



NATIONAL BANK OF CAMBODIA

Riel. Stability. Development.

Role of Money Changers in Dollarization: Evidence from Survey

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the NBC.

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I. Definition and Type of Money Changers



Definition:

- By the NBC's law, money changers are defined as those who are dealing with money exchange operation and its transactions are officially limited to buying and selling bank notes and buying traveler checks.

Type of Money Changers:

- Officially, there are two types of money changers operating in Cambodia--licensed money changer and authorized/registered money changers. However, there exist a large number of non-registered money changers



Subjection:

- Licensed Money Changers (LMCH):
 - Paid up capital of KHR 80 million with the NBC
 - Annual license fee of KHR 1.200.000
 - Application fee of KHR 100.000
- Registered/Authorized Money Changers (RMCH):
 - Application fee of KHR 100.000
 - Annual authorization fee of KHR 200.000
- Non-registered of Money Changers (NRMCH):
 - Pay nothing; yet, subjected to law enforcement

=> Licensed > registered > Non-registered



II. Research Motivation



Why are money changers included in the survey of the usage of Riel/dollarization?



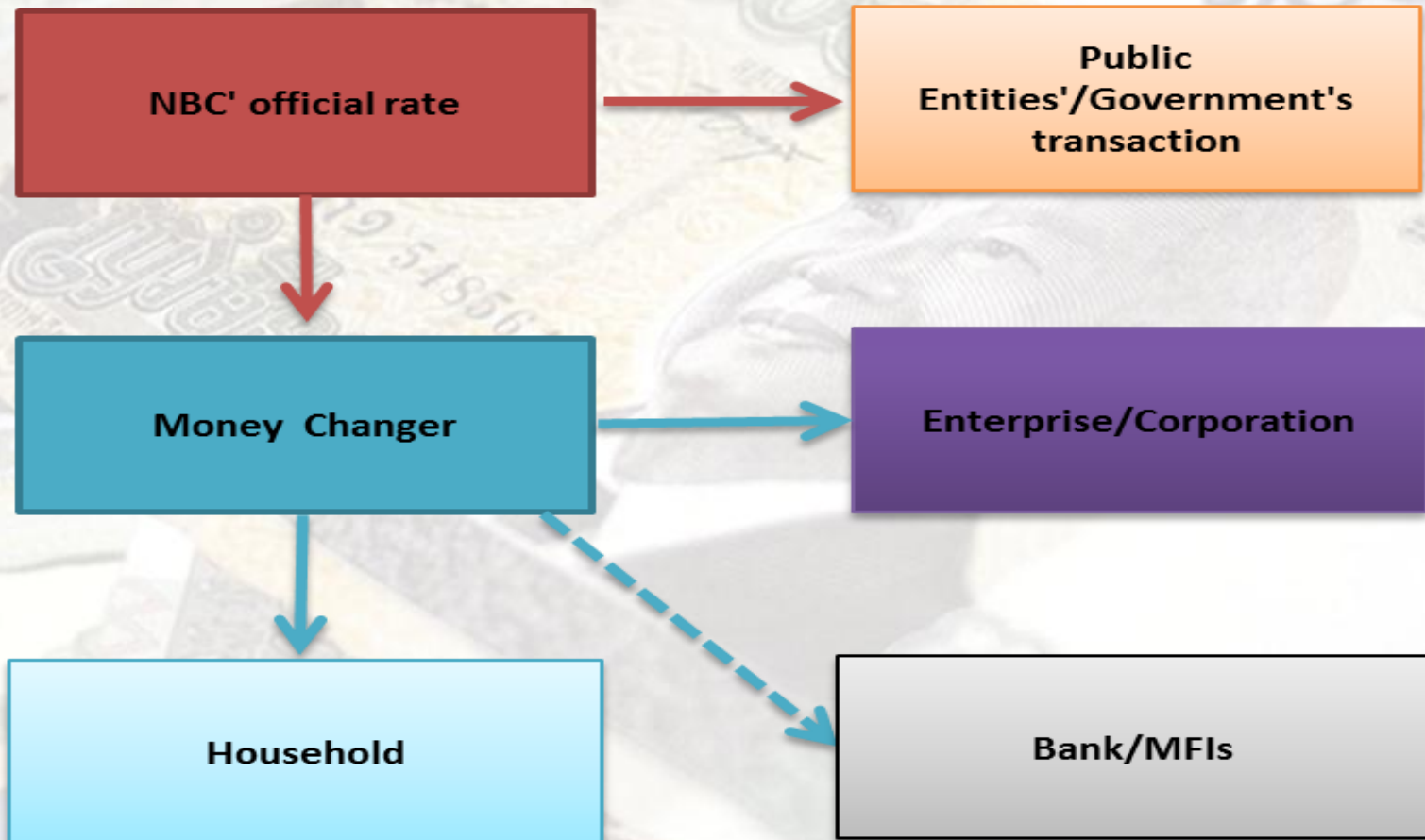
1. Exchange Rate Policy transmission

2. FX Market Dominance

3. Circulator of Currencies

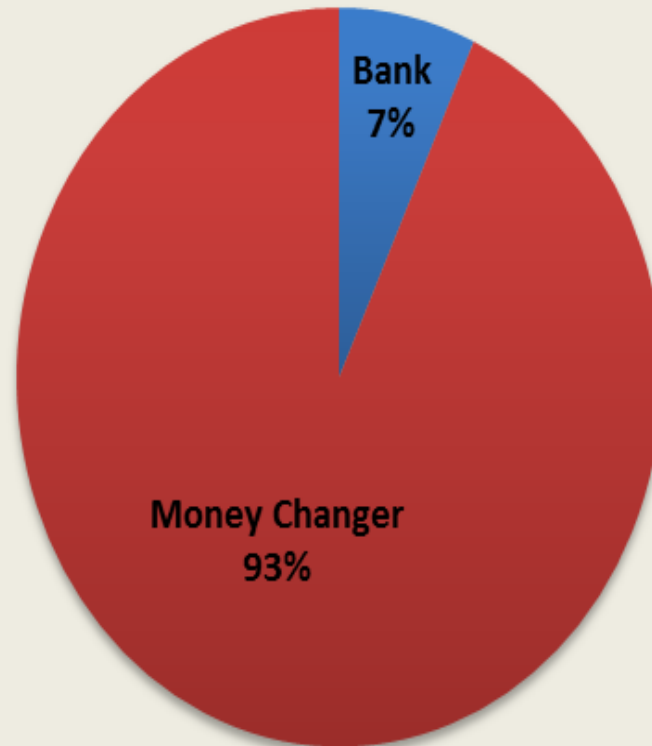


