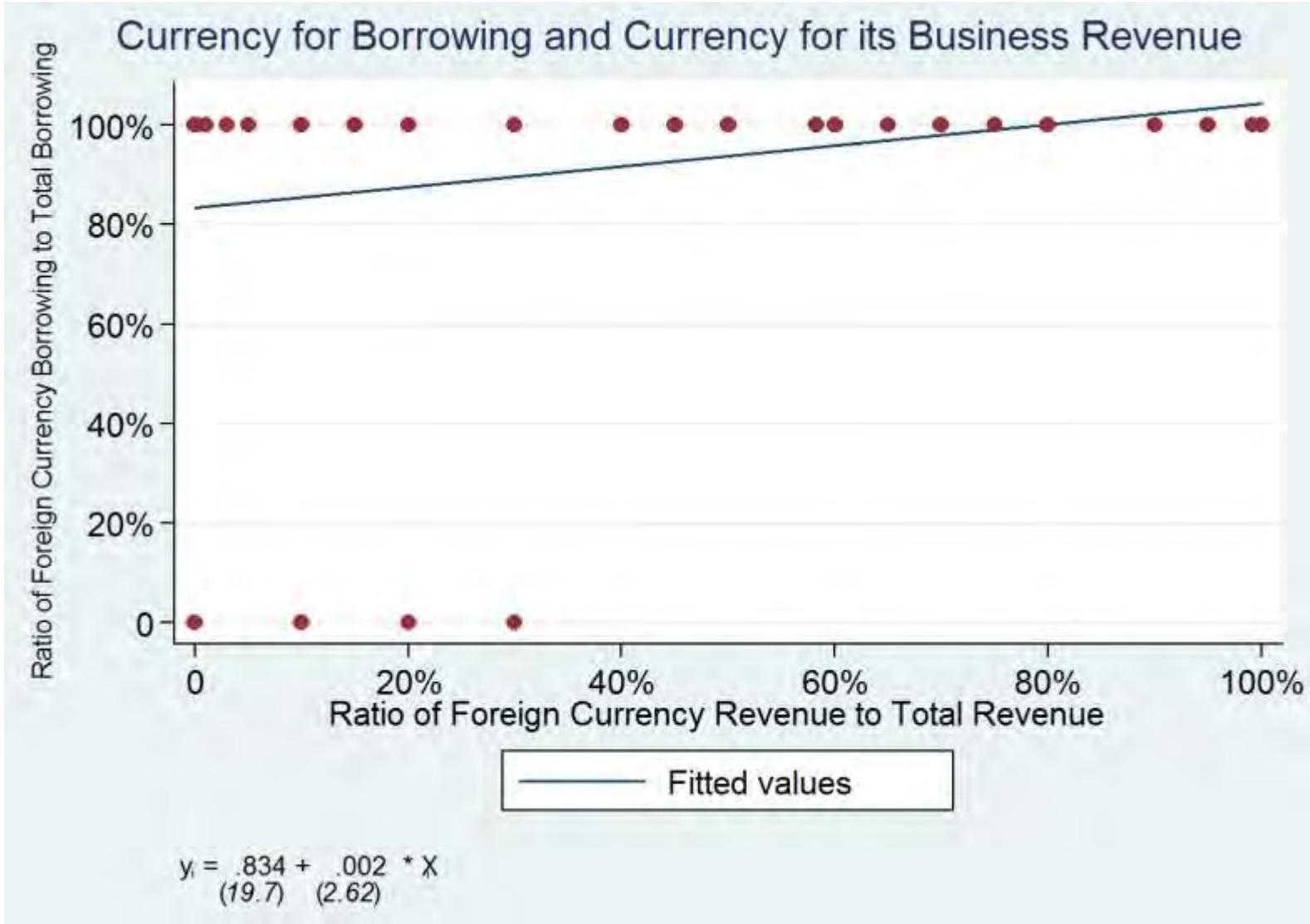
Dollarization of Business Expenditure (by size)



