



THE RELATIONSHIP BETWEEN DOLLARIZATION INDEX, NOMINAL EXCHANGE RATE, INFLATION DIFFERENCE, AND ECONOMY GROWTH: THE CASE OF CAMBODIA BY EMPLOYING VECTOR AUTOREGRESSION MODEL

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ABSTRACT

This study purposes to analysis the relationship of dollarization index, nominal exchange rate, inflation rate different and the economic growth in the economy, which dominant by the huge amount of US dollars, Cambodia. This paper employs annual data from 1993 to 2017 as evidence over the pre and post-global crisis. We used the Money demand under partial dollarization theory to show the relationship between quantities of foreign currency correlated to the domestic inflation rate and we estimated by the VAR model. The result shows that the Dollarization Index is depended on its previous variable. The dollarization tends to devalue of Riel and increase domestic inflation. However, it has a negative relationship with Cambodia GDP Growth. Cambodia Dollarization depreciated 11% shock to the nominal exchange rate, increase 7.98% to inflation rate difference and decrease 2.90% to GDP growth according to statistical reveal in variance decomposition. Based on the empirical result, there are some suggestions for monetary authorities to prompt macroeconomic stability and reduce the degree of dollarization to promote Riel's using in the domestic economy.

Keywords: Dollarization Index, Inflation Rate Difference, Nominal Exchange Rate, VAR Model