



**POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA
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COMMENT

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Comment

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It is an honor to have an opportunity of commenting on this ambitious and very inspiring study. I would like to mention two points which, I hope, help improve the study. One is related to the definition of dollarization. The other is related to the interpretation of organizational capacity of the government.

First, as for the definition of dollarization, professor Watanabe utilizes different concepts of dollarization in the paper. Of which de facto dollarization and full dollarization are antithetic concepts mutually. Full dollarization, or official dollarization, means abandoning national currency and accepting foreign currency as the legal tender. Therefore, it is a type of exchange rate regime, while de facto dollarization has nothing to do with official exchange rate regime the country in question is adopting. Other definitions are related to the functions the foreign currency is playing in the economy. (Cash, deposit, monetary, financial, and real dollarization)

Although, these conceptually different definitions are mentioned in the paper, they are not utilized in the analysis. It would be much more interesting if they had been incorporated in the analysis too. For example, the paper emphasizes the exchange rate

risk as one of the reasons why dollarization deters financial deepening. However, this conclusion could be reversed if we focus on real dollarization instead of dollarization of asset and liability, or financial dollarization. Since the real dollarization means people pay and receive foreign currency in everyday transactions, the more an economy dollarized in this sense, the less it is affected by the exchange rate movements. By the same token, if we can assume that full dollarization gets rid of exchange rate risk from the economy, it may promote financial deepening. Thus, it would be interesting to know which definition of dollarization is mostly related to which country, and to study whether this difference accompanies the different performance in financial deepening. In short, applying different concepts of dollarization may enrich the analysis.

Second, as for the organizational capacity of the government, I propose to interpret it in much broader sense. In the paper, only the capacity of enforcing law is emphasized. Admittedly, this capacity promotes financial deepening for sure. However, I cannot understand why the lack of this capacity causes de facto dollarization. Of course, I agree some kind of governmental capacity, or lack of it, has something to do with de facto dollarization. Especially, the capacity of building institutional framework that strengthens the confidence to the national currency must be crucial. It includes, for example, setting up capable and independent central bank. Naturally, these two

capacities, the capacity of law enforcement and institutional building, correlate each other. Hence, most possibly, the major conclusion of the paper still holds with this broader interpretation of the governmental capacity.

To sum up, I propose two ways of refinement. One is to adopt finer conceptual definitions of dollarization for the analysis. The other is to interpret the governmental capacities more broadly.