

## **Cambodian Economic Performance in Electoral Business Cycle**

### **Abstract**

Most developing countries experience a remarkable economic movement during electoral cycles. The main purpose of this paper is to explore what ways the government do during electoral cycles to absorb the majority votes from electorates. The research's findings are firstly, there is not sufficient evidence to judge that government tries to manipulate the economy before election to increase their popularity by fiscal expenditure, interest rate, inflation and exchange rate; secondly, there is more proof that an abnormal hike in currency outside banks arises before reelection, which implies that the political parties may use those money to accelerate their popularity.

### **I. Introduction**

Politics and economics have a mutual relationship to one another. A saying that ones cannot leave politics behind if they think of economics has caused many researchers write a number of articles related to the combination of both fields in a single title. In real practice, the national economy does not developed under the environment of political instability. Like other country cases, Cambodian economy encounters shrinkage under bad political situation. It is a small democratic country, which is young in both economic and political development. The nation was just liberalized the economy in 1980s and democratized gradually after releasing from wars and other instable conditions. To stabilize politics and democracy, the first election was arranged in 1993 under the sponsorship of an international agent UNTAC (United Nations Transitional Authorities in Cambodia). Along with this, a number of non-governmental organizations, such as Licadho (Cambodian League for the Promotion and Defense of Human Rights) and Comfrel (The Committee for Free and Fair Elections in Cambodia) were established to observe voting process aimed at figuring out unusual cases, for example, threats, poll manipulation, violence, intimidation, occurred before, during and after election in order to maintain free and fair election.

Electoral system in Cambodia is multiparty election, which has the mandate of five years; noticeably, there are only three main parties that compete each other since the primary election including Cambodian People's Party (CPP), the holding power party; Sam Rainsy Party (SRP), an opposition party; and FUNCINPEC (*Front Uni National pour un Cambodge Indépendant, Neutre, Pacifique, et Coopératif* = National United Front for an Independent,

Neutral, Peaceful, and Cooperative Cambodia). It is an interesting case since Hun Sen of CPP is incumbent for twenty years and most possibly he pursues leadership in the upcoming reelection. The popularity of this party jumped from 64 seats in 1998 to 90 of 123 seats in the National Assembly in 2008. What did the government do to receive the majority of votes? The whole economy is affected temporarily in the electoral cycles since a number of people and political parties tend to accelerate their consumption, which may reflect by an unusual movement of some economic indicators.

This paper focuses on causal inference, which study the effects of electoral cycles on some economic policy variables. Real GDP growth is employed as the dependent economic variable, while other economic indicators comprise of government spending, currency outside banks, inflation rate, interest rate, exchange rate and electoral cycles are independent variables. The analysis examines mainly on three electoral cycles of 1998, 2003 and 2008 election and partly on the beginning 3 months of 2013 due to data limitation. For electoral cycles, they include pre-election period of 7 months (Jan-Jul) in the reelection years and post-election period of 24 months. It should be noted that the voting is always conducted in July of the election years.

This research utilizes monthly data sets of government expenditure, currency outside banks, inflation rate, interest rate, exchange rate, from January 1997 to March 2013, and annually real GDP growth rate from 1997 to 2012 sourced from International Financial Statistics (IFS) of International Monetary Fund (e-library), the National Bank of Cambodia (NBC) and Ministry of Economy and Finance (MEF).

The methodology of this article is trend analysis on the year on year growth rate of the mentioned data sets to figure out the unusual fluctuation during electoral business cycle aimed at exploring what extent that the election affects macroeconomic policy variables in Cambodia and predicting what will happen to those indicators in the upcoming election as well as other reelections.

The scope of this research is the election of the National Assembly regardless of other elections and the first election. Moreover, only the ruling party and opposition party are concentrated in this research. Furthermore, the basic hypothesis is the incumbent stimulates growth before election as well as in post-election period.

This paper is divided into five sections, starting with introduction, following by literature review in part II, elections in section III, economic performance in part IV, and section V is conclusion.

## II. Literature Review

Many researchers believe incumbent tries to develop national economy, to establish good policies, to use social pacts, etc in order to succeed in the reelection process. The followings are some articles relating to election and economics.

Joseph E. Harrington, Jr. (1993) conducted a research on Economic Policy, Economic Performance, and Elections. He stressed that both incumbent's past policies and economic activity during his/her office determines the reelection outcomes. The economic performance tends to have a bigger impact. Moreover, the politician manipulates policy for reelection purposes by conducting the policy that is well received rather than that maximizes expected income.

Singer & Carlin (2013), who studied on The Election Cycle, Development, and the Nature of Economic Voting, by conducting a survey of 18 Latin American countries from 1995 to 2009 addressed that voters judge future performance in the early election cycle, but when next elections come, the economic merits of incumbent are already recorded in electorates' mind cumulatively. Voters consider on the country's economy rather than their personal incomes. In short, they choose the leader according to not only economic voting but also their nature of prospective or retrospective.

