The Effectiveness of Fiscal Policy during the Financial Crisis in Malaysia: From an Administrative Perspective.

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Abstract:

In light of globalization and internationalization of financial markets, issues arising from financial crises have become increasingly serious and fundamental, creating a lot of debate among experts around the world. So, many studies have attempted to investigate what measures can be taken to detect and prevent crises before they devastate the economies.

Therefore, this paper examines the Effectiveness of the Fiscal Policy (FP) to Avoid, Reduce or Treat the Financial Crisis in Malaysia. Scholars have yet to agree on the issue concerning the appropriate fiscal measures, particularly with respect to the question of whether or not fiscal policies are more effective tool in dealing with financial crisis. Majority of comprehensive theoretical frameworks are fragmented. Somehow, this framework has been tested in developed countries. Only very few studies were conducted in developing nations. The results of this research provide empirical support for the extended model. Moreover, this work has added to the understanding of Fiscal Policy (FP) to Avoid, Reduce or Treat the Financial Crisis in Malaysia, also with theories research.

Keywords: Financial Crisis (FC), Fiscal Policy (FP)

Introduction:

For more than twenty years prior to the global financial crisis, volatility in aggregate economic activity and inflation fell dramatically in most of the industrial world. The widespread and persistent nature of this phenomenon was termed “the great moderation”. The most common explanations put forward for this include better monetary policy and structural changes in inventory management (Bernanke, 2004; Blanchard and Simon, 2001, p135-164; Summers, 2016, p2-9). Here, the role played by fiscal policy led to a consensus that stabilization should rely on automatic stabilizers, with discretionary fiscal policy best avoided. But, this consensus was cast aside in the wake of the recent global financial crisis, with countries around the world adopting unprecedented fiscal stimulus packages to mitigate the impacts of the crisis.

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However, there is an extensive debate about the definition of the stability or consistency in the field of the financial market because of containing systemic financial risk. Evidence suggests that the central bank of Malaysia had observed the importance of the "macro prudential" approach to observe and regulation for the identification of the system-wide risks and takes suitable actions for maintaining financial stability. So, Fiscal policy plays major roles in guiding investment and spending behavior to meet development and stabilization goals in both the public and private sectors (She, 2015, p148-161).

A number of studies had examined the effectiveness of fiscal policy during the financial crisis. Nearly all of the studies mentioned fiscal policy being more effective during the financial crisis, (International Monetary Fund (IMF) report, 2008a; 2008b). With respect to that policy, the report demonstrates the ability of countercyclical fiscal policy in supporting the shortening of economic recession. Somehow, the crisis limits its efficiency.

While, the work by (Li & Tang, 2010, p41-83) involved the analysis on the effectiveness of fiscal policy response twin crisis for 72 instances in the period from 1977 to 2010 in 57 developing nations, the authors proposed the coordination of policy mix with a neutral fiscal policy during financial crisis. Therefore, this study investigates the effectiveness of fiscal policy on Avoid, Reduce or Treat the Financial Crisis. Malaysia has experienced international crisis financially on balance sheet. There have been numerous signals for financial crisis and yet the country has failed to prepare itself for the inevitable rectification. The re-pricing risk had dramatically occurred and it was a lot more than anticipated. The nature of the crisis is complex and this generates huge risks towards financial stability (Taylor, 2013; Singh & Singh, 2016).

In light of these indicators, this study has attempted to investigate what measures can be taken to detect and prevent crises before they devastate the economies.

The First axis: Research Methodology

Firstly: Research Problem

The 1997-1998 Asian financial crisis originating from Thailand hit one country after another in a very short time, and Malaysia was among the late victims. Since then the literature has been full of books and articles on the subject. However, not much has been written exclusively about the Malaysian experience.

Several studies have attempted to investigate monetary measures that can be taken to detect and prevent crises before they devastate economies. Meanwhile, Scholars have yet to agree on the issue concerning the appropriate fiscal measures, particularly with respect to the question of whether or not fiscal policies are more effective tool in dealing with financial crisis. Majority of comprehensive theoretical frameworks are fragmented. Somehow, this framework has been tested in developed countries. Only very few studies were conducted in developing nations.

Therefore, despite these attempts, there is still a need to study and investigate the effectiveness of financial policy in reducing, alleviating and treating financial crises, in order to draw lessons and lessons from their occurrence.

Q1/What is the cause of the financial crisis in Malaysia?

Q2/ What financial measures are taken to reduce, mitigate or address it?

secondly: Research Objectives

1-Identify the effectiveness of financial policy in reducing, alleviating, or treating the financial crisis

2-To identify the effectiveness of the fiscal measures taken by Central Bank of Malaysia during the phase of the Global Financial Crisis.

3-To explore financial measures to reduce systemic financial risks.

