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# Capital Structure Decisions in a Highly Dollarized Economy: Evidence from Cambodian Firms

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## Abstract

This paper investigates firm capital structure decisions in the context of the highly dollarized Cambodian economy. The study makes use of survey data collected in 2014 by the National Bank of Cambodia and JICA Research Institute. Specifically, we focus on estimating the determinants of the ratio of commercial bank loans to total assets under circumstances where bank loans are available only in US dollars. To correct for selection bias in a sample that covers only firms that succeeded in obtaining loans, we apply Heckman's sample selection model. Our findings on firm hedging behavior in their financing decisions are complicated. Firms with higher returns on assets, and thus stronger capacity to generate internal funds, are more sensitive to currency mismatch risks in relying on US dollar borrowing than firms with lower returns on assets. Development of a local currency loan market would allow Cambodian firms with predominantly local currency revenues to better hedge their currency mismatch risks, leading to greater financial deepening and inclusion and less exposure of financial institutions to systemic risk. Other findings are that collateral and insurance are positively associated with reliance on borrowing, indicating that problems of information asymmetry may need to be overcome in securing loans.

*JEL Classification Codes:* G30, G31

*Keywords:* Cambodia, Dollarization, Bank borrowings, Capital structure, Sample selection model

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