

Discussion of  
“Financial Dollarization: Efficient Intranational Risk  
Sharing or Prescription for Disaster?”  
by Lawrence Christiano, Husnu Dalgic and Armen  
Nurbekyan

Alex Michaelides  
Imperial College & CEPR

November 2022

- Prominent role of dollar in international transactions

- Prominent role of dollar in international transactions
- Many papers focus on banking system borrowing in dollars

- Prominent role of dollar in international transactions
- Many papers focus on banking system borrowing in dollars
- This paper focusses on households and on risk sharing properties of USD within countries

- Prominent role of dollar in international transactions
- Many papers focus on banking system borrowing in dollars
- This paper focusses on households and on risk sharing properties of USD within countries
- Intuition: invest in USD, USD appreciates when emerging market GDP falls, agents holding USD in country insured

- Prominent role of dollar in international transactions
- Many papers focus on banking system borrowing in dollars
- This paper focusses on households and on risk sharing properties of USD within countries
- Intuition: invest in USD, USD appreciates when emerging market GDP falls, agents holding USD in country insured
- Local rate higher than deposit rate: the price of this insurance

- Dollarisation variable across 140 countries, defined as value of FC deposits held by domestic residents in domestic banks over total deposits

- Dollarisation variable across 140 countries, defined as value of FC deposits held by domestic residents in domestic banks over total deposits
- Key result: for more dollarised economies, the exchange rate depreciates more in recessions (Figure 2). Therefore, USD can provide insurance within countries



- Dollarisation variable across 140 countries, defined as value of FC deposits held by domestic residents in domestic banks over total deposits
- Key result: for more dollarised economies, the exchange rate depreciates more in recessions (Figure 2). Therefore, USD can provide insurance within countries
- Next big question: who provides the insurance?

- Dollarisation variable across 140 countries, defined as value of FC deposits held by domestic residents in domestic banks over total deposits
- Key result: for more dollarised economies, the exchange rate depreciates more in recessions (Figure 2). Therefore, USD can provide insurance within countries
- Next big question: who provides the insurance?
- Answer: firms

# Is dollarisation destabilizing?

- In terms of frequency of banking crisis and intensity of crisis

# Is dollarisation destabilizing?

- In terms of frequency of banking crisis and intensity of crisis
- Not systematic evidence there is relationship

# Is dollarisation destabilizing?

- In terms of frequency of banking crisis and intensity of crisis
- Not systematic evidence there is relationship
- Two period models to further enhance intuition

## Comment 1: Rare disasters

- Neither model nor data contain huge disasters like Lebanon, where exchange rate drops from 1500 per USD to 15000 or even 35000

## Comment 1: Rare disasters

- Neither model nor data contain huge disasters like Lebanon, where exchange rate drops from 1500 per USD to 15000 or even 35000
- Condition many of the statements on this possibility

## Comment 1: Rare disasters

- Neither model nor data contain huge disasters like Lebanon, where exchange rate drops from 1500 per USD to 15000 or even 35000
- Condition many of the statements on this possibility
- Model? Do we ignore rare disasters? Could be completely unexpected, then model follows, but how do we think about them?



## Comment 1: Rare disasters

- Neither model nor data contain huge disasters like Lebanon, where exchange rate drops from 1500 per USD to 15000 or even 35000
- Condition many of the statements on this possibility
- Model? Do we ignore rare disasters? Could be completely unexpected, then model follows, but how do we think about them?
- In Lebanon, highly dollarised economy, banks were depositing USD with central bank and that was perceived as safe. Central bank was using dollars to support a very strong exchange rate. This possibility is not in the model or in the data.

## Comment 2: Central Banks

- What is role of central bank in model and data?

## Comment 2: Central Banks

- What is role of central bank in model and data?
- Absent from model, key player in many of these countries (Turkey, Lebanon, Egypt, Pakistan)

## Comment 2: Central Banks

- What is role of central bank in model and data?
- Absent from model, key player in many of these countries (Turkey, Lebanon, Egypt, Pakistan)
- How do we think of that, both in terms of politics and in terms of economics?

## Comment 2: Central Banks

- What is role of central bank in model and data?
- Absent from model, key player in many of these countries (Turkey, Lebanon, Egypt, Pakistan)
- How do we think of that, both in terms of politics and in terms of economics?
- Do we think of model as being around a steady state but not near a dramatic disaster?

## Comment 2: Central Banks

- What is role of central bank in model and data?
- Absent from model, key player in many of these countries (Turkey, Lebanon, Egypt, Pakistan)
- How do we think of that, both in terms of politics and in terms of economics?
- Do we think of model as being around a steady state but not near a dramatic disaster?
- For example, recent JF paper by Goncharov, Ioannidou and Schmalz. Central banks care about profits and that can become important when defending a peg.

- Fascinating results on dollarised economies

- Fascinating results on dollarised economies
- Might be useful to relate to case studies from Latin America more broadly (Kehoe and Nicolini (2021))



# Conclusion

- Fascinating results on dollarised economies
- Might be useful to relate to case studies from Latin America more broadly (Kehoe and Nicolini (2021))
- Role of central banks and political economy could be interesting to consider in future literature on topic