Ahlquist (2010) researched on Policy by Contract: electoral cycles, parties and social pacts in OECD countries, from 1974 to 2000. This article reveals that social pacts are one of other factors influence on voters, who can be convinced that the economic performance under ruling party is better than under the opposition party.

Hogan (2004), whose article was Challenger Emergence, Incumbent Success, and Electoral Accountability in State Legislative Elections, analyzed the effect of state, district and candidate-level on reelections prospect. His paper expressed policy responsiveness of incumbent affects slightly the voters' support, whereas institutional characteristics (e.g., legislative professionalism) and district-level conditions (e.g., past winning-vote percentage) tend to have a larger impact on the ruling party's success in the reelection process.

Alesina & Sachs (1988) mentioned the political business theory by Nordhaus (1975) that when the time close to election, the incumbent tries to boost economy in order to raise their chance succeeded in the upcoming election.

Remmer (2002) examined the politics of economic policy and performance in Latin America. One of his findings was governments pursue orthodox policies to enhance their opportunities for reelection. Particularly telling is the evidence that labor-oriented governments are more likely to pursue restrictive macroeconomic policies under inflationary

conditions than their non-labor counterparts, which accords with theoretical expectations regarding the impact of electoral competition on policy choice, as well as the empirical findings regarding the differential electoral vulnerabilities of labor and non-labor governments.

All of the literature above seems agree with the statement that ruling party foster growth before reelection process to increase more opportunity of voting to be the next government again.

### **III. Elections**

Cambodia is a constitutional monarchy, which the king is the chief of state and prime minister is the head of government. There are four types of elections in Cambodia including National Assembly election, Senate election, Commune/Sangkat Council election and election of Capital/Provincial, Municipal/District/Khan Councils. All of them are arranged and controled by the National Election Committee (NEC). However, this paper focuses only on the National Assembly one, which has the mandate of five years. The National Assembly is assigned by the multiparty democracy election voted by eligible citizens of from 18 years old. Remarkably, the election month is always conducted in July of the electoral years. Since Cambodia was just in peace, there were only four elections, started in 1993 sponsored by the UNTAC (United Nations Transitional Authorities in Cambodia), following by 1998, 2003, 2008. In the upcoming 28 July 2013, the fifth National Assembly election will be held.

As mentioned abover, the research concentrates on the two major parties namely CPP, which is the ruling party and the opposition party, which has been transformed from SRP to the Cambodia National Rescue Party (CNRP) for the fifth National Assembly election. The past election results are as following:

*Source: United Nation Development Program*

The incumbent party has increasingly won the majority votes since the first election, from 64 seats in 1998 to 73 seats in 2003 and jumped up to 90 seats in 2008 election. This reveals that the present government is in fact the good one or there was something behind, such as buying votes, threats and unfairness happened during Cambodian elections. For the opposition party, its popularity was also improved slightly, which received 15 seats in 1998 and surged to 24 seats in 2003 election and 26 seats in 2008. This unambiguously demonstrates that the opposition party cannot win over and widely leaves behind the CPP. Let's analyze the reasons of these outcomes by backgrounds and their main policies, which are considered to be the most important factors influencing on people's decision.

## 1. The Ruling Party



CPP, originated from People's Revolutionary Party of Kampuchea, is established on Jun 28, 1951 aimed at protesting against French colonization (1863-1953) for independence. The enormous achievement of this party is to successfully rescue Cambodian people from the genocide regime of Pol Pot or a well-know era as Khmer Rouge Regime (April 17, 1975 to January 7, 1979) under the formation of United National Liberation Front with the support from Vietnamese Voluntary Soldiers.

Under Khmer Rouge, people living in the city were expelled to settle in various provinces in order to be slaves in agricultural sectors; moreover, physical infrastructure, such as schools, hospitals, and roads were ruined. They are forced to work very hard with undernourished and inadequate appetite. Well-educated people and a lot of innocent people were imprisoned and tortured or starved to death. As a result, no one wanted anything beside survival. After the collapse of this cruel regime, the economy remained nothing, and about 3 million people were killed. Cambodian economic, political and social conditions were still fragile; the country was still not in peace as there were internal conflicts between politicians.

Seeing the miserable lives of Cambodian people during that regime and referring to the history of the ruling party, the accomplishment of fighting against Pol Pot tends to be the most influential factor of earning a huge number of votes from Cambodian citizens. They regard this party as the second mother, who gave them new lives and let them free from the enormous difficulties exploited under the mismanagement in Khmer Rough Regime.