1. Exchange rate policy's transmission



2. FX Market Dominance

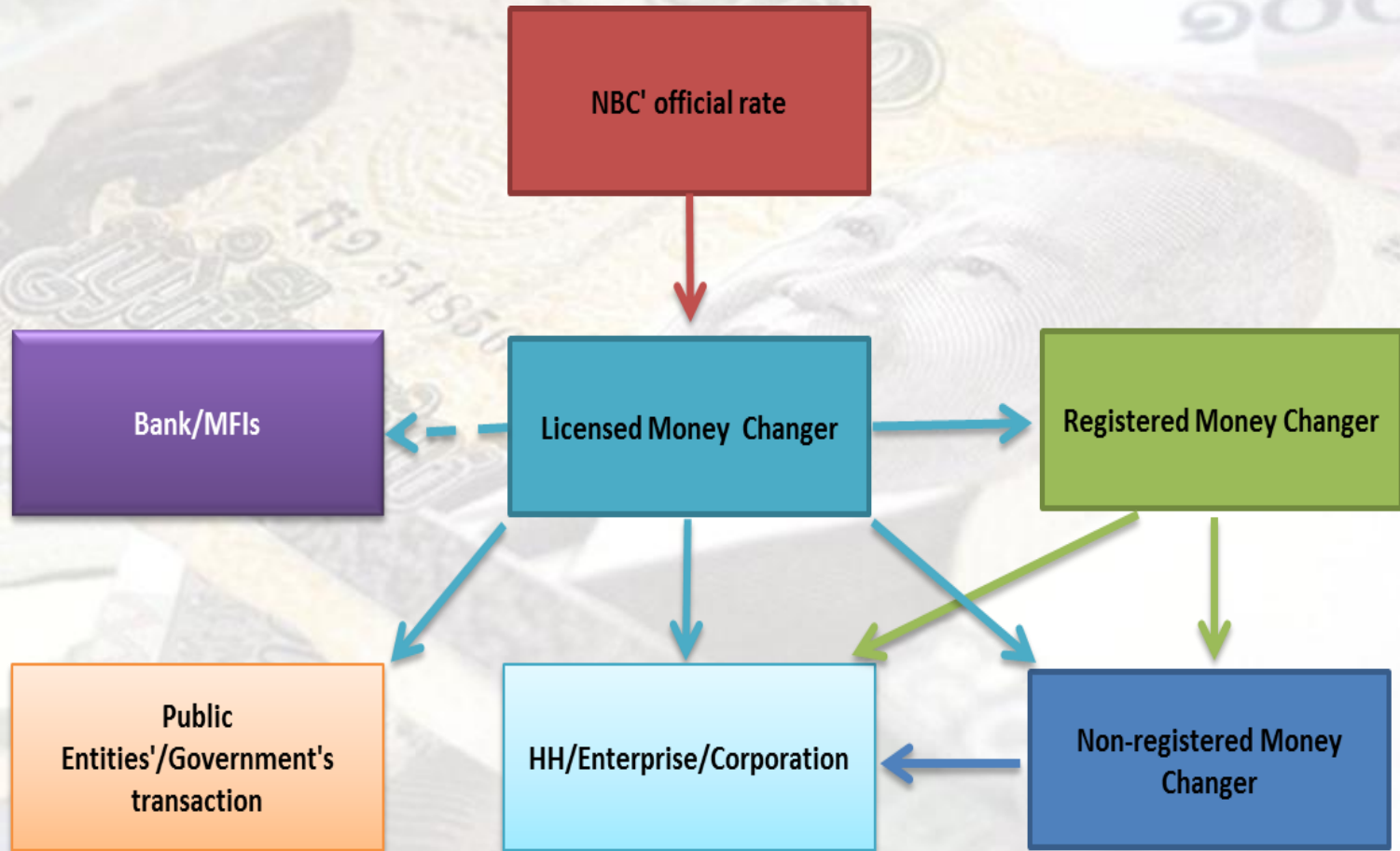
Shares of Demand of KHR as of 2011



- Two banks
- 4 Money changers got 80%



3. Circulator of Currencies



III. Theory of Money Changer's Business



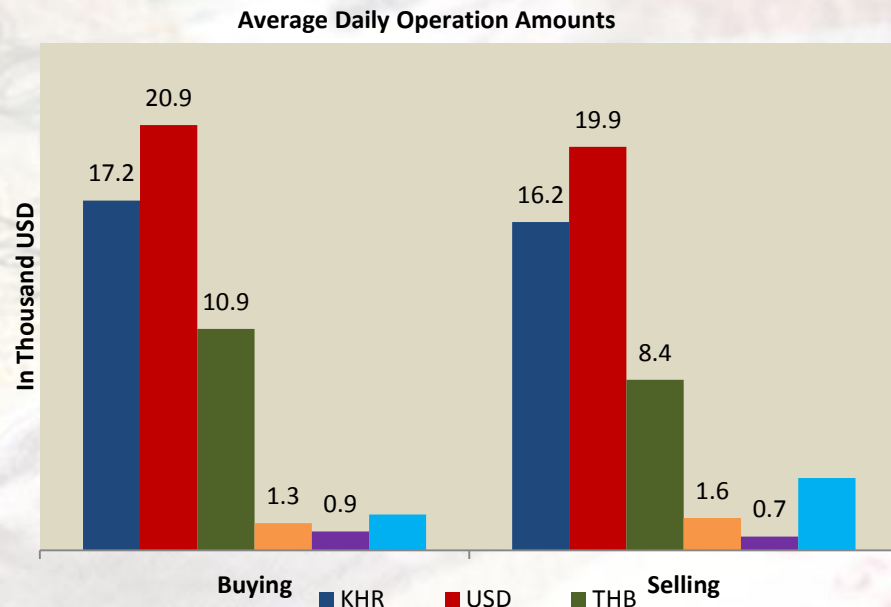
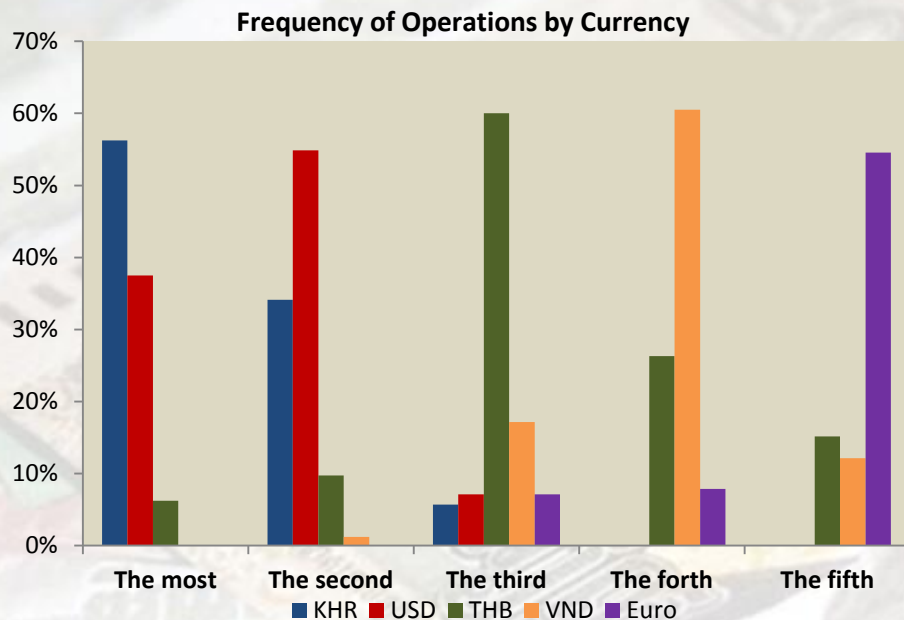
- **Competitiveness in Market:**
 - More than 2000 of LMCH and RMCH, and a large unknown number of NRMCHs
 - Rural areas Vs. Urban
 - Development among regions
- **Market Barrier:** large scale operations, low margin, strong business network
- **Operational costs:** wages, renting, delivering and funding costs
- **The opportunity costs of keeping excess liquidity**



