

## *Abstract*

### **Leading Indicators for Predicting currency Crises (A sample of emerging markets).**

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The entrance in the globalization concept and the technological revolution all emphasize the danger of quick spread of economic problems especially the currency crises around different countries. Such as in Latin America 1994-95, and East Asia crises 1997, in which we are concerned with in this study. The main objective of the study is to examine the ability to develop an early warning system for predicting currency crises that are related to the depreciation in the purchasing power of exchange rate (P.P.E.R). To test the general hypothesis, a sample of 20 emerging countries depending on 1996 data of nine leading macroeconomic indicators as independent variables which are :- total reserves, time deposits, economic growth, economic exposure, differential domestic-foreign interest rate, growth in domestic credit, inflation rate, growth in M1, and the P.P.E.R. as dependent variable, then a backward regression was runned to reach to the best fit model which contains the following independent variables: economic growth, economic

exposure, time deposits, differential domestic- foreign interest rate, then the two models were tested for the period from (1996-2001), after that Theil's inequality coefficient was applied to measure the prediction accuracy in comparison to the actual. The statistical analysis results assured the ability of macroeconomic indicators to build an early warning system that help in anticipating currency crises. Moreover, the prediction power of the models decreases as we move-on in time, because of the occurrence of new indicators such as microeconomic factors, contagion, foreign debt, liberalization...etc. The study's recommendations can be summarized as following: monitoring, analyzing, and preparing responding policies to unusual movements (domestic & internationally), finally we advise for further investigations in this topic by extending the sample, and increasing the number of leading indicators, for both developed and developing countries with more concentration on the emerging countries.