

Deposit Dollarization in Emerging Markets: Efficient Risk Sharing or Prescription for Disaster?

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Dollarization

- What?
- Why?
- Good? Bad?

Dollarization

Figure 1: Average Dollarization 2000-2016 (Dalgic 2017)

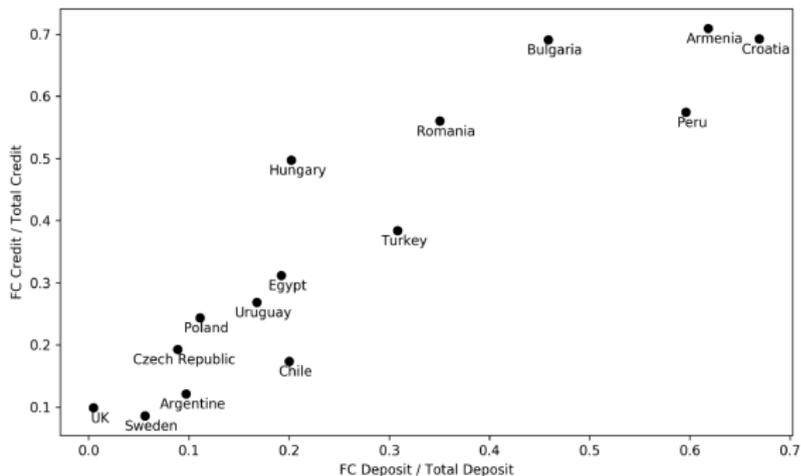


Figure 4: Average credit and deposit dollarization across selected countries

Source: Individual central banks, ECB

Dollarization

Figure 2: Dollarization 1970-2010 (Dalgic 2017)

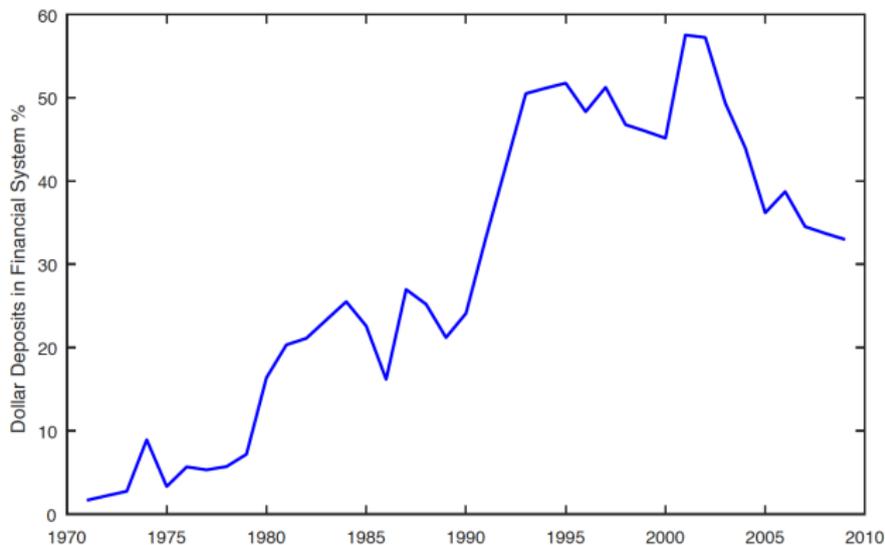


Figure 1: Deposit dollarization in the world

Source: Yeyati (2006), World Bank

Dollarization Literature

- Deposit Dollarization and Loan Dollarization often lumped together
- Run regressions with dollarization against
 - inflation rate (or nominal exchange rate depreciation)
 - deposit or loan interest rate spreads to the US dollar
 - capital account restrictions, external debt to GDP
 -
- Questions remain

Dollarization

- Deposit Dollarization
 - Insurance for HHs
 - Complicates setting monetary policy
- Credit Dollarization
 - Problem if mismatch between revenues and costs

- Dollarization provides risk sharing
 - Recession; Depreciation of the e-rate
 - HH's hold FC; Local currency declines; local interest rate increases; entrepreneurs borrow in dollars
- Firms/households with high leverage should not be borrowing in foreign currency.

Other reasons?

- Why is the currency substitution idea out?
- Dollarization high even though inflation is down in many countries

Discussant?

