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Appendixes and Attachments

Appendix 0
Currency risk indicators

Country	Current-account deficit as % GDP, 1997	Current-account deficit minus FDI as % GDP	Reserves, import cover months 1997	Rise in real exchange rate*	Budget balance as % GDP 1997	Money supply % increase over past 12 months	Currency risk 1=low 12=high
Poland	5.6	2.3	4.4	20	-3.0	28	8
Czech Rep.	9.8	6.6	3.8	19	-2.0	8	6
Slovakia	10.4	9.1	2.7	21	-4.6	14	10
Hungary	4.2	n.a.	5.6	10	-5.1	26	5
Estonia	13.7	9.0	1.8	60	-1.0	61	9
Latvia	9.5	4.5	2.8	59	+0.1	38	9
Lithuania	9.0	7.1	1.6	92	-1.9	29	11
Ukraine	3.3	1.1	1.0	103	-6.1	36	8
Mexico (1994)	7.0	4.4	0.8	13	-0.3	36	10
Thailand (1996)	8.0	6.7	5.5	25	+2.3	13	7

Source: EIU; IMF; Datastream/ICV.
* Over the past three years with respect to DM.

Appendix 1

Pairwise Granger Causality Tests

Date: 12/08/97 Time: 11:56
Sample: 1993:01 1997:09
Lags: 3

Null Hypothesis:	Obs	F-Statistic	Probability
LOG(EXCASH) does not Granger Cause LCPIINDEX	54	12.1997	5.0E-06
LCPIINDEX does not Granger Cause LOG(EXCASH)		0.81300	0.49312

Date: 12/08/97 Time: 12:04
Sample: 1993:01 1997:09
Lags: 4

Null Hypothesis:	Obs	F-Statistic	Probability
LM0 does not Granger Cause LCPIINDEX	54	4.80738	0.00258
LCPIINDEX does not Granger Cause LM0		0.71070	0.58892

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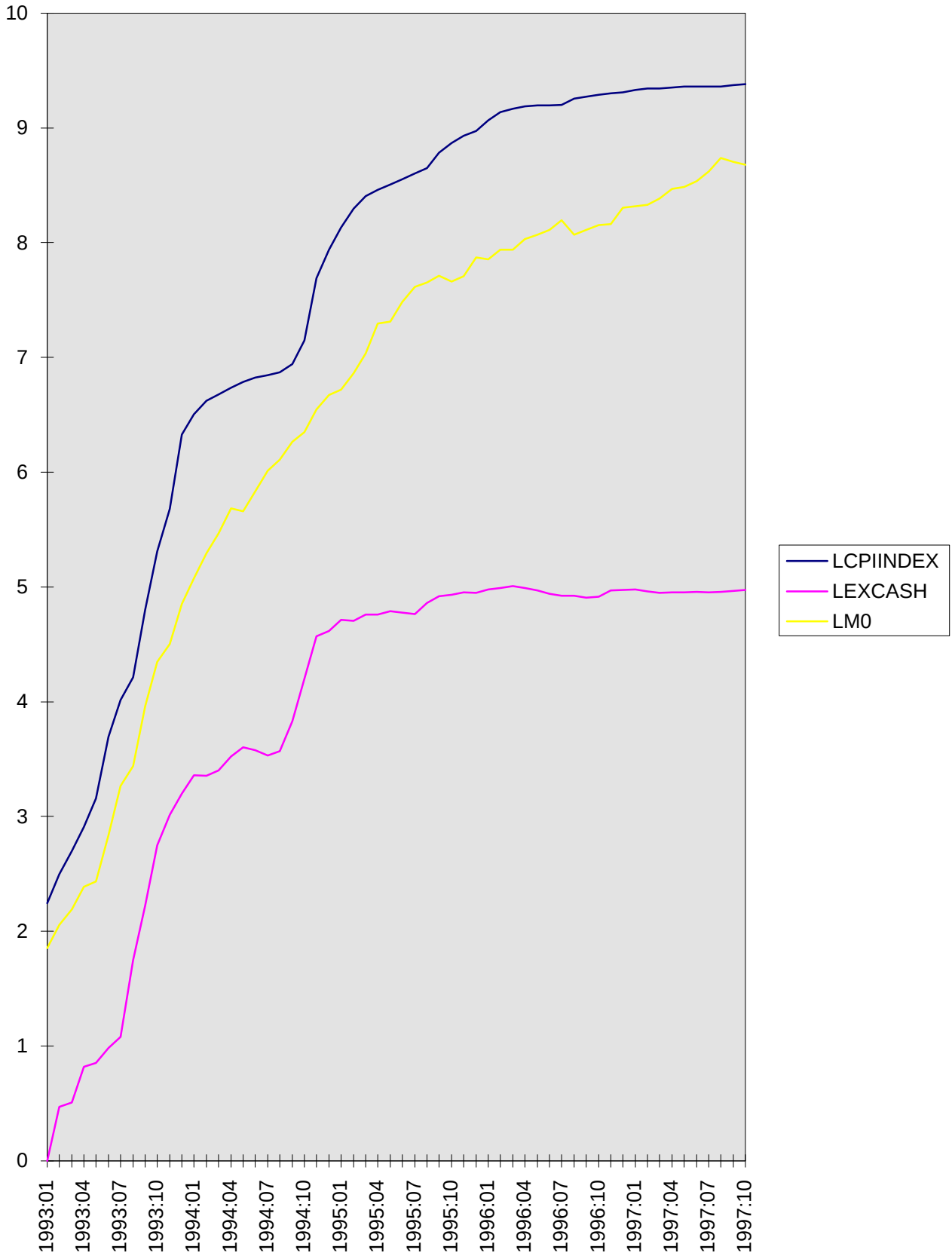
Appendix 2
Plot of logged variables



