

Evaluation of Dissertation of Olga Aslanidi

I have reviewed the three essays that make up Olga Aslanidi's dissertation at CERGE-EI. My overall assessment is that the work is competently carried out, that it embodies state of the art models and econometric techniques and that it constitutes a substantive contribution to economic science. The dissertation consists of three essays, each a free standing contribution to knowledge, and these three essays are related both thematically and geographically. The thematic link is the connection between the domestic and external sector of the economy of transition economies, in part through the link between the stock of foreign currencies (US dollars) and holdings of domestic currencies and in part in the ability to influence the exchange rate of transition economies. Two essays focus on the experience of Georgia, a country that has not received much attention in the literature, and one essay compares the Georgian experience to that of other transition economies. I believe that the three essays that constitute the dissertation are of a quality and at a stage of completion where the dissertation can be defended and that the dissertation can serve as the basis for the granting of the PhD degree to Ms. Alanidi.

Dollarization in Transition Economies: New Evidence from Georgia. This paper uses monthly data (an innovation for Georgia) to examine the motives for households' holding of dollar deposits. The author appropriately references the relevant literature and selects three models that stress inflation, interest rate differentials and the exchange rate as drivers of dollar holdings. Ms Alainidi does a good job of testing the models she proposes and her results are quite plausible.

I have several questions or suggestions that the author may want to consider:

1. Georgia displays a high level of dollarization when measured by household dollar deposits. It should be the case that households also hold stocks of dollars outside the banking system, and it might be useful to consult the literature on such holdings to provide some order of magnitude on what these holdings might be and whether there is substitution between cash and bank deposits. Errors and omissions in the balance of payments may also provide some information on the size dollar inflows. Some brief discussion of these issues would provide context for the author's results. Also, how does the existence of such (possibly large) holdings outside the banking system influence our interpretation of the econometric results?
2. The author estimates several models and makes implicit judgments about the appropriateness of these models. I appreciate the fact that the models are not nested, so choosing one over the other is not a straightforward task, but, because of this, a more explicit discussion of how one might want to choose between the models and on what basis seems all the more important. The author's criterion seems to be how well the model predicts the level of dollarization, but it is not clear that the specifications used all share a level playing field in predicting this

number. (For example, a specification with a lagged endogenous variable would have an advantage over specifications that do not.)

3. It would be good to report the correlation between quarterly consumption and electricity use as well as the annual growth rates of the two variables over the sample period.

Household Currency Substitution: Evidence from Czech Republic, Croatia, Turkey, Georgia, Kazakhstan and Tajikistan. This essay is related to the first in that it addresses a similar question, but it does so within the context of sample of countries, It thus shares the strengths of the previous essay of being soundly based on theory and of careful empirical work. I believe that it represents a useful contribution to the literature of currency substitution by providing new estimates of the elasticity of currency substitution. The effort to identify structural breaks is also a valuable contribution of this paper. I believe that the paper would be strengthened if the author would provide a clearer distinction between structural breaks that appear because the underlying stochastic mechanism/economic model generating the observations has changed and structural breaks that occur because of changes in unobserved exogenous variables. The former case might be one where, for example, in a model of the money stock when the central bank changes from an interest rate target to an inflation target. This change in the stochastic process governing the money supply may result in, or be represented by, a change in the values of parameters of the endogenous variables in the form of a “structural break”. The sources of structural breaks in the series observed by the author may be if this sort, but the discussion on pp.11-12 is not clear on this point, and so a natural question to ask is whether including some measure of “reform”, of “changes in money market rates” and other causes of structural breaks mentioned by the author would actually eliminate the presence of structural breaks. That is to say, some of these “causes” appear to be not changes in the probability law generating the observations but rather just large changes in exogenous variables not included in the model. If the latter is the explanation, then the proper approach would be to include the missing variable in the model rather than to allow a change in the parameters of the included variables. It would strengthen the impact of the results if the author were to clarify what she means here.

Determinants of the Effectiveness of Foreign Exchange Interventions: New Evidence from Georgian Data. This paper contributes to the literature on intervention in the exchange rate setting of a less financially developed economy. The modeling is appropriate to the task and the econometric estimates are carefully and competently carried out. The author does a good job of interpreting the results.

In sum, the three essays contribute a set of research efforts that linked by methodology and by geographic focus. The work is competently executed and represents novel results that are clearly a contribution to our knowledge. Thus I believe that, at this stage, the author should be able to defend them as research suitable for satisfying the dissertation requirements of the PhD degree.