IV. Survey Results



1. The Daily Operations of Money Changers

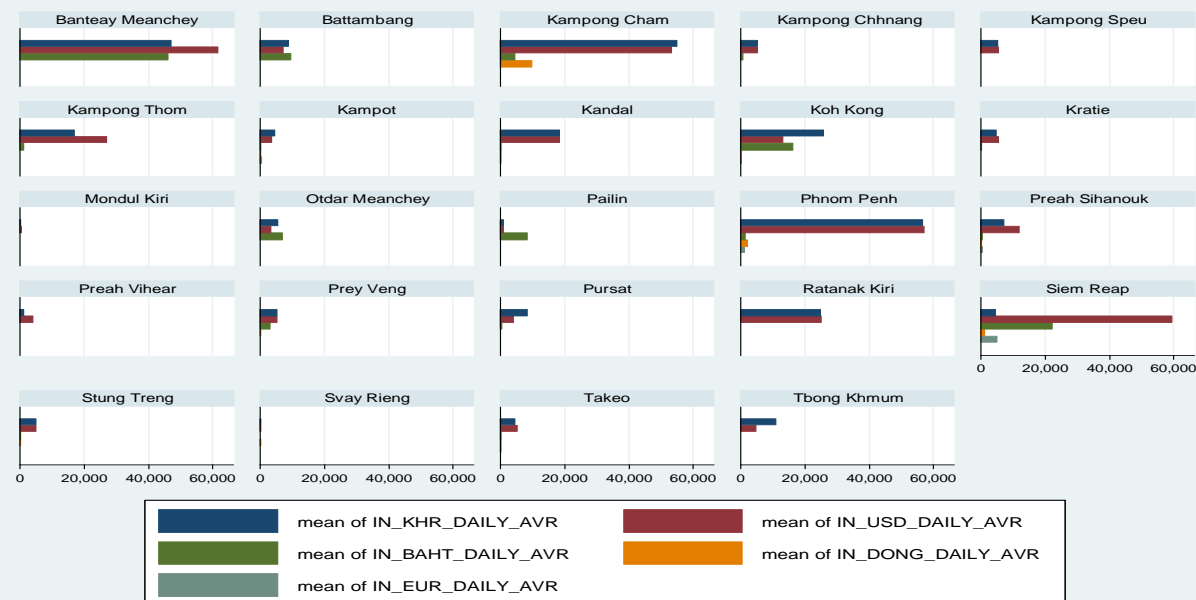


- KHR is the most common transacted currency, followed by USD, Thai baht, VN dong and Euro (FCD/M2 95%, FCD/M2 83%), missed used?
- Net buying of KHR, approximately USD 344 million per day (harvest season)
- KHR operations are commonly small, compared to that of USD

