A comparative study of the link between real exchange rate of ASEAN countries and fossil fuel prices

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This paper examines the influence of the prices of fossil fuel (oil, coal, and gas) on real exchange rates of the ASEAN countries against the US. We tackle modeling issues such as serial correlation, endogeneity and heteroscedasticity, and account for other determinants of real exchange rates to find overwhelming evidence that a short-term increase in the prices of oil, gas, and coal leads to a depreciation of local currency of the ASEAN countries against the US dollar. Out of the three fossil fuels, the influence of natural gas price is found to be strongest. We also find that oil and coal effects are weaker during financial crises than non-financial crises periods. Gas price effects are stronger during financial crises. In the long-run, higher energy prices depreciate several countries’ currencies, with Vietnam showing the converse with respect to some energy prices. For each nation, we compare their competitiveness against their energy mix and against other ASEAN members. We explain our results and provide policy implications.

Biography
Seema Narayan completed her PhD from the Monash University. She is Associate Professor of Economics at the RMIT University. She has published more than 80 papers in reputed journals and is ranked in the top 10 per cent of female economists in the world by RePEC.

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