4-To investigate the need for the approach of macro-prudential to inspection and regulation which can help to identify system-wide risks and responsible for the financial stability.

5- To find out the economic concerns of the country, with regard to the economic policy of the government.

Thirdly: Research Significance

1-Identify what financial policy is and its role in reducing, alleviating, or treating financial crises.

2-Identify the main causes of financial crises.

3- The study derives its theoretical importance from identifying the Malaysian experience in dealing with financial crises.

4- Providing all parties with recommendations to help limit, reduce, and treat financial crises as much as possible.

Fourthly: Research Field

The researcher tried to summarize the concept of financial policy and its ability to reduce, mitigate, or treat in a way that is compatible with the research topic and in the way that relates to the financial crisis, especially since this topic is no longer a modern topic, as some researchers have addressed aspects of its paragraphs.

The limits of the research are limited to explaining the role of the Central Bank of Malaysia in reducing financial crises through the inevitable coordination between economic policies, including financial policy.

Fifthly: Research Methodology

Many studies have attempted to investigate measures that can be taken through fiscal policy to detect and prevent financial crises before they destroy economies. This paper examines some of the most important financial policy measures for the purpose of reducing, alleviating, or treating the financial crisis in order to draw lessons from them. The analysis is carried out through a systematic and comparative analysis of scientific literature and according to the relevant administrative perspective that refers to the relationship between financial policy and financial crises and their consequences.

The second axis: LITERATURE REVIEW

There exists a list of research work that shows that an economy and its government takes considerable steps to get rid of the financial crises caused by the general business cycles. This section of the study thus evaluates the context of financial crises of the economy and the Central bank's policies that help in bringing the economy out of financial crises. Here the researcher has considered various past research studies in each of these phase and tried to identify the existing gaps.

Phase I: Financial Crises and Central Bank's Policy:

Article 1: Systemic banking crises database: An update (No. 12-163). International Monetary Fund

Through this chosen article, (Valencia and Laeven, 2012) tried to focus on the banking crises over the time period of 39 years from 1970 to 2009. From the article, it was found that there were quite a lot of similarities in the causes of financial crises and also in the policies taken to curb the same for both developing and developed economy. According to the findings of this study some important differences in the scopes of taking up the policies and intervening into the problem have been focused. The problem that still persists in this article is that by applying policies to curb real impact, other problems crop up in the economy. This article draws a conclusion by saying that expansionary monetary policies, direct purchase of assets and fiscal policies were able to reduce the real impact but at the same time generated another set of problems like increased public debt and government liabilities.

Article 2: Reflections on the crisis and on its lessons for regulatory reform and for central bank policies

Through this research paper (Cukierman,2011, p26-37) tries to see the problems faced by the financial regulatory body in times of crises. The findings from this article highlight the solution to these problems. It critically evaluates the role of the Central Bank of an economy in meeting up with the crises. Often it has been found out that Central Bank uses the policy of monetary injection in the economy to get rid of the problems. While doing so it has to compromise and calculate the tradeoff of the upcoming financial instability the injection leads to. Reducing the financial crises without increasing the financial instability needs to be looked after in future. This article concludes by finding out the way in which exchange rate of a country can be limited to bring the economy in the path of stability.

Article 3: Banking crises: an equal opportunity menace. Journal of Banking & Finance

Through this article (Reinhart and Rogoff,2013, p4557-4573) showed a similar trend of crises in the banking and financial sector had prevailed for both developed and developing countries. This trend has been found in this paper after analysis of a time-series data ranging from early 1800s. It is seen that crisis in the banking sector with high fiscal deficit leads to the contraction of the government revenues. The findings from this paper highlights that there has been an increase of 86% debt in the government sector within three years of the crises. Checking the price bubbles and trying to reduce the debt which follows after an financial crises need to be prioritized. From this article it can be concluded that the crisis is preceded by events like price bubbles, credit booms and inflow of capitals in both developed and developing economies.

Article 4: Global imbalances and the financial crisis: Link or no link?

Through this article (Borio and Disyatat, 2011, p236-251) blamed the international current account distortions as the chief reason behind the financial crises that took place in the international market. There were few emerging economies which faced current account surpluses in their balance of payment. It pressurized the world interest rate downwards. There were two problems that were faced during that time and have been highlighted, namely: Problems were faced while using the savings-investment framework in explaining the then interest rate. Problems were also faced while the cross-border transaction activity of any country was tried to calculate. A proper analysis of the cross-border transaction and a proper savings investment relationships need to be constructed to reduce further problems. According to this paper the process of credit creation plays the most important role in the economy.