Moreover, without CPP, they may die by hunger to death or torture to death, in their point of views. Taking this opportunity, whenever there is election, this party always reminds people that 7 January is our second birth, so please do not forget. Due to the fact that Cambodians are grateful people and most of them believe they can show their gratitude by voting for this party. As a result, the recent government deserves the largest share of the total seats in the National Assembly. This is one of the most important determinants influenced politician's popularity. Although this party has a significant advantage over other parties, CPP is not able to win majority if its policies are just words and no real practice. Three main persons in this party are:

1- Samdech Chea Sim	Chairman
2- Samdech Hun Sen	Vice Chairman
3- Samdech Heng Samrin	Honorary Chairman

The eleven key principles of CPP are as following:

1. Unite without discrimination of political trends, the past, gender, belief, religion and social status to increase the future accomplishment
2. Strengthen national defense and security for citizens aimed at improving living standard and economic and social development
3. Preserve constitutional monarchy and democratic multi-party system, continue enhancing legal system to ensure fairness, and prevent from power usage, law violation, punishment and violence
4. Support Hun Sen as the prime minister candidate and follow coalition government with FUNCINPEC
5. Protect and encourage people's rights and freedom, ensure people to obtain economic, social, cultural, educational, health benefits and public services with equity.
6. Promote public service, enhance capability of government officials to provides services to people honestly and responsibly
7. Motivate public administration reform, anti-corruption, military reform, legal reform, judicial system, public financial management etc
8. Encourage long-run economic development in a broader sense and competition with promoting economic integration into the region to achieve ASEAN Economic Community in 2015, develop private sector, attract foreign direct investment and domestic investment aimed at accelerating development speed,

- economic diversification, and employment, continue to alleviating poverty more than 1 percent per year, concentrate on reducing gap between people living in the city and rural areas, prioritize electricity, water, roads and human resource
9. Enhance the reduction of disasters; rescue victims; ensure no starvation to death; continue paying attention to developing poor people community
  10. Develop education, healthcare, employment, culture and social affair system; increase government officials' salaries as well as improve wage and standard of living and working condition of other workers; strengthen social security, improve gender; enhance disable people's rights; take care of elders' health
  11. Encourage foreign affairs and international cooperation, maintain Cambodian territory

*Source: CPP's website and the author's translation*

There are a lot of tasks included in the party's policies that this party has already accomplished, has to achieve and need to pursue their efforts. Cambodia has been developing gradually under this party's leadership, not only the economy but also society. The poverty and unemployment have been reduced step by step; economic growth is moderately high and per capita income is being improved year by year. Many schools, roads, bridges and hospitals have been built, and social security is being strengthened as well. Investment and trade keep increasing every year, and financial system is being widened and modernized. All of these motivated Cambodian people to select this party to rule the country continuously. It supports the finding that social pact is one factor influence voters' decision Ahlquist (2010).

## **2. The Opposition Party**

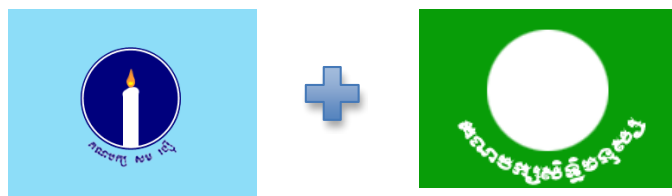


To reflect more and more democracy, since the second election in 1998, there is an opposition party. Sam Rainsy Party (SRP), an opposition party, is originated from a new political party, the Khmer Nation Party (KNP), established in the early November 1995 under Sam Rainsy as the leader. His aim is to fight against corruption and economic mismanagement of the government. Sam Rainsy was a former Senior Minister of

Economy and Finance, who was fired in October 1994, used to be under FUNCINPEC until May 1995 and was unconstitutionally expelled from his seat in the National Assembly in June 1995. KNP is transformed to SRP in March 1998 for the second election. It should be noticed that in the 2013 election the opposition party is Cambodia National Rescue Party (CNRP), which is the merge between SRP and Human Rights Party (HRP). The Human Rights Party was created by Kim Sokha in January 2007 to participate in the 2008 election, which won 3 seats in the National Assembly.

Both parties had a meeting in Manila on 16-17 July 2012 and decided to merge to establish a new and bigger political opposition party, called the Cambodia National Rescue Party (CNRP). Two major persons in this party are:

- |                   |                 |
|-------------------|-----------------|
| 1- Mr. Sam Rainsy | President       |
| 2- Mr. Kem Sokha  | Vice-President. |



Main policies of the CNRP are :

- Elders of over 65 years old salary of 40,000 riels per month
- Workers minimum wage for workers is 600,000 riels per month
- Government officials minimum wage for is 1,000,000 riels per month
- Farmers Ensure price of agricultural products for farmers (minimum price of paddy is 1,000 riels/kg)
- Poor people can access to illness treatment for free
- Youth can obtain education and job properly
- Reduce gasoline price, agricultural fertility price, electricity price and interest rate

*Source: CNRP's website and author's translation*

The history of this political party cannot be influential as the ruling party. Moreover, some of these policies, for instance the above three policies, have been criticized by a few number of people since they thought this opposition party just promise without applying



those into practice owing to the government revenue is less than the expenditure in present days and providing the salary to elderlies and raising up government officials' salaries are beyond what the government can finance. This party was questioned where they are able to earn money for implementing such policies. If CNRP wins over 2013 election, will those policies be implemented successfully?

