

Contagion Effect of Currency Crises

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Abstract

In this paper, using various indicators of trade contagion and financial contagion calculated by different methods, we analyze the role of trade contagion, financial contagion, and fundamentals in the propagation of currency crisis during the Mexican, Asian, Russian, Brazilian, and Argentinean crises. Panel probit regression applied on the Asian, Russian, Brazilian, and Argentinean crises shows that trade contagion plays a significant role in the spread of these crises, while financial contagion are not significant in these crises. Cross-section probit regression on the Mexican crisis shows that it is fundamentals and trade contagion instead of financial contagion that can help to explain the occurrence and transmission of the Mexican crisis.

Keywords: Currency crisis, trade contagion, financial contagion, emerging markets

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