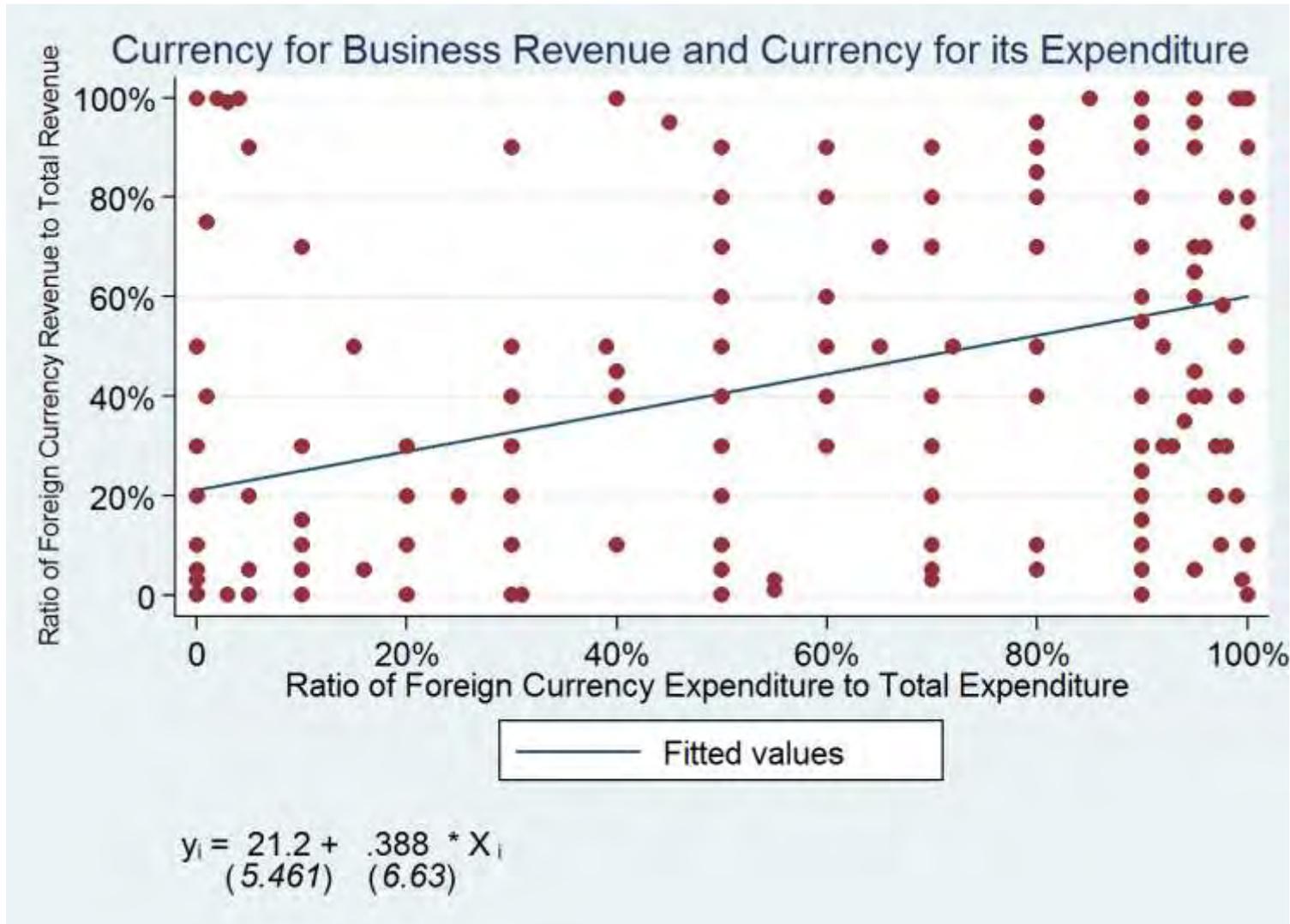
Dollarization of Wages/Salaries



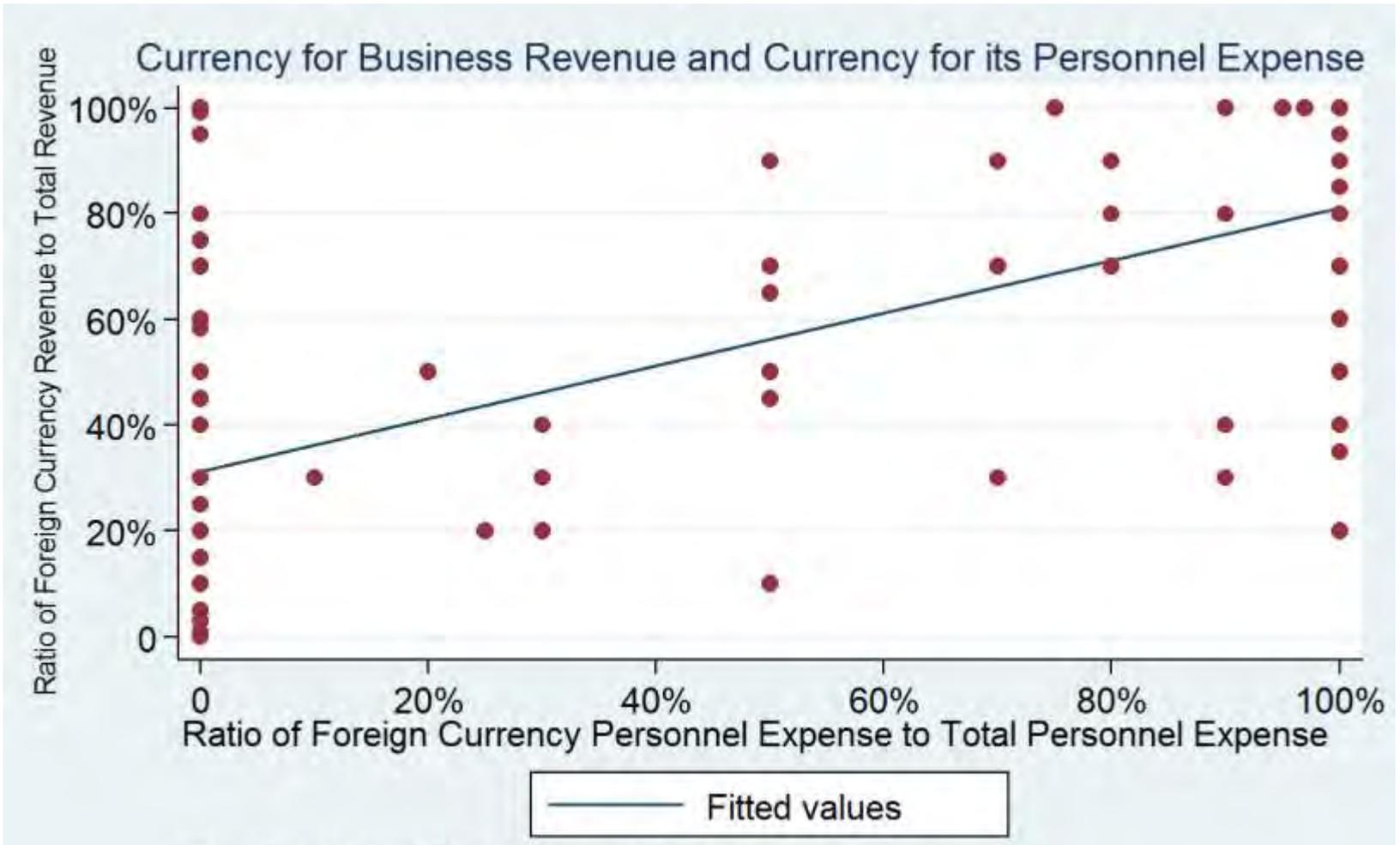
Borrowing and Revenue



Revenue and Expenditure



