

# **Currency Substitution, Capital Flight and Dollarisation: An Econometric Analysis of Bulgaria, 1992-97**

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## **Abstract**

This paper examines the currency substitution, capital flight and dollarisation hypotheses in Bulgaria during the 1990s, using monthly data and the latest time series econometric techniques. The fact that in July 1997 the authorities switched from a floating exchange rate system to a currency board, suggests that dollarisation made it impossible for Bulgaria to conduct its own monetary policy. The evidence of dollarisation in this study supports that conclusion, but shows that it was capital flight from the Bulgarian lev, rather than pure currency substitution that was responsible for the regime change.

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