

1. Record Nr.	UNINA9910969919803321
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Titolo	Financial Dollarization in Latin America / / Robert Rennhack, Masahiro Nozaki
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2006
ISBN	9786613822635 9781462313495 1462313493 9781452760247 1452760241 9781282590458 1282590456 9781451908039 1451908032
Edizione	[1st ed.]
Descrizione fisica	1 online resource (36 p.)
Collana	IMF Working Papers
Altri autori (Persone)	NozakiMasahiro
Soggetti	Monetary policy - Latin America Currency question - Latin America Bank deposits Banking Banks and Banking Banks and banking Banks Currencies Currency Deflation Depository Institutions Development Planning and Policy: Trade Policy Dollarization Exchange rate policy Factor Movement Financial Institutions and Services: General Financial services Foreign Exchange Policy Foreign Exchange Foreign exchange Government and the Monetary System Inflation

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 Payment Systems  
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 Prices  
 Regimes  
 Standards  
 Brazil

Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Description based upon print version of record.
Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	""Contents""; ""I. INTRODUCTION""; ""II. TRENDS IN FINANCIAL DOLLARIZATION""; ""III. FINANCIAL DOLLARIZATION AS A RATIONAL RESPONSE TO INFLATION""; ""IV. THE ROLE OF CREDIT RISK""; ""V. CONCLUDING REMARKS""; ""APPENDIX I""; ""APPENDIX II""; ""REFERENCES""
Sommario/riassunto	This paper tests several explanations for financial dollarization (FD), with an emphasis on Latin America. The results provide evidence that FD is a rational response to inflation uncertainty. The paper builds on previous research by finding that an exchange rate policy biased towards currency depreciation and currency mismatches tends to contribute to high FD and that FD is highly persistent. These results suggest that countries with significant FD should encourage the use of domestic currency by maintaining macroeconomic stability; allowing more exchange rate flexibility and less bias towards currency depreciation; and adapting prudential regulations to ensure that costs associated with FD are fully internalized in financial contracts. At the same time, restoring confidence in the domestic currency may take many years of sound policies.