- No papers on the subject
- No econometrics
- But
 - **Access to survey data!**

- What fraction of your deposits are in foreign currency?
- Why?

Survey

- 5 Turkish people
- 1 Brazilian
- 1 Argentinian

- Turkish people:
 - 40%-50% in FC;
 - Inflation used to be high; TL would depreciate a lot all of a sudden
 - Interest rate on TL sometimes negative
 - Don't trust the government
 - Some things are denominated in dollars

- Brazilian and Argentinian
 - Easier to keep dollars under the mattress
 - Dollars in banks is a very inaccurate measure

Figure 3: Turkey Inflation Rate

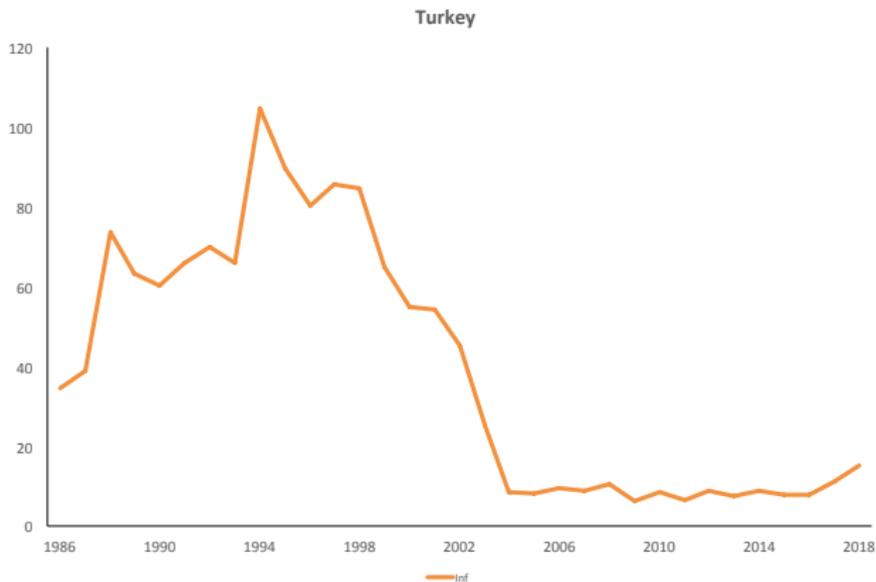
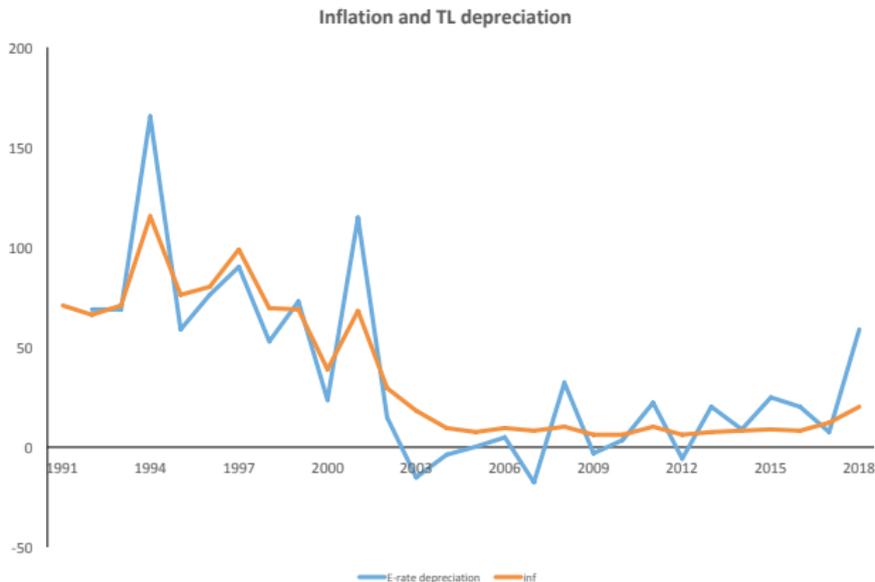


Figure 4: Inflation Rate and the E-rate



Both are end of year

Turkey Inflation and Dollarization

Figure 5: Inflation and Dollarization Left axis inflation; Right axis dollarization