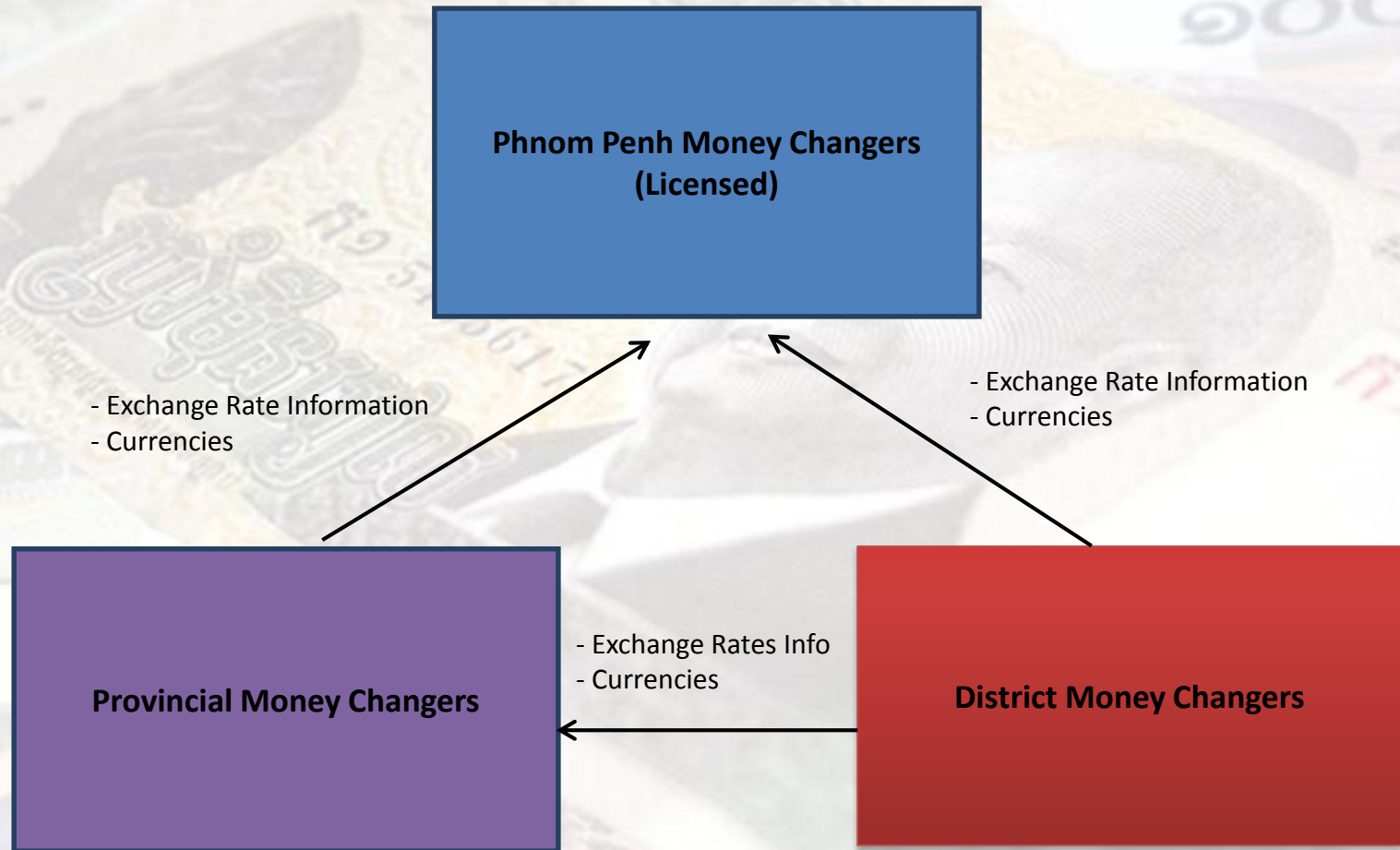


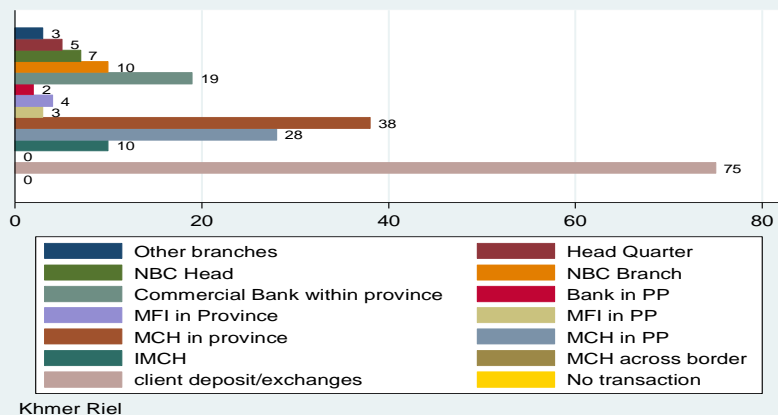


- KHR and USD co-exist country wide
- Besides PP, demand of Riel is high in agricultural provinces, mainly in BTM, KPC, Ratanakiri and KPT
- Baht and Dong heavily transacted border.
- Baht also found circulating in east border (KPC) and middle areas (KPT)
- Trade, remittance, and Tourist

