Models for an early warning system for Financial Crises and application into predicting crises in Vietnam’s economy in 2011-2016

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Objectives:

The objectives of the research is to determine exact time between when models generated warning signals and when real crises occur as well as application into predicting potential crises in Vietnam in the period 2011-2016.

Content:

In order to answer 2 questions “Which model for an early warning system for Financial Crises is the most appropriate for Vietnam?” and “In the period 2011-2016, could Vietnam have crises?” The content of the research includes:

Reviewing theoretical foundation on crises concept and models for an early warning system for Financial Crises. We choose two models: Signal Approach Model and IMV Model for Vietnam. Besides, variables are selected regarding the consistency as well as the accuracy

Through results from the time, we apply it into forecast for Vietnam in the period 2011-2016 based on expectation about Vietnam economy from IMF and WB.

Outcomes:

First, the study systematizes theoretical foundations on crises and typical warning models (e.g. Signal Approach model, probit model and IMV model) and based upon that to assess the limitations of each model. Thus, the results indicate that the window time (the time
between when models generated warning signals and when real crises occur) is 48 months instead of 24 or 12 months as previous literature. Moreover, the paper settle up an prediction in potential crises in Vietnam in the period 2011-2016. Therefore, we suggest some policies to prevent crises such as reducing the economy growth, updating some variables to model and controlling the government budget.