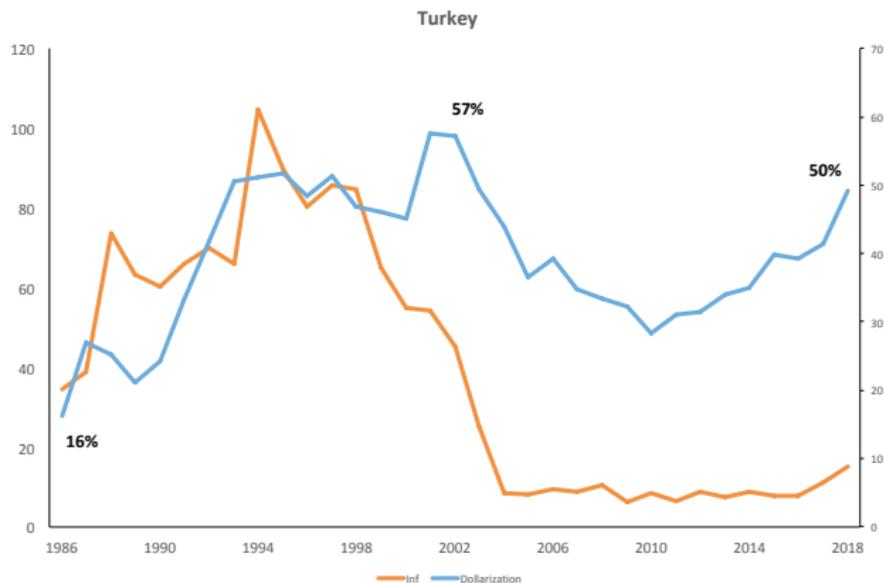


Figure 6: Inflation and Dollarization Left axis inflation; Right axis dollarization

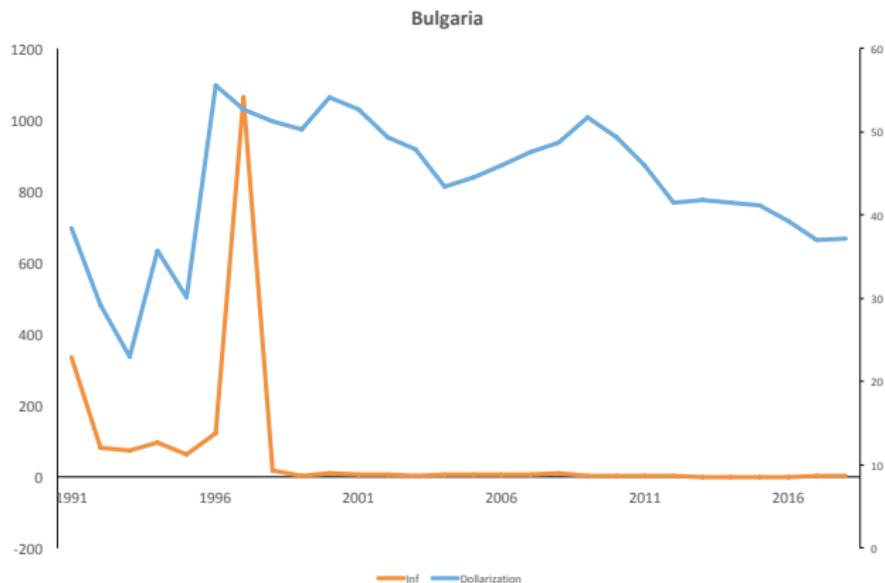


Figure 7: Inflation and Dollarization Left axis inflation; Right axis dollarization