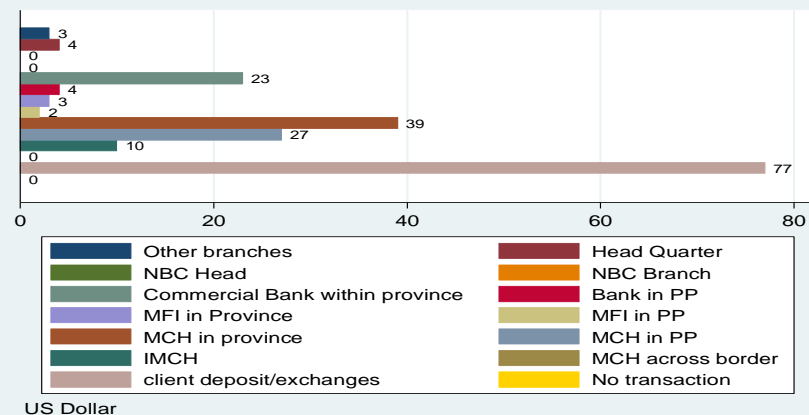


2. Direction of Relationship among Money Changers

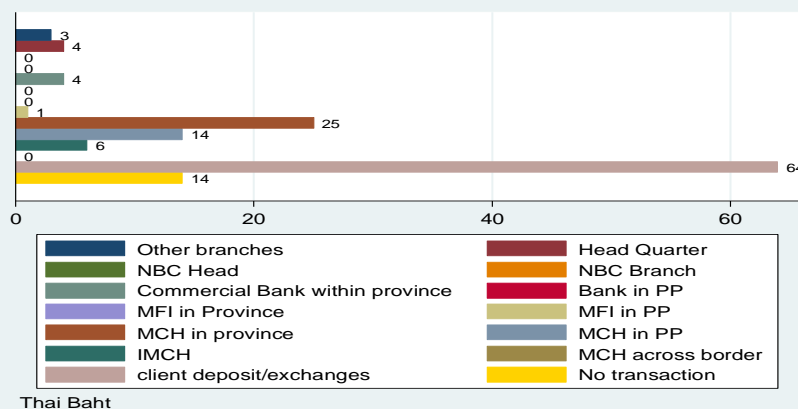




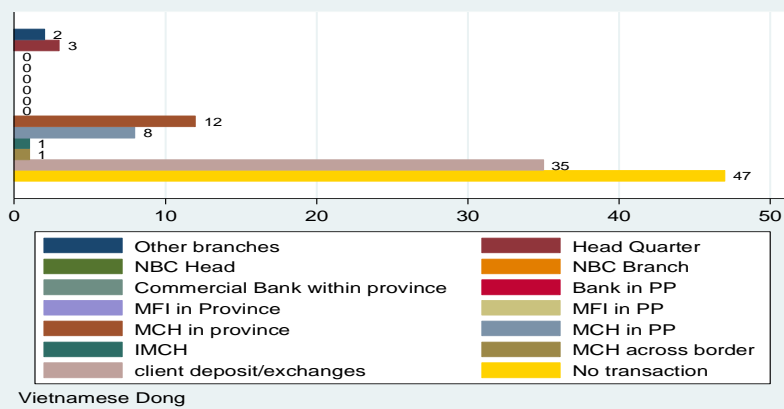
Khmer Riel



US Dollar



Thai Baht



Vietnamese Dong

- In cases of shortages:**

- KHR: MCH gets supported from PMCH 44% , 33% from PPMCH, and 22% from banks while only 8% from NBC head office.
- USD: 45% of PMCH, PPMCH 31% and banks 27%.
- Baht and VND: They tend to heavy relies on PMCH and PPMCH



3. Currency and Source of borrowings

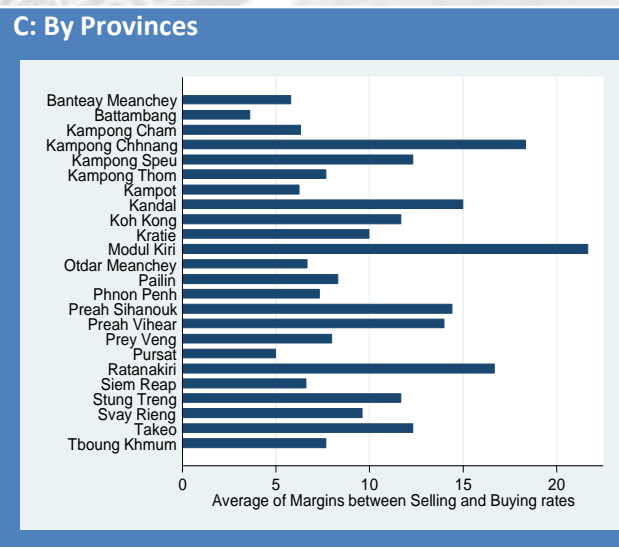
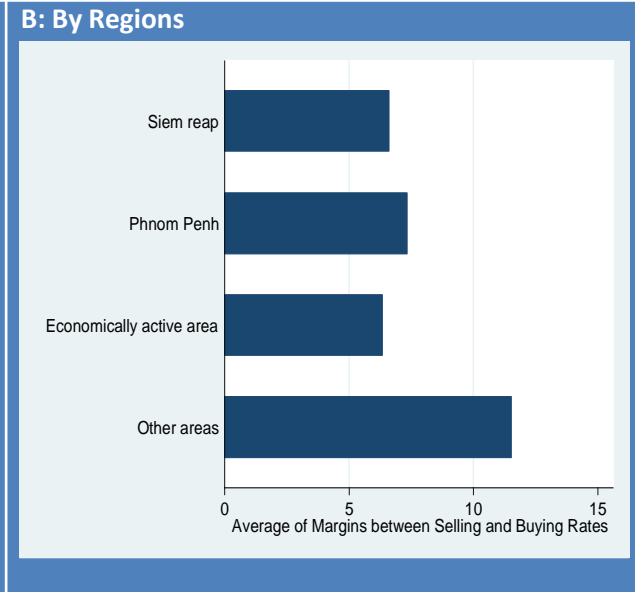
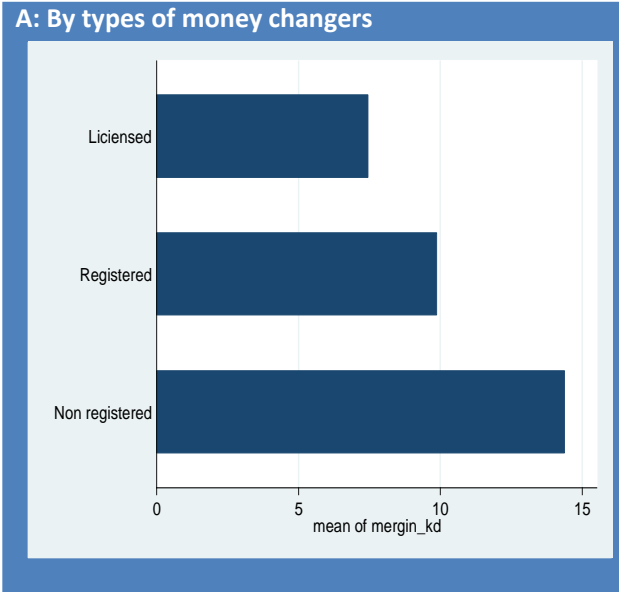
Lender	Currency				Total
	KHR	USD	KHR & USD	Don't Know	
Bank	0	18	2	1	21
MFIs	1	0	0	0	1
Friends/ Family	3	7	1	2	13
Other Money Changers	0	0	12	1	13
Others	0	0	1	0	1
Total	4	25	16	4	49

