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Tiivistelmä-Referat-Abstract

The thesis analyses the factors determining the currency and financial crises in developing countries. It presents a survey on the theoretical and empirical literature of the currency and financial crises, and carries out an empirical study analysing the causes of the crises in 31 emerging market countries.

Prior to the events of the 1990s, the government's expansive fiscal and monetary policies were thought to be causing currency crises. The speculative attacks of the early 1990s in Europe challenged that view, and the new explanations emphasized the government's trade-off between defence of the peg and other domestic policy objectives. Lately, along with the Asian crisis, the research has focused on financial sector as a trigger for crises. However, the recent crises in Argentina and Turkey illustrate the continuing importance of fiscal problems in precipitating crises.

Moving towards the 2000s, the empirical research increasingly involved a search for common determinants of crises. The empirical study in Chapter 3 analyses the causes of currency and financial crises in 31 emerging market countries in 1980–2001. It estimates probit model using 23 macroeconomic and financial indicators.

A number of conclusions emerge. Traditional variables such as unemployment and inflation, as well as several indicators of indebtedness such as private sector liabilities, public debt, and the foreign liabilities of banks raise the probability of a currency crisis. Differently from the existing literature the sample is divided into pre- and post-liberalisation period. The indicators of indebtedness become more important in predicting crisis during the post-liberalisation period, while the real variables diminish in significance. The importance of indicators of indebtedness is an interesting and novel result, and might indicate a structural change in the global capital markets. The issuance by the authorities or domestic agents of large amounts of financial liabilities may today easily lead to a sudden capital outflow and crisis.

In conclusion, the results emphasise the need for a careful monitoring of various indicators of indebtedness. Given the high degree of international capital mobility, this is especially relevant for the emerging markets in general, and countries intending to liberalise, in particular.

The most important references: Berg & Pattillo (1999a, 1999b), Goldstein, Kaminsky & Reinhart (2000), Kaminsky & Reinhart (1996, 1999), Eichengreen, Rose & Wyplosz (1995), Frankel & Rose (1996)

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