Revenue and Wage/Salary



The number inside of parentheses is t-value

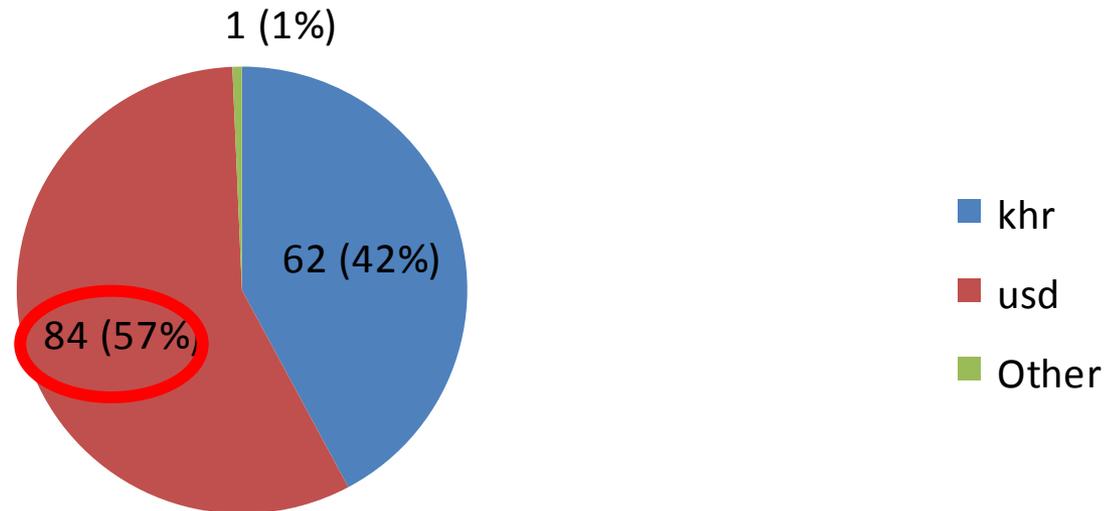
$$y_i = 31.362 + .496 * X_i$$

(11.728) (10.36)

