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

• What?
• Why?
• Good? Bad?
Figure 1: Average Dollarization 2000-2016 (Dalgic 2017)
Figure 1: Deposit dollarization in the world
Source: Yeyati (2006), World Bank

Figure 2: Dollarization 1970-2010 (Dalgic 2017)
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!
Survey

• What fraction of your deposits are in foreign currency?
• Why?
Survey

- 5 Turkish people
- 1 Brazilian
- 1 Argentinian
Survey

- 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
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

- 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
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)
Turkey's currency surges more than 3% on hopes a detained American pastor will be released
Effect on Firms?

- Importing firms? Bankruptcies?
Figure 14: Number of Firm Liquidations

Closed Firms

https://tobb.org.tr/
Figure 15: Number of New Establishments

New Firms

- December 2017: 6,000
- January 2018: 10,000
- February 2018: 8,000
- March 2018: 6,000
- April 2018: 8,000
- May 2018: 10,000
- June 2018: 12,000
- July 2018: 10,000
- August 2018: 8,000
- September 2018: 6,000
- October 2018: 0
- November 2018: 2,000
- December 2018: 4,000
- January 2019: 6,000
- February 2019: 8,000
- March 2019: 10,000
- April 2019: 12,000
- May 2019: 10,000
- June 2019: 8,000
Conclusions

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