

To Dollarize or De-dollarize: Consequences for Monetary Policy

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Abstract

The aim of this paper is to review the experience of various dual-currency economies and analyze the main challenges faced by policymakers in formulating and conducting monetary policy. To that end, it distinguishes between countries with growing dollarization and those which have managed to revert such trend. In addition to the Asian countries of interest we look at a number of Latin American countries, Israel and Russia. All of these countries have experienced – and in some cases still do – a high degree of dollarization. Though there are several other countries within Central and Eastern Europe where a hard currency, i.e. the euro, is frequently used for financing and saving purposes, an important difference of this region and the ASEAN countries in transition, is that the latter are nowhere close to adopting the dollar as an official currency or to enter a monetary union. Israel is chosen as a case study, because it is one of the few countries in the world that were highly dollarized, and could successfully de-dollarize. Also Russia, has been trying to de-dollarize in the last couple of years. However, as we will discuss below they did not manage to lower the deposit dollarization ratio on a sustained basis.

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