Phase II: Financial crises of an Economy:

Article 1: Understanding the 2007-2008 global financial crisis: Lessons for scholars of international political economy

With this study, (Helleiner, 2011, p67-87) tried to find out the reason behind the financial crises of the global economy during the year 2007-2008 on the basis of various markets. According to the findings of this study, the people of the International Political economy were able to find the political causes that led to the problem. From the study, thus it has been found that the macro-economic policies of cheap credit that existed before the crises were one of the main reasons that led to the financial downfall of the global economy. Therefore, the scholars of the International Political Economy cited the faulty model of securitization and underlying politics to be the roots of the financial crises .

Article 2: Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide

Through this journal, (Erken, Hung and Matos, 2012,p389-411) showed the Corporate Governance’s influence over the period of financial crises of 2007-08. The research was conducted across 30 different countries by taking the data from 296 financial institutions. According to the findings of this research it has been seen that the firms with higher ownership and independency faced more serious problems than the firms who were dependent and had less institutional ownerships. It has been concluded that the independent firms were risk takers and they had more of their equity raised which led to transfer of their wealth into the hands of debt holders. Further studies will try to highlight how this corporate governance can be properly used to reduce the big firm’s crisis .

Article 3: Financial development, foreign investment and economic growth in Malaysia

Through this article, (Anwar and Sun, 2011, p 389-411) analyses the economic condition by constructing a simultaneous equation model. This article deals with a quantitative empirical analysis using the methods of moments to establish the inter-relationships between the total foreign investment stock, economic growth and Malaysia’s domestic capital stock. The analysis showed no statistical significance amongst the economic growth and financial development of Malaysia. The reason as why there is no significance in the growth of Malaysia in spite of financial development needs to be focused in future. The article concluded that an increase in foreign exchange stock can influence the economic growth and the stock of domestic capital depending upon the openness of the economy .

Phase I II: Credit Control Policy and Indirect Quantitative Methods:

Article : Liquidity management and corporate investment during a financial crisis

With this article,(Campello et al. ,2011,p1944-1979) used an empirical analysis of the ways in which the firms managed to survive during the 2008-09 financial crises. This article establishes a link amongst the corporate decisions, external funds and internal liquidity. It speaks about the way a firm manages to use its credit line in the period of crisis. From the study, thus it was established that firms in reality have less power in their hand when using the credit policies. Rather what the firm does is use the component of investment and saving to get rid of the crises. Therefore, some methods needs to be included so that the firms can use their credit policies optimally. At the end this article establishes the fact that the policy of credit lines helped in easing the corporate spending in times of crises.

The third axis: Theoretical Framework

Firstly: Financial Crises

The 2007-09 global financial crisis has been a painful reminder of the multifaceted nature of crises. They hit small and large countries as well as poor and rich ones. The financial crisis is stated as a situation where the worth of assets or financial institutions drops significantly. The term financial crisis often is correlated with the fright or a situation in the bank in which the investors start withdrawing their money or sell-off their investments with the fear that the expected value of that assets are going to be dropped. A financial crisis can take place due to overvaluation of assets or institutions and it could be worsened through the behavior of the investors. A rapid sell offs can decrease the price of assets further or more withdrawals from savings. If the appropriate measures are not taken, it can cause the monetary situation to go into depression or recession.

Also, Under the financial crisis situation, the demand for money exceeds from supply of money. This means that the liquidity is evaporated quickly as the available money in the bank is withdrawn, which in turn, forces the banks to either sell the investments and balance the shortfall or simply collapse.

Accordingly, the financial crisis is one of the most controversial issues in the literature. This has led the authors, the manifestation of Asian financial crisis has further posed a question among the practitioners as for the effectiveness of fiscal policy in controlling the tempo of aggregate economic activities during the cyclical fluctuation (Fetai, 2013, P3-66). Given the scholarly debates on the relevance or appropriateness of both monetary and fiscal measures, there is no agreement yet among the scholars on whether or not the monetary policy is more effective than the fiscal policy in controlling the cyclical fluctuations during the financial crisis (Li & Tang, 2010,P41-83). Evidently, Fetai (2013) argued that the effectiveness of monetary and fiscal policies can be assess by including certain macroeconomic variables with the view to determining the total output during the financial crisis.

Also, the literature has clarified some of the factors driving crises, but it remains a challenge to definitively identify their deeper causes. Many theories have been developed over the years regarding the underlying causes of crises. While fundamental factors—macroeconomic imbalances, internal or external shocks—are often observed, many questions remain on the exact causes of crises. Financial crises sometimes appear to be driven by “irrational” factors. These include sudden runs on banks, contagion and spillovers among financial markets, limits to arbitrage during times of stress, emergence of asset busts, credit crunches, and fire sales, and other aspects related to financial turmoil (IMF ,2013, P3-4) .