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LS // Dependent Variable is LCPIINDEX
Sample: 1993:01 1997:10
Included observations: 58

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.061328	0.073627	14.41488	0.0000
LM0	0.636565	0.041537	15.32524	0.0000
LEXCASH	0.587024	0.057753	10.16442	0.0000

R-squared	0.995704	Mean dependent var	7.559299
Adjusted R-squared	0.995548	S.D. dependent var	2.136013
S.E. of regression	0.142520	Akaike info criterion	-3.846213
Sum squared resid	1.117151	Schwarz criterion	-3.739638
Log likelihood	32.24173	F-statistic	6374.316
Durbin-Watson stat	0.518711	Prob(F-statistic)	0.000000

Appendix 3

Results ADF Test Statistic	-3.914412	1% Critical Value*	-2.6040
		5% Critical Value	-1.9464
		10% Critical Value	-1.6188

*MacKinnon critical values for rejection of hypothesis of a unit root.

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Appendix 4

Results LS // Dependent Variable is D(LCPIINDEX)
Sample(adjusted): 1993:02 1997:10
Included observations: 57 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004326	0.016854	0.256648	0.7984
D(LM0)	0.781507	0.117222	6.666904	0.0000
D(LEXCASH)	0.321114	0.094042	3.414573	0.0012
RESID(-1)	-0.332246	0.091805	-3.619056	0.0007

R-squared	0.708846	Mean dependent var	0.125210
Adjusted R-squared	0.692365	S.D. dependent var	0.164198
S.E. of regression	0.091072	Akaike info criterion	-4.724615
Sum squared resid	0.439589	Schwarz criterion	-4.581243
Log likelihood	57.77202	F-statistic	43.01140
Durbin-Watson stat	1.242094	Prob(F-statistic)	0.000000

Appendix 5

Sample: 1993:01 1997:10
Included observations: 54
Test assumption: Linear deterministic trend in the data
Series: LCPIINDEX LM0 LEXCASH
Lags interval: 1 to 3

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized[1] No. of CE(s)
0.461884	44.76992	29.68	35.65	None **
0.171575	11.30716	15.41	20.04	At most 1
0.020941	1.142827	3.76	6.65	At most 2

L.R. test indicates 1 cointegrating equation(s) at 5% significance level
Normalized Cointegrating Coefficients: 1 Cointegrating Equation(s)

LCPIINDEX	LM0	LEXCASH	C
1.000000	-0.708477	-0.319478	-1.689315
	(0.07922)	(0.11027)	

standard errors in parenthesis
Log likelihood 209.6905

Appendix 6

[1] *(**) denotes rejection of the hypothesis at 5%(1%) significance level.

Sample(adjusted): 1993:05 1997:10
Included observations: 54 after adjusting endpoints
Standard errors & t-statistics in parentheses

Cointegrating Eq:	CointEq1
LCPIINDEX(-1)	1.000000
LM0(-1)	-0.708477
	(0.07922)
	(-8.94343)
LEXCASH(-1)	-0.319478
	(0.11027)
	(-2.89714)
C	-1.689315

Error Correction:	D(LCPIINDEX)	D(LM0)	D(LEXCASH)
CointEq1	-0.313299	-0.140017	-0.170243
	(0.05499)	(0.07499)	(0.06295)
	(-5.69696)	(-1.86720)	(-2.70436)
D(LCPIINDEX(-1))	0.288807	0.426355	0.265915
	(0.13106)	(0.17871)	(0.15002)
	(2.20362)	(2.38576)	(1.77248)
D(LCPIINDEX(-2))	0.150230	0.136703	0.261018
	(0.12641)	(0.17236)	(0.14470)
	(1.18846)	(0.79311)	(1.80387)
D(LCPIINDEX(-3))	0.347889	0.324359	0.126925
	(0.10686)	(0.14570)	(0.12232)
	(3.25571)	(2.22616)	(1.03767)
D(LM0(-1))	-0.450745	-0.228083	0.225688
	(0.11342)	(0.15465)	(0.12983)
	(-3.97421)	(-1.47482)	(1.73835)
D(LM0(-2))	-0.114509	0.031067	0.223641
	(0.12551)	(0.17114)	(0.14367)
	(-0.91238)	(0.18153)	(1.55666)
D(LM0(-3))	-0.079037	0.193240	-0.104422
	(0.12705)	(0.17324)	(0.14544)
	(-0.62209)	(1.11543)	(-0.71799)
D(LEXCASH(-1))	0.314241	0.039034	0.344579