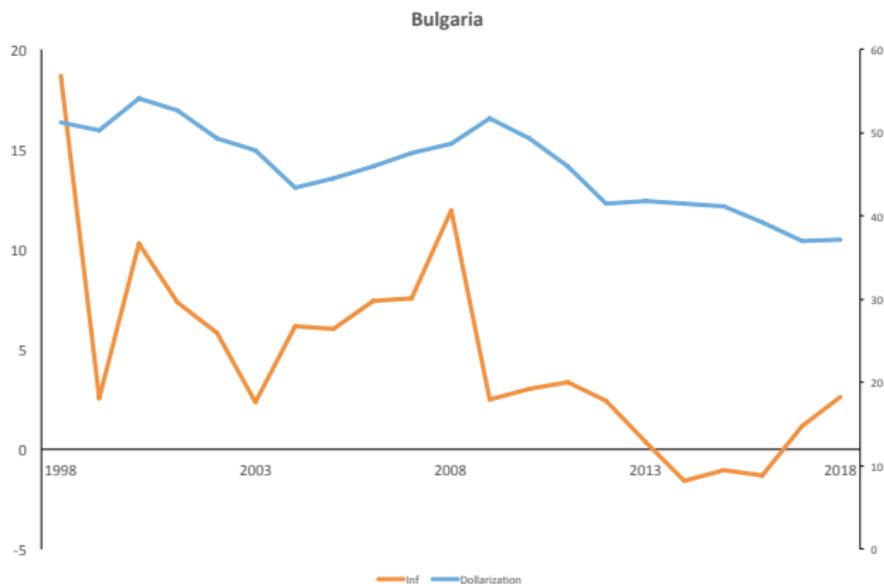


Figure 8: Inflation and Dollarization Left axis inflation; Right axis dollarization

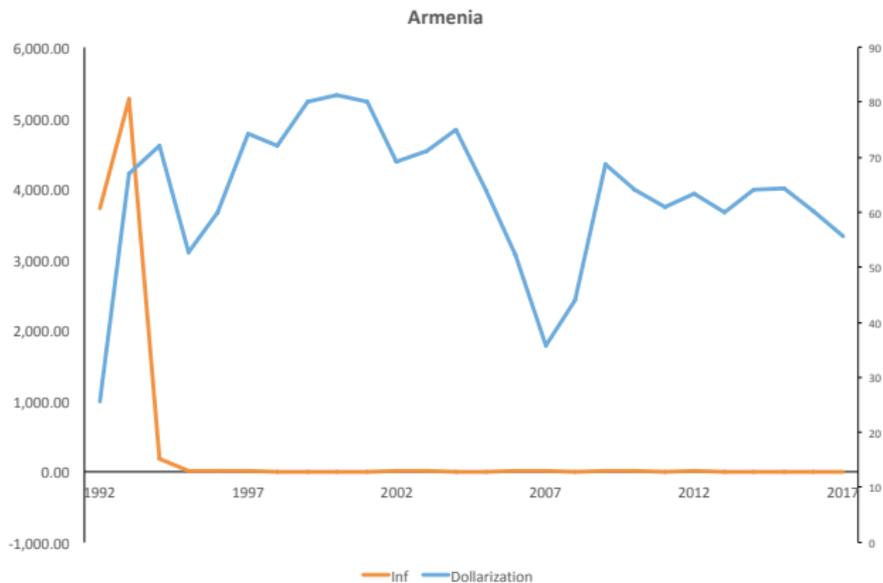
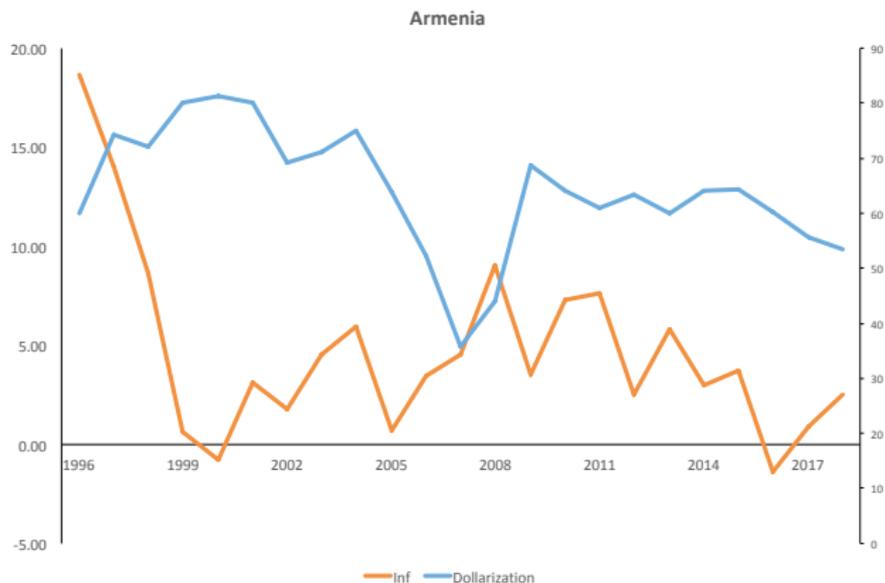


Figure 9: Inflation and Dollarization Left axis inflation; Right axis dollarization



Deposit Dollarization

- Deposit Dollarization
 - People have long memories about inflation
 - Hard to restore confidence in domestic currency
 - Is it business cycle insurance or much more?