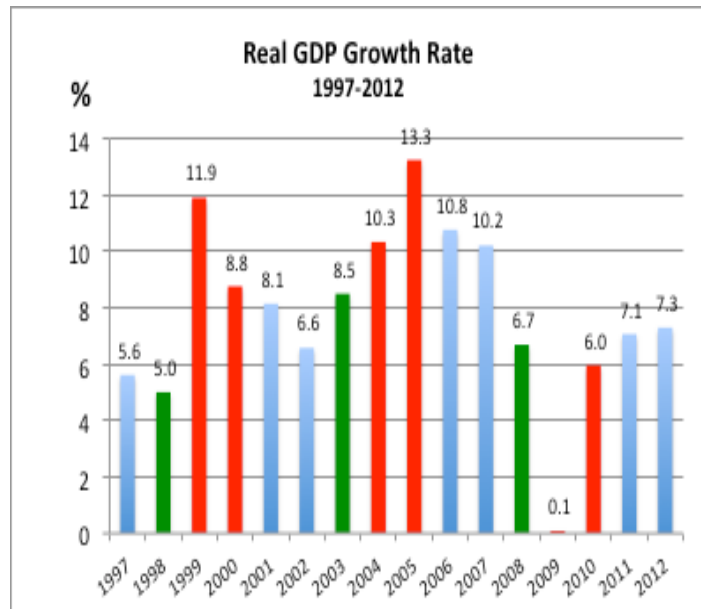
#### **IV. Economic Performance**

Similar to other countries, Cambodian government may manipulate the economic growth prior to the election year aimed at building a good image for themselves in people's eyes to obtain the majority of votes from eligible citizens in reelection process. Election in Cambodia is regularly conducted once in every five year; thus, the government realizes themselves that when is the most effective time they should start their operation to attract more attention from people. Noticeably, about one year or some months prior to the election, some roads have been repaired, public gardens have been improved and so on. Furthermore, the rich parties, mainly CPP in general offer gifts, such as skirts, shirts, hats, plates, bowls or money to eligible people. By experiencing these, the paper looks at some of economic indicators relating to this issue especially government spending and currency outside banks and other variables relating to monetary and fiscal policy.

##### **1. GDP**

Cambodia had a moderate growth of economic development in these last two decades. By looking through 1997 to 2012, the average GDP growth was approximately 8 percent per year. The main components of GDP are agriculture, service and industry. Services consist of trade, hotel & restaurants, transport & communication, finance, public administration, real estate & business, and other services. Among these services, trade, hotel & restaurants, transport & communication, and real estate & business take the biggest part of the total services. For agriculture sector, it comprises of crops, livestock & poultry, fisheries, and forestry & logging. Crops and fisheries highly contribute to total agriculture production. Finally, industry contains mining; manufacturing; electricity, gas & water; and construction. About 90 percent of industrial production accounted in GDP is manufacturing and construction, mainly textile, wearing apparel & footwear.

The figure shows the economic growths of Cambodia in pre-election were not as high as in post-election years. In 1998, the real GDP growth was just 5 percent, while it was 11.9 percent in 1999 and 8.8 percent in 2000 after receiving the quota for duty-free export from the US and EU and after liberalizing its economy into ASEAN since 1999. The rates became lower and lower in 2001 and 2002. However, in 2003 election year, the growth jumped from 6.6 percent in 2002 to 8.5 percent and continued to rise to 10.3 percent in 2004 and peaked to 13.3 percent in 2005. It dropped again after 2 years of post-election to 10.8 percent in 2006 and 10.2 percent in 2007. Unlike the previous 2 cycles, real GDP declined moderately during 2008 election at 6.7 percent and plummeted in 2009 at 0.1 percent. This was a particular case since Cambodia received spillover effects from the Global Financial Crisis 2007-2008, which had a strong negative impacts on the production sectors, especially garment that caused exports shrank sharply as well. Nonetheless, it was recovered gradually from 2010, resulted in a moderate growth rates again in the range of 6-7 percent per annum.



Source: MEF

Since the electoral cycles were few, and the clear evidence just appeared in 1998 and 2003 elections, there was a little evidence to say that the ruling party has tried to manipulate growth before the election to get more votes from the citizens. In addition, the evidence is also limited in post-reelection process, but the graph demonstrates higher growth than in pre-election reflecting the party's did as what they promised. Although there is a little sign, the tendency of growth is likely fostered by the government in electoral cycles. To figure out in what extend the Cambodian government boost economic development, let's consider other economic indicators related to both fiscal and monetary policy.

