EDITORIAL

**Editor's Introduction to Special issue of *Comparative Economic Studies*
8th Dubrovnik Economics Conference on *Currency Substitution and
Monetary Policy in Emerging Market Economies***

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The 8th Annual Dubrovnik Economic Conference was held on 27–29 June 2002 in Cavtat, Croatia, a few miles from the historical city of Dubrovnik.

Although the Dubrovnik conferences were started as a forum for research on the transition economies, it has become increasingly clear that the policy concerns of the transition countries are largely shared with emerging market nations around the world. The topic of the 2002 conference is a good example. Emerging market countries (and many small developed countries as well) often find that currency substitution is ubiquitous. The papers in this symposium are devoted to analyses of currency substitution and its implications for monetary policy.

The term currency substitution is used for two related phenomena. The first is the use of physical foreign currency (coins and bills) to supplement or replace the domestic currency. In many instances, US dollars or Euros circulate widely and are accepted for transactions. In the extreme, dollarisation or Euroisation means that a foreign currency and its unit of account entirely replace any domestic currency unit. The second phenomenon is the use of a foreign currency as a parallel unit of account for bank deposits and loan contracts. In both instances, the use of a foreign currency complicates the ability of the central bank to conduct monetary policy and manage the exchange rate. In addition, the use of two parallel currencies in the banking system can increase risk, although it does provide asset holders

with the ability to diversify. Thus, the implications of currency substitution are complex and worthy of careful study.

The papers in this symposium provide an analysis of the currency substitution in various places including Croatia, Israel, Russia and Turkey. In each case, the implications of currency substitution for the conduct of monetary policy and for maintaining stability are discussed.

The conference programme was organised by a scientific committee consisting of Željko Rohatinski (Governor of the Croatian National Bank), Boris Vujić (Deputy Governor), Mario Blejer (Director, Bank of England Centre for Central Banking Studies), Jacob Frankel (President, Merrill Lynch International), Ante Čičin Šain (former Governor of the Croatian National Bank) and Paul Wachtel (Professor of Economics, Stern School of Business New York University).

The editors would like to thank the editor of the journal, Jeffrey Miller, for his willingness to make this special issue possible. He provided invaluable editorial direction and advice. In addition, our thanks to the several colleagues who helped us select papers for publication and whose suggestions improved the quality of this symposium immeasurably: Mario Blejer, Edgar Feige, Oleh Havrylyshyn, Buštjan Jazbec, Iikka Korhonen, Ali Kutan, Jeffrey Miller and Akiva Offenbacher.

Finally, we would like to salute the leadership of the Croatian National Bank for its continued support of these conferences. The Bank's support of policy research and the exchange of ideas among researchers from around the world is an indicator of the success of transition in Croatia. Over the last 8 years these conferences have made great contributions to the policy research community and this symposium volume follows in that tradition.