

The Argentinean Currency Crisis: A Markov-Switching Model Estimation

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Abstract

Despite the fact that Argentina has been suffering from a recession for years, the timing and severity of the recent currency crisis surprised most observers. This paper analyzes the role of fundamentals and self-fulfilling speculation in the Argentinean crisis. Arguing within a theoretical model of a fixed exchange rate system that allows for multiple equilibria, we show that the crisis, while associated with weak and deteriorating fundamentals, cannot be explained by these macroeconomic factors alone. Estimating a univariate Markov-switching model, this paper shows that shifts in agents' beliefs did indeed also play a crucial role.

Keywords: Currency crises, Self-fulfilling speculation, Markov-switching models

JEL classification: C22, F31, F36

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