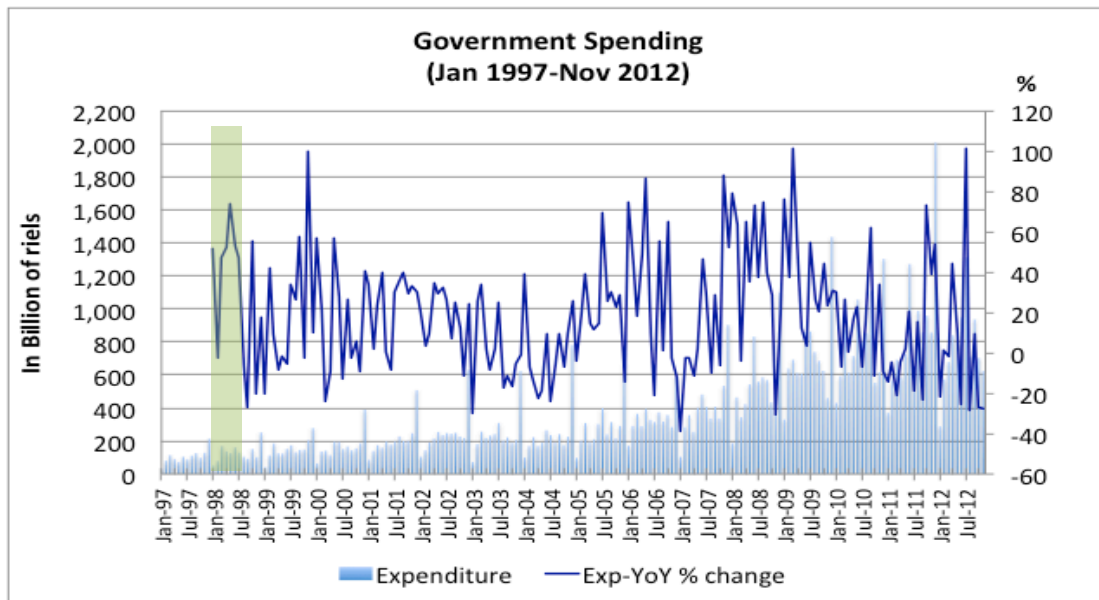
## 2. Government Spending

As theoretically stated in macroeconomics, government consumption is one of the main factors in gross domestic product. When this indicator increases, the GDP is supposed

to rise as well since they both have a positive relationship with one another. Moreover, budget is the main tool for Ministry of Economy and Finance (MEF) conduct the fiscal policy in Cambodia to sustain economic growth. In reality, before the election starts about preceding one year or prior to 6 months, roads are always repaired and other public goods are provided and improved. To see the economic reflection, the breakdown of government expenditure is deemed a compulsory determinant. Due to the limited data, only total budget spending is available to evaluate on this issue.

During the second election period, it was clear that the government expenditure grew from January to July except February. On average, it jumped by 46.2 percent during the first seven months of 1998, while it rose by only approximately 16 percent for 24 months after this election. This infers that government increased spending just only before the election, not after the voting period. A little evidence appeared to support the hypothesis of this paper. It should be noted that during the first election, Cambodia had two prime ministers. Therefore, too much government spending on their own advantages in order to gain more votes from people would not be done easily or a sharp increase prior to reelection process in expenditure reflected both of power holders. In the pre-electoral period of 2003, this indicator went up averagely by 7.2 percent compared to 22.3 percent in the same period 2002, while it rose by 4.5 percent in an average from August 2003 to July 2005. Furthermore, by using the stock data of this first 7 months, the government raised its budget 8.6 percent from KHR 1,393.4 billion to KHR 1,513.6 billion, compared to the same period in 2002. This rise is not significant enough to say that government manipulates growth in this way. The fiscal spending accelerated from averagely 3.2 percent in the first 7 months in 2007 to 50 percent in 2008 election; similarly, it hiked by 46.4 percent from KHR 2,289.8 billion to KHR 3,352.4 billion compared to the same period in 2007 by the stock data of these 7 months. This reveals an unusual hike of budget expenditure. In the post-election of 12 months, budget was up by 38.7 percent from August 2008 to July 2009, and it increased by 19 percent from August 2009 to July 2010. In both pre and post election 2008, government increased its consumption. Remarkably, in addition to the Global Financial Crisis, which affected Cambodian economy during 2008-2009, the dispute between Cambodia and Thailand over the claim of Preah Vihear temple and border made this electoral cycle becomes extraordinary in this analysis. Due to the adverse effects of the crisis on the Cambodian economy, it required government adopt loosening fiscal policy, which caused fiscal spending remained high in 2009. This scenario changed in late 2011 to the beginning of 2012, which notably increased of more than twice in middle of June 2012.

In short, it is hardly to infer that the increases of budget spending reflected the government’s own sack to gain popularity from electorates preceding the elections owing to there were few number of electoral cycles and one exceptional case. Therefore, there is not sufficient evidence that government boosts growth before and after elections via government expenditure to attract majority from voters.