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	(0.10441)	(0.14236)	(0.11951)
	(3.00983)	(0.27419)	(2.88321)
D(LEXCASH(-2))	0.342456	-0.139828	-0.023707
	(0.11078)	(0.15106)	(0.12681)
	(3.09126)	(-0.92566)	(-0.18694)
D(LEXCASH(-3))	-0.305316	-0.350083	-0.709151
	(0.10316)	(0.14066)	(0.11808)
	(-2.95973)	(-2.48886)	(-6.00553)
C	0.071281	0.043597	-0.009115
	(0.01788)	(0.02438)	(0.02047)
	(3.98627)	(1.78803)	(-0.44528)
R-squared	0.874211	0.595730	0.794821
Adj. R-squared	0.844957	0.501714	0.747105
Sum sq. resids	0.186025	0.345875	0.243755
S.E. equation	0.065774	0.089686	0.075291
Log likelihood	76.49048	59.74519	69.19285
Akaike AIC	-5.263450	-4.643254	-4.993168
Schwarz SC	-4.858287	-4.238091	-4.588004
Mean dependent	0.119858	0.116461	0.076908
S.D. dependent	0.167042	0.127053	0.149717

Determinant Residual Covariance	8.51E-08
Log Likelihood	209.6905
Akaike Information Criteria	-14.94661
Schwarz Criteria	-13.62062

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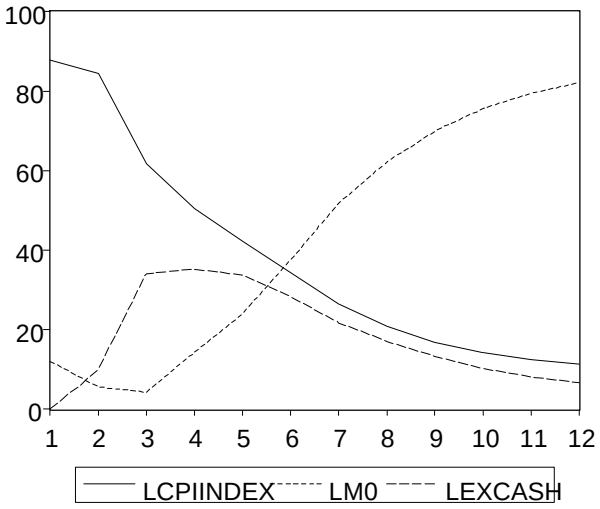
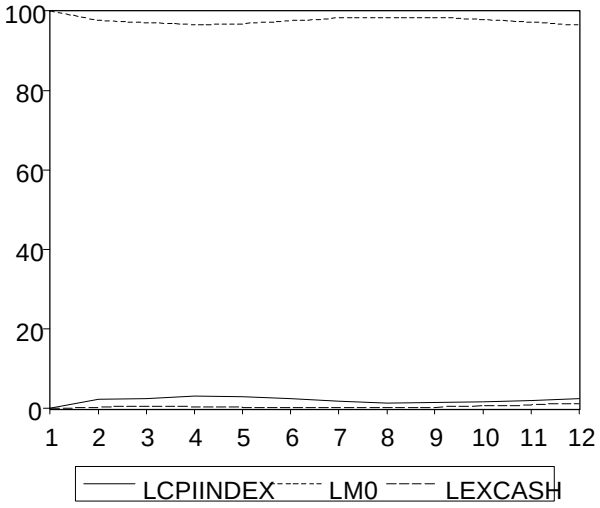
Appendix 7

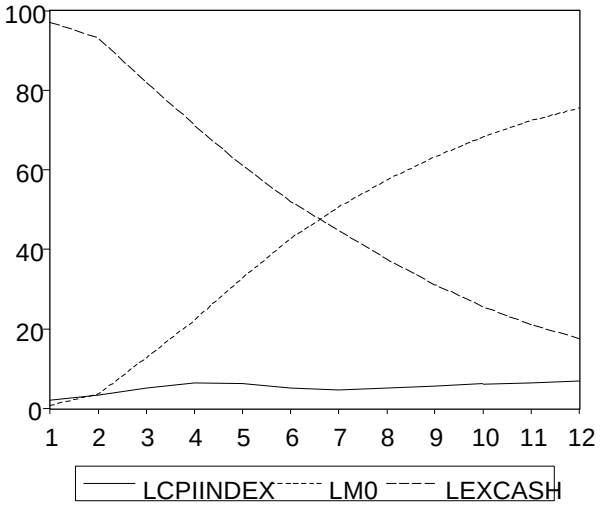
Variance Decomposition of LCPIINDEX



Variance Decomposition of LM0



Variance Decomposition of LEXCASH



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