Borrowing in FC

- Borrowing in FC
 - Risky if revenues in domestic currency
 - Popular press very negative on it

Figure 10: Dollar - TL

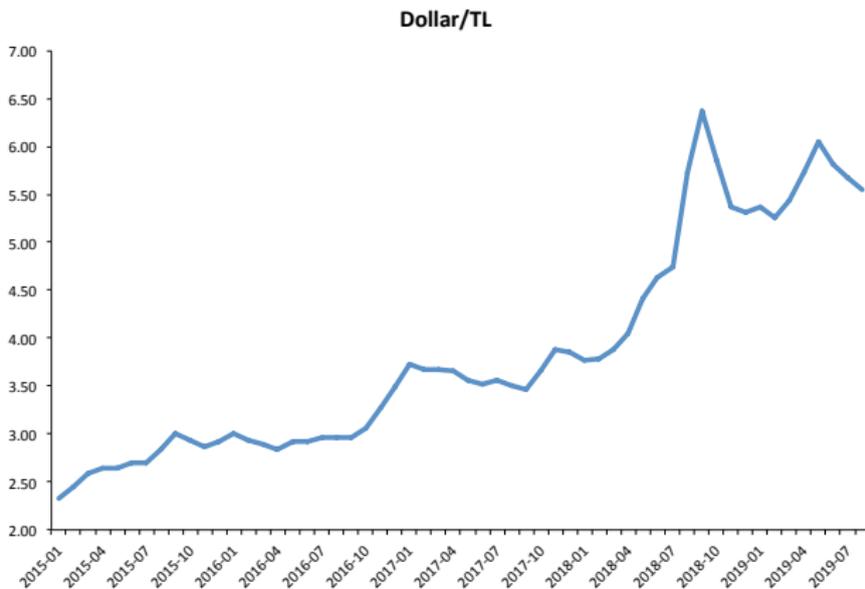


Figure 11: Dollarization in Popular Press



Figure 12: Dollar - TL (August 10, 2018)



The Turkish lira hit a record low of 6.24 per dollar on Friday, Aug. 10, 2018, before recovering to 5.94, down 7 percent on the day. The currency has fallen 66 percent since the start of the year. Turkey's President Recep Tayyip Erdogan on Thursday, Aug. 9 portrayed the currency drop as a "campaign" to harm Turkey.

(<https://apnews.com/55a9775de10141f5a276ea094969e270>)

Figure 13: Dollar - TL (Sept 24, 2018)

Turkey's currency surges more than 3% on hopes a detained American pastor will be released

Gina Heeb

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Effect on Firms?

- Importing firms? Bankruptcies?