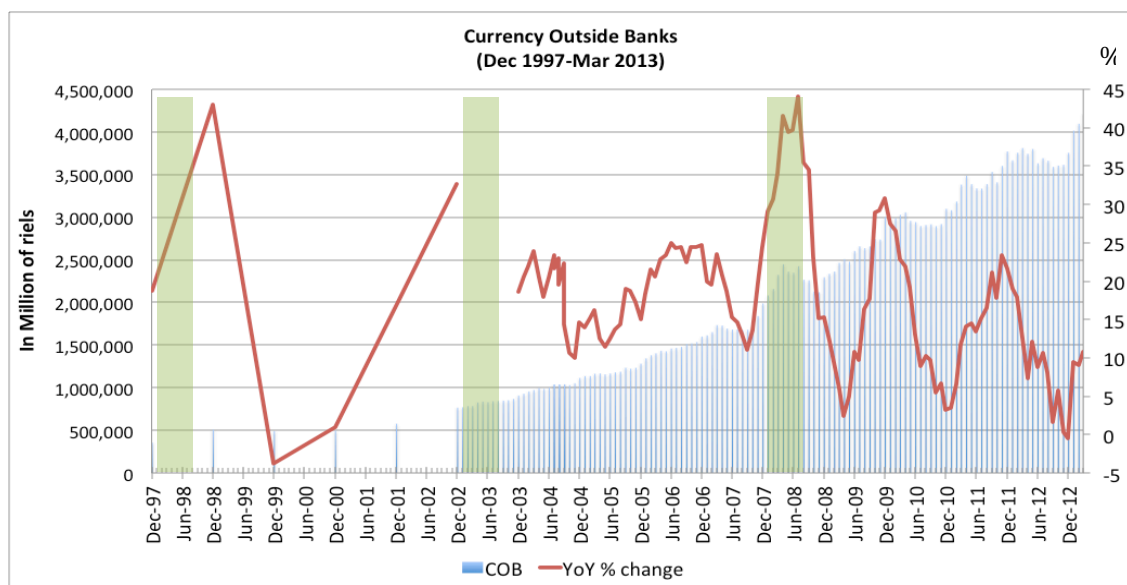
*Source: MEF & the author’s calculation*

### 3. Money Supply

Central bank, the monetary authority, is obliged to control money supply in the economy. In Cambodian case, this indicator consists of currency outside banks, demand deposits, time & saving deposits, and foreign currency deposits. An increase of money supply partly resulted from a rise in currency outside banks, which is accounted as the overall money in circulation except cash in central banks, commercial banks and other depository institutions, and the National Treasury, yet most of the proportion of it is deposits. However, this paper utilizes currency outside bank to understand any particular case during the election period owing to political parties especially CPP always give money in cash (small amount only in each person) and gifts to the electorates before election starts. The data of currency outside bank is available from 1997 to 2002 as yearly and monthly form 2003, so the analysis is made according to the data availability. As calculated in year-on-year percentage change, it rose by 43 percent in 1998, 18.6 percent in 2003 and averagely 36.9 percent in the first 7 months of 2008. For, post-election period, it declined by 3.8 percent in 1999 and soared by 1 percentage point in 2000. Apparently, after a short fall, the money in circulation started to

accelerate. Money in circulation showed a remarkable rise of 32.6 percent in 2002 following by 16.8 percent increase in 2001. Beside the increase for these two years, up to July of 2003 election year, the money in circulation continue to increase further approximately 10 percent compared to the total amount of money in circulation in 2002. When December change is applied, the average rise of it was 5.9 percent in the first 7 months in 2003. The situation of currency outside bank moderately grew around 15 percent in 2004 and 2005. Soon after the election, the money in circulation remained upward trend and fluctuated between 2006 and 2007. Furthermore, currency outside banks hiked noticeably of 44.1 percent by July 2008 compared with the same month in the previous year. This trend continually rose in an average of 18.4 percent for two years after the election month, from Aug 2008 to July 2010. One reason behind this is the expansionary monetary policy used by the central bank during the crisis time to stabilize the economy. For the fourth National Assembly election, increasing trend seems decelerated in the first 3 months of 2013.

Indeed, via the observation and analysis, they demonstrate the same tendency of acceleration just before and during the election month and deceleration soon after the end of the election. In a consequence, it clearly reveals that political may use money before election to obtain more votes in the reelection.

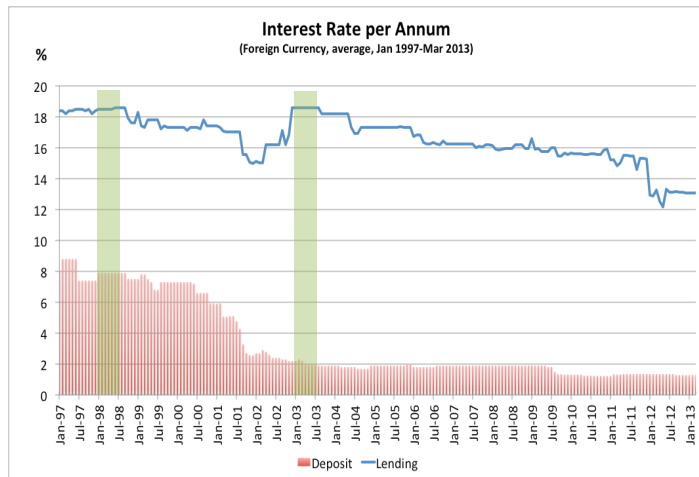


Source: NBC & the author's calculation

#### 4. Interest Rate

Interest rate is regarded as the price of money. It has a negative relationship with investment, which is the major component in GDP. As believed macro-economically, the

lower interest rate brings the higher investment; hence the more growth. Given dollarization, most of banks' loans and deposits are in foreign currency; consequently, interest rates of foreign currency mainly US dollars rather than of the domestic currency Khmer riels, are used to refer to interest rates in Cambodia. From the above figure, there was no evidence that the government use