Unit of Account

Enterprise survey:

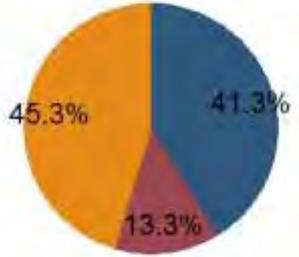
What is the main currency for your business planning?



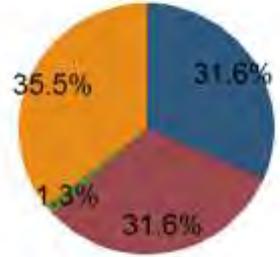
Pricing Behavior by Size

Enterprise Survey
Pricing Behavior by size

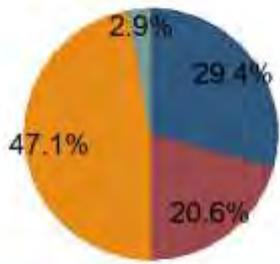
Micro



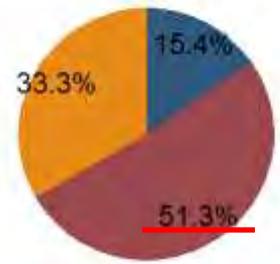
Small



Medium



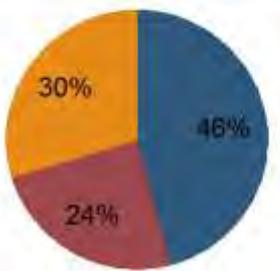
Large



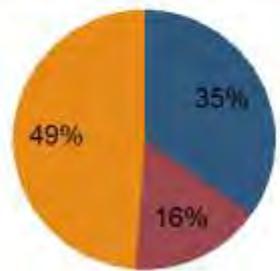
Pricing Behavior by Province

Enterprise Survey
Pricing Behavior (by province)

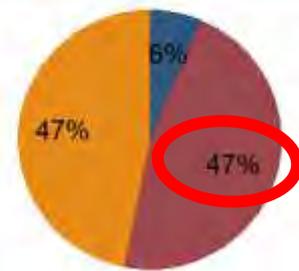
Kampong Chhnang



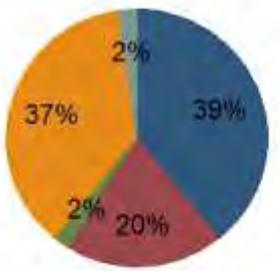
Kampong Speu



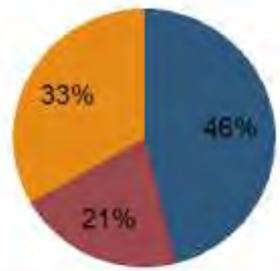
Phnom Penh



Prey Veng



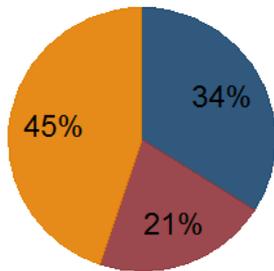
Takeo



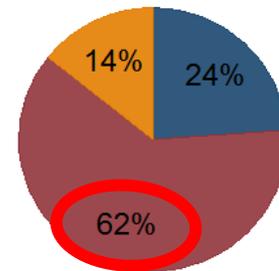
Pricing Behavior and International Transactions

Enterprise Survey Pricing Behavior of its Products

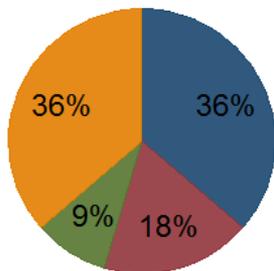
Engaged in neither Exporting nor Importing



