

## CAUSAL RELATIONSHIP BETWEEN REAL EXCHANGE RATE AND ECONOMIC GROWTH IN ASIA – PACIFIC REGION

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### Abstract

*The main purpose of this study is to examine the causal relationship between Real Exchange Rate and Economic Growth Variables in the Asia – Pacific region. Granger Causality Test was employed, to examine the causal relationship between the dependent and independent variables, with the sample economies, over the period from 2006 to 2017, under quarterly frequency. The researcher did not find any signs of causal relationship between the variables, in majority of the sample countries*

**JEL Classification:** G15, F21, and F31

**Keywords:** Real Exchange Rate, Imports, Exports, and Foreign Exchange Reserves

### 1. Introduction

Exchange Rate is a vital microeconomic variable of a country and backbone of the trade. Volatility in the exchange rate leads to the slowdown of the process of trade and destabilizes the movements of capital assets. The regime of Exchange Rate is the main determinant of the ability of the economy to efficiently respond and adjust to remote shocks. It shatters the investors, confidence to invest in a country, if the level of exchange rate volatility was high, which leads to decreasing growth rate (Ali, A. S. 2015). Depreciation or Undervaluation in domestic currency would lead to increase in the value of domestic money

the Philippines, Imports found causal relationship with Real Exchange Rate, with a value of 0.026. In the case of South Korea, Foreign Exchange Reserves did earn causal relationship with Real Exchange Rate, with a value of 0.045. In Thailand, Real Exchange Rate found causal relationship with Exports, with a value of 0.036, during the study period.

In the light of the above analysis, the Null Hypothesis  $NH_2$  - **There is no causal relationships between the sample variables of Sample countries**, was partially rejected. The analysis of this study indicated that the traders of FOREX may trade with Hong Kong, New Zealand, Philippines and Thailand, to maximize their profit. But, care must be taken while trading in other sample countries like Japan, Australia, India, and Indonesia.

## 5. Conclusion

This study examined the causal relationship between Real Exchange Rate and Economic Growth in Asia – Pacific Countries. The results of this study revealed that all countries recorded stationarity against all the sample variables, except Real Exchange Rate of China, which did not attain stationarity in the sample period. The result of Granger Causal relationship reveals that no sample country attained bidirectional relationship against all the sample variables. Majority of sample countries, against sample variables, did not report any linkages. There was unidirectional relationship between Exports and Real Exchange Rate, in two countries such as Hong Kong and Thailand. Foreign Exchange Reserve and Real Exchange Rate of South Korea, Gross Domestic Product and Real Exchange Rate of China, Imports and Real Exchange Rate of Philippines and New Zealand recorded unidirectional relationship during the study period.

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