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Full Dollarization: A Last Resort Solution to Financial Instability in Emerging Countries?

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Abstract

This paper will examine the question of official dollarization. To clarify the discussion, a taxonomy of dollarization regimes is drawn up in order to make an inventory of officially dollarized countries, territories and dependencies. The foundations for adopting full dollarization are analysed through three elements: an account of the limits to corner solutions, the identification of the economic contexts which are favourable to the adoption of foreign currencies and the reasons behind the legitimacy crisis of national currencies. To determine what is at stake in such decisions, cost advantage analysis mentions, first of all, the expected benefits highlighted by the advocates of complete dollarization. A detailed study of its potential impact will then allow us to evaluate the induced

costs of the disappearance of national currencies. Finally, by looking at emerging countries which have adopted this exchange regime, the limits of adopting such a solution are underlined, particularly by the fact that the disappearance of national currencies implies an abandonment of monetary sovereignty and a loss of a powerful symbol of national identity.

L'objet de cet article est d'alimenter le débat sur la dollarisation officielle. En raison de son coût d'opportunité, le remplacement d'une monnaie nationale par une devise étrangère constitue une solution de dernier ressort à l'instabilité financière des économies émergentes. Pour éclairer la discussion, une typologie des régimes de dollarisation est dressée afin de recenser les pays, territoires et dépendances officiellement dollarisés. Les fondements du changement de régime monétaire sont présentés à partir de trois éléments: l'analyse des limites des corner solutions, l'identification des contextes économiques favorables à l'introduction d'une devise étrangère et les raisons de la crise de légitimité de la monnaie nationale. Pour comprendre les enjeux d'une telle décision, l'étude des avantages-coûts souligne en premier les bénéfices espérés mis en valeur par les partisans de la dollarisation intégrale. L'exposé détaillé de son impact potentiel permet ensuite d'estimer les coûts induits par la substitution monétaire. En prenant pour exemple les pays émergents qui ont choisi cette option monétaire, on précise enfin le terrain d'application limité d'une telle mesure, la disparition de la monnaie domestique entraînant l'abandon d'une souveraineté monétaire et la perte d'un puissant symbole d'identité nationale.

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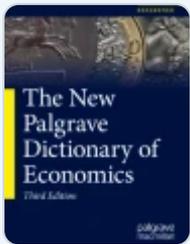
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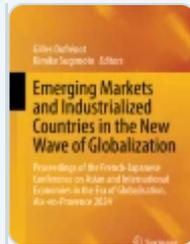
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