MICHAL MARES

University of Economics, Prague, Czech Republic

MARTIN SLANY

University of Economics, Prague, Czech Republic

EARLY WARNING INDICATOR OF FINANCIAL CRISES FOR V4 COUNTRIES

Abstract:

This paper represents an early warning indicator of financial crises applied to the data of the Czech Republic, Poland, Hungary and Slovakia (V4 counties) between 2005 and 2018. Based on the previous research, 16 indicators were selected to build up the composite indicator of cyclical components – so. Composite Index of Financial Instability (CIFI), and discussed its development. The relevance of the presented indicator, especially in the context of the Euro-American financial crisis of 2008-2009, is demonstrated in both graphical and econometric analysis using panel logistic regression. The conclusion implies that all V4 countries had experienced a high instability in connection with the global financial crisis 2008/2009 and implies different developments in financial conditions in recent years. The output of econometric model confirms positive relation between the value of CIFI and probability of financial crises occurrence. An increase in the CIFI per unit indicates an increase in probability of occurrence crisis approximately by 7 %. In spite of all its limitations, the usefulness of the composite index in the context of economic policymaking is proven by the analysis.

Keywords:

financial crises, early warning indicator, composite index, Visegrad countries,
panel regression

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