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
Deposit Dollarization-2012

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

(In percent)

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
Price Stability

Inflation (1995-2014)

Source: National Bank of Cambodia
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)

(in quintile from the lowest 20%(Q1) to the highest 20%(Q5))
Dollarization of Household Income (Province)

Household Survey:
What is the main currency for your budget planning?

- KHR
- USD
- VN Dong

Household Survey: Ratios of Foreign Currency Income to Total Income

Currency for Planning

1,050 (97%)
16 (1%)
16 (1%)
Dollarization of Household Expenditure

Preliminary Findings

Household Survey

Dollarized Items
Household Survey:
Ratios of Foreign Currency Expenditure (by income level, by item)

Food & Beverage
Rice
Alcohol & Tobacco
Housing

Water & Electricity
Recreation & Culture
Clothing & Footwear
Restaurant & Eating outside

Communication
Education
Health incl. toiletries
Transportation

Furniture & Appliances
Miscellaneous

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)
Preliminary Findings

Enterprise Survey

Dollarization of Business Expenditure (by province)

Enterprise Survey
Expenditure Composition (by currency, by province)

Kampong Chhnang  Kampong Speu  Phnom Penh  Prey Veng  Takeo

percent
0 20 40 60 80 100

KHR  USD

20
Dollarization of Business Expenditure (by size)

Enterprise Survey

Expenditure Composition (by currency, by size)

- **Micro**
- **Small**
- **Medium**
- **Large**

- KHR
- USD
Dollarization of Wages/Salaries

Enterprise Survey

Preliminary Findings

Currency Composition of Personnel Expenses (by enterprise size)

- Micro
- Small
- Medium
- Large

- KHR
- USD
Borrowing and Revenue

Currency for Borrowing and Currency for its Business Revenue

Ratio of Foreign Currency Borrowing to Total Borrowing

Ratio of Foreign Currency Revenue to Total Revenue

Fitted values

\[ y = 0.834 + 0.002 \times X \]

(19.7) (2.62)
Revenue and Expenditure

Currency for Business Revenue and Currency for its Expenditure

Ratio of Foreign Currency Revenue to Total Revenue

Ratio of Foreign Currency Expenditure to Total Expenditure

Fitted values

\[ y_i = 21.2 + 0.388 \times X_i \]

(5.461) (6.63)
Revenue and Wage/Salary

Currency for Business Revenue and Currency for its Personnel Expense

Ratio of Foreign Currency Revenue to Total Revenue

Ratio of Foreign Currency Personnel Expense to Total Personnel Expense

Fitted values

The number inside of parentheses is t-value

\[ y_i = 31.362 + 0.496 \cdot X_i \]

(11.728) (10.36)
Unit of Account

Enterprise survey:
What is the main currency for your business planning?

- 84 (57%) USD
- 62 (42%) KHR
- 1 (1%) Other
Pricing Behavior by Size

Enterprise Survey
Pricing Behavior by size

<table>
<thead>
<tr>
<th>Size</th>
<th>Only in Riel</th>
<th>Only in USD</th>
<th>Only in VN Dong</th>
<th>In Riel &amp; USD</th>
<th>In TH Baht &amp; VN Dong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>45.3%</td>
<td>13.3%</td>
<td>29.4%</td>
<td>20.6%</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>35.5%</td>
<td>1.3%</td>
<td>31.6%</td>
<td>31.6%</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>47.1%</td>
<td>2.9%</td>
<td>20.6%</td>
<td>29.4%</td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>33.3%</td>
<td>15.4%</td>
<td>51.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Pricing Behavior by Province

Enterprise Survey

Pricing Behavior (by province)

Kampong Chhnang
- 30%
- 46%
- 24%
- 10%

Kampong Speu
- 49%
- 35%
- 16%
- 10%

Phnom Penh
- 47%
- 6%
- 26%
- 11%

Prey Veng
- 37%
- 39%
- 2%
- 2%

Takeo
- 33%
- 46%
- 21%
- 2%

Legend:
- Only in Riel
- Only in VN Dong
- In TH Baht and VN Dong
- Only in USD
- In Riel and USD
Pricing Behavior and International Transactions

Enterprise Survey
Pricing Behavior of its Products

Engaged in neither Exporting nor Importing
- 45%
- 34%
- 21%

Engaged in Importing only
- 14%
- 24%
- 62%

Engaged in Exporting only
- 36%
- 36%
- 9%
- 18%

Engaged in both Importing and Exporting
- 10%
- 10%
- 80%

Legend:
- Only in Riel
- Only in USD
- Only in VN Dong
- In Riel and USD
- In TH Baht and VN Dong
Perception: Saving Preference

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

- **591 (61%)**
- **206 (22%)**
- **167 (17%)**
• 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.
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
• 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