

Abstract

Pakistan's recent experience with financial liberalization and various exchange rate regimes provides a good opportunity to study effects of financial liberalization on banking and balance of payments. Financial liberalization has brought the well known problem of twin crisis, where banking and balance of payments problems entwine together. Crises in Pakistan are usually result of weak economic conditions, hence worsening condition of economic variables can serve as an early warning for the forthcoming banking or currency crisis.

Key Words: Twin Crisis, Emerging Economies, Financial Liberalization, Early Warning System