Source: IMF

interest rate to stimulate economic growth in election periods since there is no significant drop or rise in the rates during the election periods. In general, interest rates in Cambodia decreases over time in light of market competition and financial system development because of a significant hike in commercial banks as well as micro-financial institutions, yet the spread between deposits and lending rates remains large. Recently, number of commercial banks soared more than double compared to ones in 2004. Lending rate was really high with a maximum just over 18 percent annually and minimum of 12 percent.

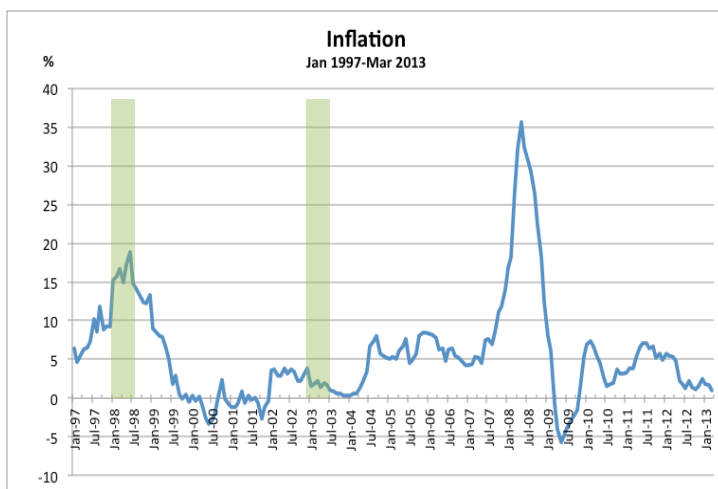
The government may find difficulties to control interest rates by monetary policy, yet fiscal policy is more effective due to the fact that there is no inter-bank market; security market is in the young stage; and in particular, Cambodia is a dollarized economy. Hence, it is impossible to say the government manipulates growth in this way.

## 5. Inflation

Inflation rate from January 1997 fluctuated over time, which peaked to approximately 35 percent in May 2008 during the global financial crisis period. One of the main reasons is Cambodia is a small open economy and imported country that imply the domestic inflation is easily affected by its trading partners' inflationary pressure. Remarkably, some countries encountered a recession, high inflation, and high unemployment rate. Another cause is the world oil price shock during this crisis as well as a sharp increase in domestic gasoline price. Among 259 items used to calculate consumer price index, food takes the most weight; additionally, food prices are directly impacted through a higher gasoline price. Consequently, whenever the gasoline price grows up, the food prices also rise.

From January to July 1998, inflation significantly jumped to 16.2 in an average, while it was below 10 percent monthly in 1997 except July and September 1997. On the contrary, after the election, that rate went down gradually up to the deflation about 3 percent in June 2000. Prior to the 2003 election and some months after the election, the inflation was maintained in moderately low level, yet it soared to a range of 6.5 to 8 percent, from July to September 2004. The inflation during 2008 election is an exceptional case since there was crisis during that period; as a result, the analysis cannot be made precisely. Later, its trend shows preferable levels again for the first 3 months of the fifth National Assembly election.

In short, the evidence that the government sustain inflation before election period is

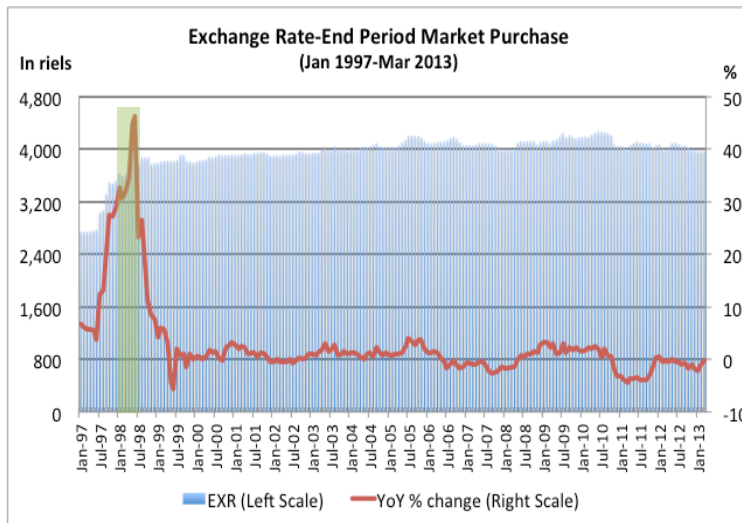


Source: IMF & the author's calculation

constraint since the trend of inflation in 1998 election is different from ones in 2003 and 2013 election. Additionally, it should be noticed that there was a political instability in 1997-1998 over the country in light of the disagreement among few politicians, which may be one root cause of the inflation rise in the beginning of 1998.

