

[Working Papers](#)

Financial Crises in Emerging Markets: The Lessons from 1995

Jeffrey Sachs, Aaron Tornell & Andres Velasco

SHARE       

WORKING PAPER 5576

DOI 10.3386/w5576

ISSUE DATE May 1996

In this paper we examine closely the financial events following the Mexican peso devaluation to uncover new lessons about the nature of financial crises. We explore the question of why, during 1995, some emerging markets were hit by financial crises while others were not. To this end, we ask whether there are some fundamentals that help explain the variation in financial crises across countries or whether the variation just reflects contagion. We present a simple model identifying three factors that determine whether a country is more vulnerable to suffer a financial crisis: a high real exchange rate appreciation, a recent lending boom, and low reserves. We find that for a set of 20 emerging markets, differences in these fundamentals go far in explaining why during 1995 some emerging markets were hit by financial crises while others were not. We also find that alternative hypotheses that have been put forth to explain such crises often do not seem to be supported by the data, such as high current account deficits, excessive capital inflows and loose fiscal policies.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Published Versions

[Brookings Papers on Economic Activity, 1996, No. 1 \(vol. 27\): 147-199](#) citation courtesy of [RePEc](#)

Related

PROGRAMS

International Finance and Macroeconomics

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the

NBER Digest, the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online conference reports, video lectures, and interviews.



16th Annual Martin Feldstein Lecture:

Lessons for Economists from the Pandemic

Cecilia E. Rouse, The Brookings Institution
and Princeton University

July 22, 2024

2024, 16th Annual Feldstein Lecture, Cecilia E. Rouse, "Lessons for Economists from the Pandemic"

FELDSTEIN LECTURE

PRESENTER: [CECILIA E. ROUSE](#)

Cecilia Rouse, president of the Brookings Institution and a professor at Princeton University, who chaired the Council...



Methods Lectures, Summer Institute 2024:

Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning

Susan Athey, Stanford University and NBER
July 25, 2024

2024 Methods Lecture, Susan Athey, "Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning"

METHODS LECTURES

PRESENTER: [SUSAN ATHEY](#)

Background Materials: [backgroundAthey](#), Susan, Undral Byambadalai, Vitor Hadad, Sanath Kumar Krishnamurthy, Weiwen Leung...



Economics of Social Security Panel Discussion

Earnings Inequality and Payroll Tax Revenues

Karen Dynan, Harvard University
Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Fatih Guvenen, University of Minnesota and NBER
James Pearce, US Congressional Budget Office
NBER Summer Institute, July 24, 2024

2024, Economics of Social Security Panel, "Earnings Inequality and Payroll Tax Revenues"

National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue
Cambridge, MA 02138
[617-868-3900](tel:617-868-3900)
info@nber.org
webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW

