

Forecasting Financial Vulnerability in Malaysia: A Non-parametric Indicator Approach

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Abstract

The present study attempts to examine episodes of financial vulnerability and develop a financial vulnerability indicator for the Malaysian financial market. Spanning the period of 1997 to 2017, a total of 11 variables of monthly frequency from different aspects of the financial market and economy as a whole are aggregated into an indicator in order to gauge financial vulnerability. Empirical findings indicate that the constructed financial vulnerability indicator has successfully traced episodes of financial vulnerabilities in Malaysia. Specifically, the indicator that contains forecasting ability could act as a leading indicator in forecasting financial vulnerabilities in Malaysia. Moreover, the insights provided by the indicator would be useful in policy response formulation.

Keywords: Financial Crises, Financial Vulnerability Indicator, Principal Component Analysis, Malaysia