- 52% of the total sample involve in borrowing for running their money changing business:
 - 56% borrow in USD,
 - 9% borrow in KHR,
 - 36% borrow in both KHR and USD.



4. Exchange Rate Margin

- By location:
 - Different provinces offer different rates
 - Economically active areas offer better rate
 - Rural and remote areas offer higher rates
- By type:
 - Licensed MCH offer best rates
 - Registered MCH offer better rates
 - Non-registered MCH offer worse rate



D: Table: T-test between types of money changers

	Licensed	Registered	Non-Registered
Licensed	.		
Registered	2.91 (1.97)	.	
Non-Registered	6.91* (3.20)	4.50* (2.59)	.

Note: Each cell presents differences between mean values of groups, and standard errors are shown in parentheses. Stars represent that the differences are statistically significant at 5%.



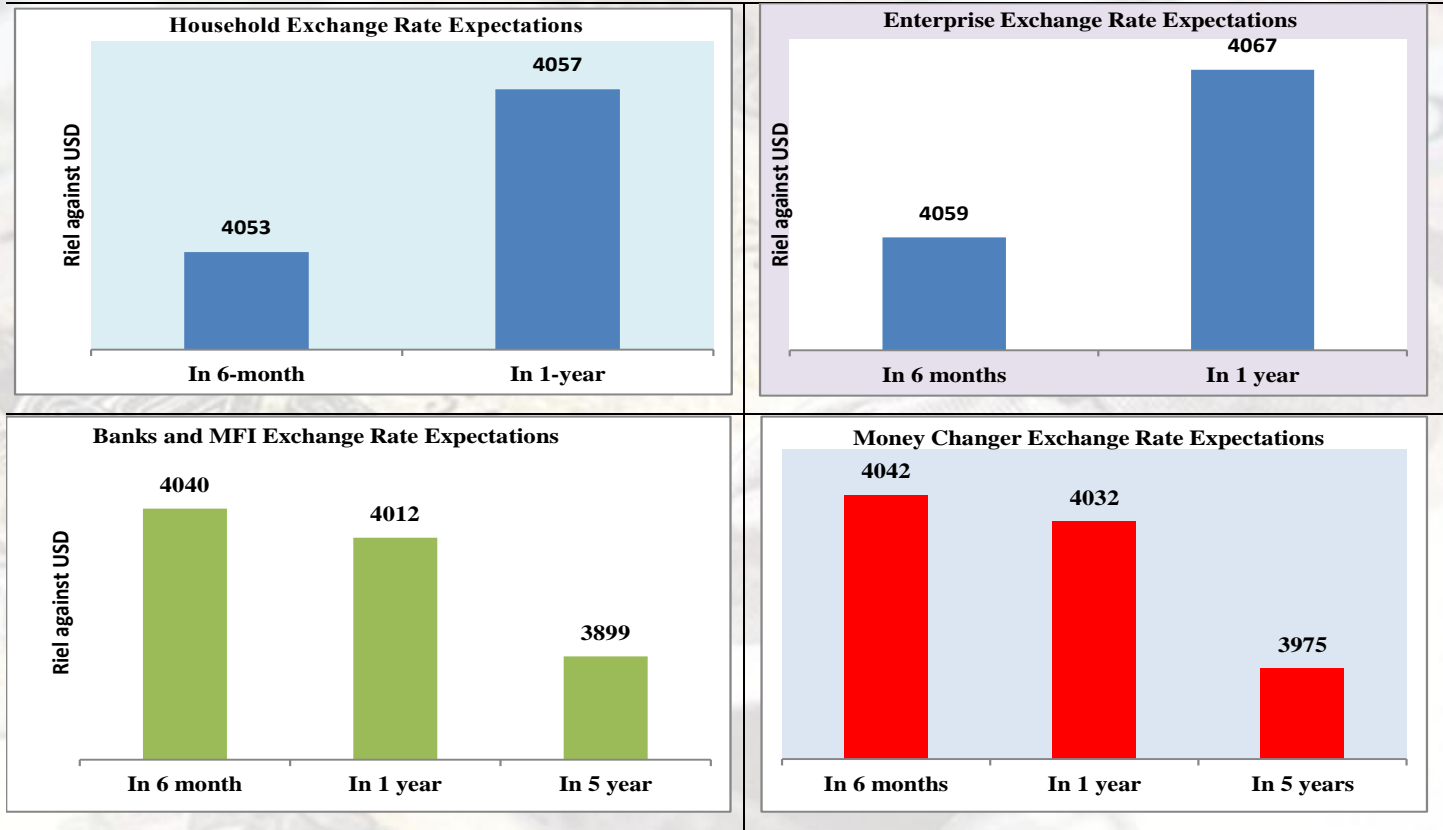
5. Information sources for deciding exchange rates

