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Contents; I. Introduction; II. Characteristics of Eurorization/Dollarization Countries; Tables; 1. List of Dollarized Economies; III. Potential Benefits and Costs of Eurorization for Cape Verde; Boxes; 1. Loss of Seigniorage Revenue: Theory and Evidence; 2. Present Value Loss of Seigniorage Revenue (as a share of GDP); Figures; 1. Debt With and Without Access to Seigniorage Revenue, 2008-28; 3. Seigniorage Gains for CEECs; 2. Growth Effect of Eurorization is Temporary, not Permanent; IV. Econometric Analysis of the Characteristics of Dollarized Economies; A. Determinants of Exchange Rate Choice
4. Comparing Merits of Different Fixed Exchange Rate Regimes with Cape Verde Current PegB. Data; C. Estimation; 5. Choice of Exchange Rate Regime (Dollarized Economies); 6. Choice of Exchange Rate Regime (Hard Pegs); 7. Choice of Exchange Rate Regime (Dollarized, Other Hard Pegs and Non-Hard Pegs); V. Practical Aspects of Successful Eurorization; 2. Some Practical Aspects of Introducing the Euro; VI. Conclusion; References; Appendix; 1. History of Cape Verdean Exchange Rate Arrangements

Sommario/riassunto

In recent years, recommendations for countries to unilaterally dollarize/eurorize have become common, particularly when the countries lack economic credibility. After exploring the characteristics of dollarizing/eurorizing economies, we look at the merits and costs of unilateral eurorization for Cape Verde, a highly tourism based economy that has become increasingly integrated into the euro-zone area and that has a strong macroeconomic track record. We illustrate that neither the benefits nor the costs of unilateral eurorization are large and conclude that there is no compelling case to change the current exchange rate arrangement at this point in time. Econometrically, we assess the characteristics of dollarized economies and demonstrate that few of them apply to Cape Verde, further confirming that Cape Verde does not fit the pattern of most dollarizing countries.