Figure 14: Number of Firm Liquidations

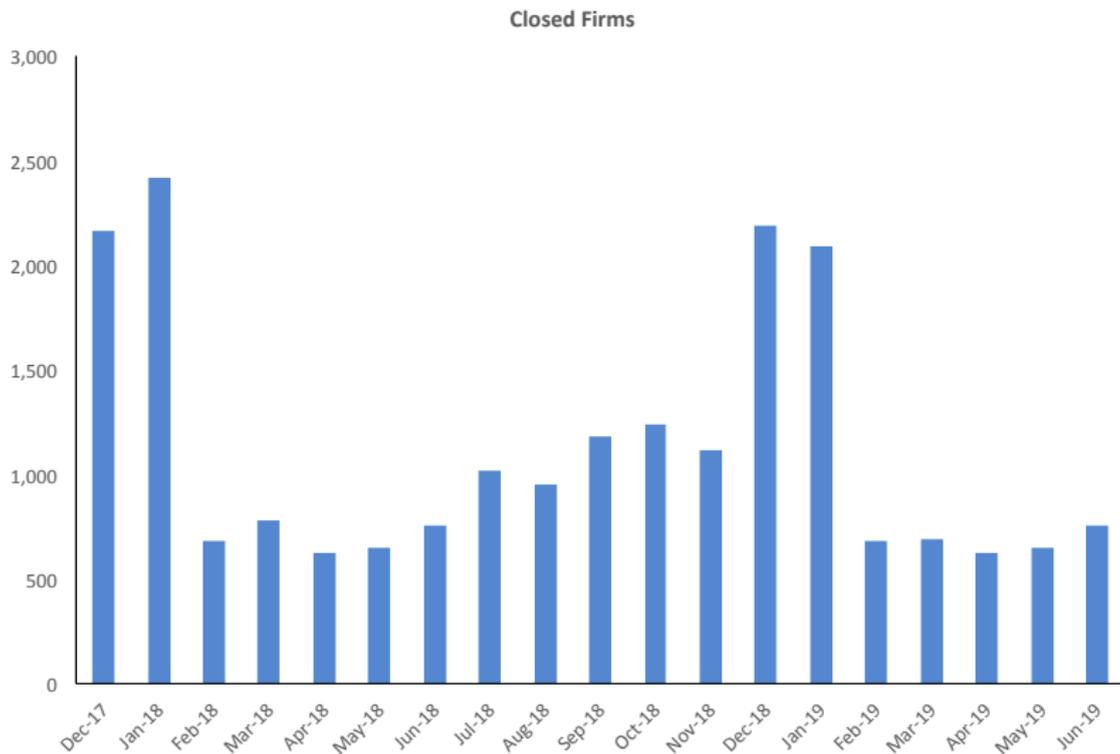
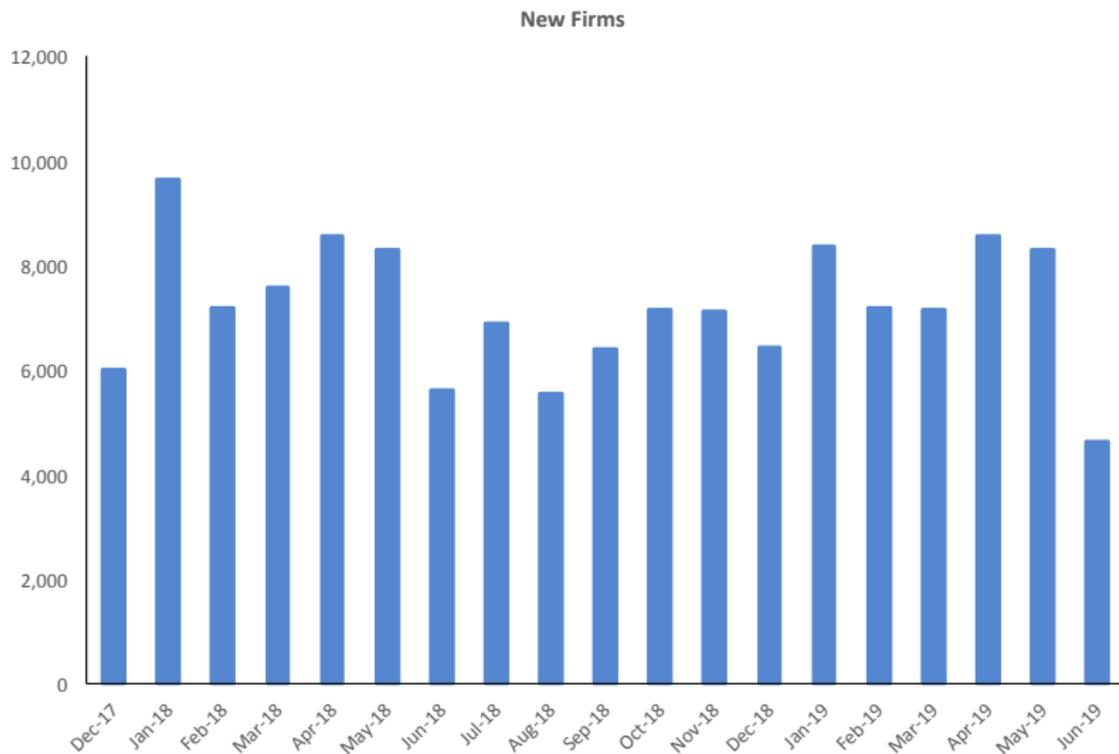


Figure 15: Number of New Establishments



Conclusions

- Very interesting topic
- Model that links HH and firm behavior
- Are there any missing components?