	All	Licenced	Registered	Registered
National Bank of Cambodia	5	4	1	0
Commercial Bank	36	4	28	4
MFIs	2	0	1	1
MCs: Main town of province city center	13	0	13	0
MCs: Phom Penh	57	11	43	3
MCs: Other Provinces	11	1	8	2
Foreign Partner	8	0	8	0
Foreign Individual	0	0	0	0
Newspaper	0	0	0	0
TV	2	1	1	0
Internet	17	4	12	1
International sources: e.g. Bloomberg	24	1	19	4
Other	0	2	0	0

- Exchange rates are decided based on:
 - PPMCH 66%
 - PMCH 28%
 - CB 42%
 - Only 6% relies on NBC (mainly the LMCH)



6. Exchange Rate Expectation



- Bank and Money changer (the suppliers) expect Riel will be appreciated in the future
- HH and enterprises anticipate the exchange rate is to depreciate
- Expectations affect the currency choices in holding, saving and investing



7. Other Business Activities

	Yes	No	Don't Know
Lending activities	24	61	1
Gold, Precious metal, Jewelry, and stones	48	38	0
Money transfer	42	34	0
Other business activities	26	60	0
No other activities	13		

	<u>Lending activities</u>	<u>Money Transfer</u>	<u>Gold, Precious metal, Jewelry, and stones</u>	<u>Other activities</u>
KHR	18	18	39	21
USD	21	18	44	24
THB	4	0	13	1
VND	0	0	2	1
Others	0	0	0	1
Don't Know		21		

- 28% of the total sample involves in lending activities



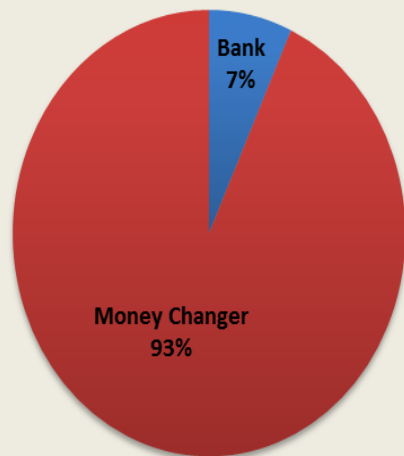
V. Conclusion and Policy Implication



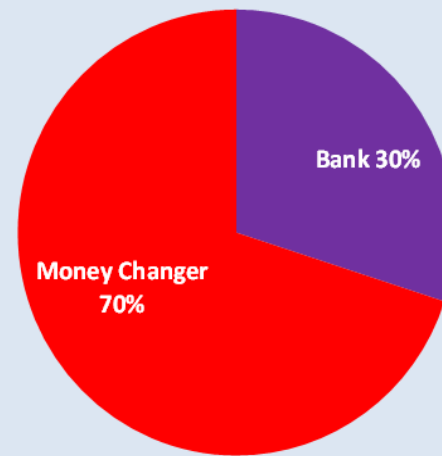
- Study of money changers' structure, behavior and money exchange business characteristic is essential for the promotion of local currency
- Money Changer's behaviors directly and indirectly influence the operating costs of other economic agents, and the widespread use of local and foreign and the central bank's exchange rate transmission



Shares of Demand of KHR as of 2011



Shares of Demand of KHR as of 2014



- Possible Collusion?

- In 2011, 3 big money changers hold 63% of total demand of KHR
- In 2014, the same 3 money changers share 66% of the total demand of KHR
- Banks come to play some roles but in the expend of other money changers



Why it matters?

Pairwise Granger Causality Tests

Date: 10/19/16 Time: 11:10

Sample: 4/01/2003 4/16/2015

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
PURCHASE does not Granger Cause OFFICIAL	4397	275.032	3E-113
OFFICIAL does not Granger Cause PURCHASE		6.06729	0.0023
SALE does not Granger Cause OFFICIAL	4397	301.336	2E-123
OFFICIAL does not Granger Cause SALE		9.03207	0.0001
SALE does not Granger Cause PURCHASE	4397	116.006	8.E-50
PURCHASE does not Granger Cause SALE		13.2490	2.E-06

- Bidirectional causal relationship between the official rate and market rates



VI. Next Step



Shortcomings of the first survey

- Small sample size
- Knowledge of numerators
- Limited Knowledge of interviewees
- Trust of interviewees

Second Stage Survey

- Considering increasing sample size
- Improve the questionnaire design and contend
- Expect to have empirical modeling



Thank You!!

