

TERMINOLOGY OF DOLLARIZATION

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When studying dollarization as an economic phenomenon and as one of the exchange rate regimes, one may encounter different approaches to defining this term. Usually, the term “dollarization” refers to the use of foreign currency (primarily US dollars) in the monetary circulation of a certain country. However, this term has other synonyms and various interpretations in scientific publications.

Among the first works on this issue was the article by Lance Girton and Don Roper “Theory and Implications of Currency Substitution” (1976), in which the authors proposed the term “currency substitution” to describe the use of foreign currency in monetary circulation. In addition to the term “currency substitution,” the authors also proposed the term “currency mobility” [1].

The term “currency substitution” was widely used in other works and described the replacement of national currencies in circulation with foreign currencies, but without providing them the official status. Among these publications were the articles by Guillermo Calvo and Carlos Rodríguez [2], Marc Miles [3], Ronald McKinnon [4], John Cuddington [5], Franco Spinelli [6], Lee Thomas [7], Matti Virén [8], Alberto Giovannini and Bart Turtelboom [9], and numerous works by many other authors.

However, in Latin American countries the foreign currency, i.e. the US dollar, gradually began to be used not only as a medium of exchange, but also as a unit of account and a store of value. In scientific works this broader phenomenon has got the name of “dollarization”. Among the first to use this term were Guillermo Ortiz [10; 11], Ruben Lamdany and Jorge Dorlhiac [12], and Michael Melvin [13]. The authors emphasized the close connection between the concept of dollarization and the concept of currency substitution.

Guillermo Calvo and Carlos Végh in their study “Currency Substitution in Developing Countries: An Introduction” (1992) analyzed the similarity between the terms “dollarization” and “currency substitution” in the context of Latin American countries. The authors pointed out that the term “dollarization” was also often used when foreign currency was used as a unit of account and a store of value, and not necessarily as a medium of exchange. The authors explained this by the fact that in countries with high inflation, foreign currency was first used as a store of value or a unit of account, and only then as a medium

of exchange. In other words, the authors considered currency substitution (i.e., the use of foreign currency as a medium of exchange) to be the final stage of dollarization [14].

Thus, many authors define the dollarization as the use of foreign currency in circulation and its performance of three classical functions of money. In contrast, the term “currency substitution” refers to the use of foreign currency as a medium of exchange only. Therefore, an economy facing currency substitution is, by definition, also partially dollarized, but an economy that is partially dollarized does not necessarily face a currency substitution [15].

Some authors use the term “dual currency regime”, which refers to a situation when deposit and credit transactions in foreign currencies are officially permitted in the country’s banking system [16-17].

The term “dollarization” is often criticized for originating from the name of “dollar,” as there are many examples of other currencies being used in the global economy. Some authors use the term “euroization” [18-19], while others propose the term “xenomonetization” [20-21]. Other examples of terminology include the terms “parallel currency market” [22], “dual currency” [23], and “multiple currency phenomenon” [24]. However, these terms have not yet become widely used.

Thus, the term “dollarization” has become widely accepted in the modern economic science and refers to the use of any currency (not just the US dollar) in a country’s monetary circulation. This term most fully takes into account all aspects of this economic phenomenon and is used in various languages (for example, in French – dollarisation, in Spanish – dolarización, in German – dollarisierung, in Italian – dollarizzazione, in Polish – dolaryzacja, etc.). However, the term “dollarization” may be replaced by another in the process of the evolution of the global financial system [25].

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