## Financial Stability in Dollarized Economies

Anne-Marie Gulde, David Hoelscher, Alain Ize, David Marston, and Gianni De Nicoló

11

C

## Contents

Preface		v
I	Introduction	ł
11	Implications of Dollarization for Financial Stability Are Dollarized Financial Systems Inherently Vulnerable? What Are the Specific Financial Risks of Partial Dollarization?	<b>4</b> 4 5
118	Managing Bank Runs in Dollarized Countries Provision of Emergency Liquidity Depositor Protection Administrative Measures	12 12 12 13
IV	<b>Prudential Framework for Managing Dollarization Risks</b> How Are Dollarized Countries Managing Dollarization Risks? Is a Regulatory Tightening Needed? Agenda for Prudential Reform Enhancing the Attractiveness of Local Currency Implementation Issues	14 14 18 19 22 24
v	Conclusions	26
Refer	References	
Boxes	<ol> <li>Dollarization Types and Trends</li> <li>Dollarization Levels Versus Dollarization Risks</li> <li>Systemic Risk Potential and Dollarization</li> <li>Costs and Benefits of Norms to Control Liquidity Risk: The Case of Peru</li> <li>Practical Safeguards and Countermeasures for Offshore Financial Centers</li> </ol>	1 2 5 15 24
Table	<ol> <li>Average Foreign Currency Deposits to Total Deposits</li> <li>Indicators of Domestic Financial Intermediation in Foreign Currency, 2001</li> <li>Deposit Volatility and Dollarization</li> <li>Impact of Dollarization on Financial Soundness Indicators</li> <li>Bank Runs in Partially Dollarized Economies</li> <li>Risk Management Arrangements in Dollarized Economies</li> <li>Creditor Runs in the Peruvian Banking System</li> </ol>	2 3 4 5 7 16 18

.

.

iii