## 6. Exchange Rate

When the domestic currency exists a lot in market, the exchange rate tends to depreciate, while it appreciates whenever its demand hikes. As the figure shows, the exchange rate depreciated averagely 34.8 percent from Jan to July 1998 and depreciated in 2003 election by 1.6 percent, whereas it appreciated by 0.7 percent on average in 2008 election, which is also the year of Global Financial Crisis, when US dollar depreciated a lot against other currencies in the world. In the beginning of 2013, exchange rate also had a tendency to appreciate.



Source: NBC & the author's calculation

As the exchange rate is preferred by the royal government within the ban of 4000 riel to 4100 riel per USD, to fix its fluctuation in the market, the NBC periodically conduct US dollars purchase/sale auctions. Since both US dollars and Khmer riel are needed in the market, the demand of them combined with excess or shortage of local currency supply in the

economy cause the exchange rate fluctuates. Normally, in tax payment period, Khmer New Year, Pchum Ben, and harvest season, the value of Cambodian the riel tends to appreciate. The authority supplies US dollars to the economy whenever the Cambodian riel depreciates in order to absorb the excess amount of Khmer riel to the banking system. On the contrary, in case of its appreciation, the monetary authority purchases US dollars in exchange for supplying riel in the market. This tool successfully maintains the exchange rate movement for over 10 years, around 4,000 riel per US dollar.

It is clear that exchange rate of Cambodian riel against US dollar were maintained not only before election but also in post-election periods. On the other hand, without US dollar auction data, it is really hard to judge whether the exchange rates depreciated/appreciated substantially or slightly if the NBC's foreign exchange intervention is abnormal or usual. Moreover, it is not convinced that the change in money supply before election has no effect on exchange rate. However, one conclusion can be drawn from this is even though the election periods exist or not, exchange rate is taken care by the National Bank of Cambodia.

## V. Conclusion

All in all, from the above analysis, it is clear there is a little evidence that the government mainly boosts growth by budget expenditure, interest rate, inflation and exchange rate in prior to and post election periods, yet it is unambiguous that some political parties may use a lot of money before the elections in order to attract more votes from Cambodian people. In later reelections, it can be predicted that currency outside banks may



increase before reelection and GDP may increase more after election year. Moreover, the ruling party's background and its policies mostly influence on voters' decision to maintain and accelerate its popularity. However, a number of issues required to address. First of all, this paper has a lot of complication since there are less electoral cycles, in which one of them is an extraordinary case, so more evidence can be received if there a number of election cycles. Furthermore, seeing government expenditure as a whole is not really effective to judge precisely that the incumbent spends a lot more before election starts to increase their popularity among electorates. Its breakdown components needed to utilize for this evaluation. Finally, since this paper uses only indicators related to monetary and fiscal policy regardless of trade policy and investment, it became another limitation of this research. Therefore, next researchers can study on this article more precisely when there is more number of electoral cycles in Cambodia and there is sub-expenditure in government spending.

## References

- Ahlquist, J. S. (2010, April). Policy by Contract: electoral cycles, parties and social pacts, 1974-2000. *Cambridge Journal: The Journal of Politics*, Vol. 72, No. 2, pp. 572–587.
- Alesina, A. & Sachs, J. (1988, February). Political Parties and the Business Cycle in the United States, 1948 1984. *Journal of Money, Credit and Banking*, Vol. 20, No. 1, pp. 63-82.
- An et al., (2008, January). Idealism Without Illusions: Lessons from Post-Conflict Elections in Cambodia, Rwanda and Sudan (pp 43-44). Princeton University: Woodrow Wilson School of Public and International Affairs.  
Retrieved May 4, 2013, from [http://aceproject.org/ero-en/misc/to-be-filed/Idealism\\_Without\\_Illusions-Lessons\\_from\\_post\\_Conflict\\_Elections\(2008\).pdf](http://aceproject.org/ero-en/misc/to-be-filed/Idealism_Without_Illusions-Lessons_from_post_Conflict_Elections(2008).pdf)
- Hogan, R. E. (2004, November). Challenger Emergence, Incumbent Success, and Electoral Accountability in State Legislative Elections. Cambridge University Press: *The Journal of Politics*, Vol. 66, No. 4, pp. 1283-1303.
- Joseph E. Harrington, Jr. (1993, March). Economic Policy, Economic Performance, and Elections. *JSTOR Journal: American Economic Review*, Vol. 83, No. 1, pp. 27-42.
- Remmer, K. L. (2002, January). The Politics of Economic Policy and Performance in Latin America. *Cambridge Journal: Journal of Public Policy*, Vol. 22, 01, pp 29-59.
- Singer, M. M. & Carlin, R. E. (2013). Context Counts: The Election Cycle, Development, & the Nature of Economic Voting. *Cambridge Journal: The Journal of Politics*, pp. 1-13.