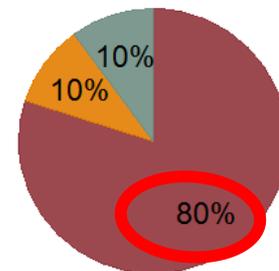
Engaged in Importing only



Engaged in Exporting only

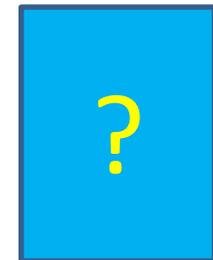
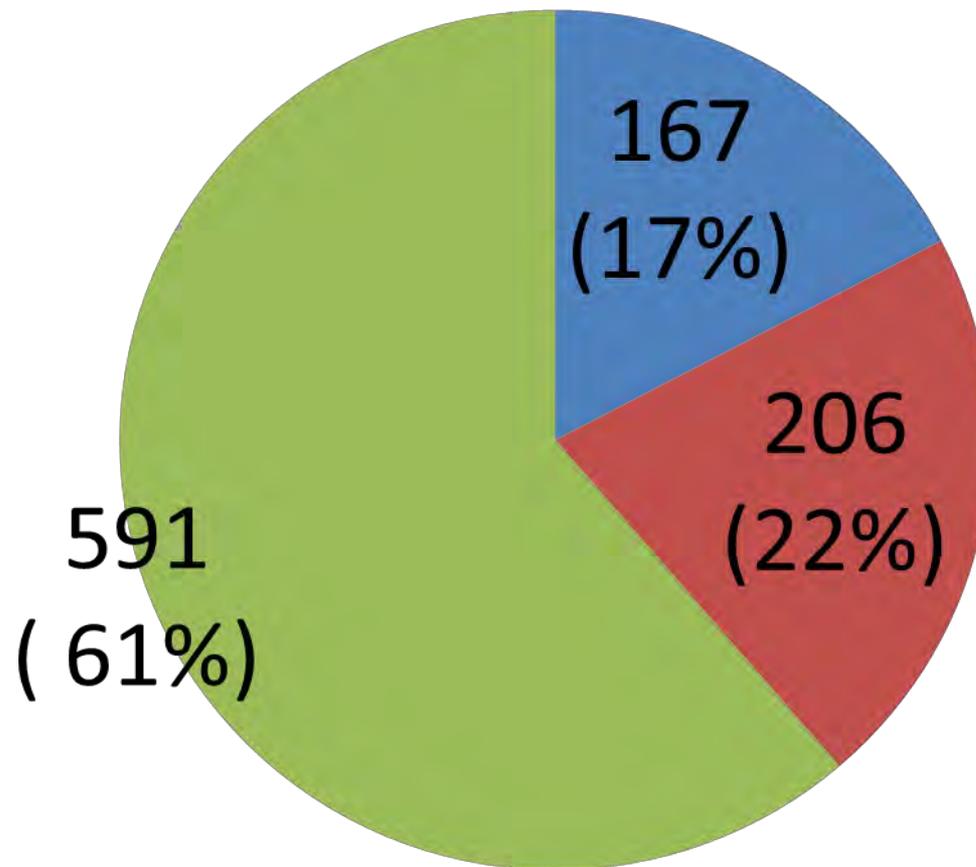


Engaged in both Importing and Exporting



Perception: Saving Preference

“If you had a choice of riels, dollars, and gold, which one you prefer for saving?”



Implications (preliminary)

- Dollarization is mainly happening in the area of financial sector (financial dollarization; store of value)
- Payment dollarization (means of payment) or real dollarization (unit of account) are also occurring but relatively lower than financial dollarization.

Dollarization is distinguished between “financial dollarization (store of value),” “payment dollarization (medium of exchange),” and “real dollarization (unit of account).” (Ize et al., 2003)

Implications (preliminary)

- Dollarization is somewhat confined in the financial sector since it is in a preliminary stage (no interbank market, no formal foreign exchange market, limited security market, etc.)
- Though financial intermediation in riels remains low, riels are actively used, outside Phnom Penh, by household, by enterprises (except large ones), and in form of cash.

⇒ Is it possible to develop financial system without riels ?

Strategy to Promote the Use of Riels

Market Mechanisms and Voluntary Use

- Monetary and Foreign Exchange Policy
- Fiscal Policy
- Real Sector
- Financial Policy and Macro-prudential Measures
- Interbank and Capital Market Development
- Development of Payment System
- Promoting Awareness and Participation

Discussions

- Who is the main driver for dollarization; household, enterprise, bank/MFI, or money changer ?
- What are the obstacles for the promotion of the use of the local currency ?
- What steps the government should take to promote the use of local currency?
- Is it a right time to start implementing policies towards the de-dollarization ?

Thank you for your attention