Finally, the financial crises are old economic phenomenon, but they continue to surprise the fiscal and monetary authorities, economic researchers and financial market players. The recent global financial crisis had far-reaching consequences for the entire real economy because of its depth and interconnection with economic and social players. Today’s scientific attention is focused on the origins and types of the crises, probable indicators of the problems, and recovery options (Ilic, 2013, P88-103).

secondly: Types of Financial Crises

This section examines some of the most significant types of financial crises according to their origin, including banking, currency, and debt crises in order to draw lessons from their occurrence. Therefore, Analysis of different types of financial crises will help to identify and properly implement appropriate techniques and measures for effective management of financial issues. Therefore, the main idea of this subjects to analyze the most common types of financial crises, which still remain a challenge for many researchers.

1-Banking Crisis

Indicated (Boissay, F., Collad, F. and Smets, F, 2013, p. 8) that banking crises occur when banks face an unusual withdrawal of bank deposits on the one hand, and the failure of borrowers to pay their credit obligations, on the other hand. If the beginning of the banking crisis is marked by problems in the operation of banks and unnaturally large withdrawals of deposits, then changes in bank deposits are events that can be used to mark crises periods. In case the banks are not able to satisfy the clients' claims, the situation worsens because the clients try to withdraw as much money as possible. In such mass withdrawals of deposits, banks are not able to deliver the funds to their customers. To solve this problem, banks can decide to sell their investments. But selling in times of crisis is an inappropriate timing for banks to reach cash, which increases the likelihood of bankruptcy in the banking sector. Also, changes in asset prices, large increases in the number of bankruptcies or fluctuations in the real estate market in the non-financial sector can be taken as factors that mark, the beginning of the banking crisis.

According to (Leaven and Valencia ,2008, p.5), in the event of a banking crisis, the country's corporate and financial sectors are unable to meet their obligations on time. In addition, in the economic literature there are what are called “dual crises,” which refer to the temporary connection of two types of crisis: banking crisis and currency crises. These types of crises usually end with the closure, takeover, or integration of troubled banks or government interventions in financial institutions. The banking crises not only affects the banking system in one country, but can also jeopardize the macroeconomic stability of the country in case one bank's problems extend to other banks if they are suspected of having loans with the bank facing such problems (Meri Boshkoska,2022,p41)

2- Currency Crises

Currency crises are a result of speculative attacks on the domestic currency resulting in a decline in its value. Monetary authorities, in the face of a currency crisis, are forced to intervene by spending large amounts of foreign exchange reserves or by significantly raising interest rates.

Economists who deal with the analysis of financial crises believe that they have two basic dimensions: the first is the financial dimension, and the second is the psychological dimension of the existence of panic, which is usually a driving factor for their escalation. Various authors began their analyses of the origins of currency crises by discussing the so-called trilemma, or the government's decision between three policy goals: independent monetary policy, a fixed exchange rate, and free capital flows at the same time. Setting fixed exchange rates helps to ensure the stability of the exchange rate regime and open capital markets. If this policy is implemented, the monetary policy becomes secondary to achieving the two objectives. On the other hand, if government is committed to pursue an independent monetary policy while allowing open capital markets, the exchange rate will have to move freely, implying that there will be no exchange rate stability. Finally, if the government chooses to pursue independent monetary policy and exchange rate stability, it forfeits the potential benefits of unrestricted capital flows and integration with international capital markets. (Boshkoska,M and Lazaroski,S,2018, p.3)

3- Debt Crises

Debt crises, External debt problems date back to the 1970s, when developing countries were unable to repay their debts, whether domestic or foreign (Racickas, E. & Vasiliauskaite, A., 2012, P32-44). Developing countries, which lacked capital, began to use foreign capital in order to achieve higher rates of economic development. The result was an increase in indebtedness, problems with external liquidity, as well as a decline in the living standards of the population.

In this context, we would like to bring up a quote from Claessens, S and Kose, M according to which: "Crises are, at a certain level, extreme manifestation of the interaction between the financial sector and the real economy" (Boshkoska, Lazaroski, 2018, p.4-13)

Having in mind the severity of the crises, this analysis is essential in order to be able to recognize and prevent the future financial crisis.

Thirdly: Financial Crisis in Malaysia

1- The Asian financial crisis of(1997-1998)

The 1997-98 Asian financial crisis originating from Thailand struck one country after another in almost no time, Malaysia being among the later victims. The literature has since been full of books and articles on the subject. However, much has not been written exclusively about the Malaysian experience.

The Asian financial crisis in 1997/98 is deemed as one of the worst economic crises Malaysia has ever faced (until now, that is). Its main cause, according to academics, was the wholesale adoption of financial deregulation in both capital accounts and the banking sector.

Also, that the 1997-98 financial crisis did not hit Malaysia because the economic fundamentals of the country were weak. It was the result of massive unpredictable flight of short-term portfolio investment from the region including Malaysia.(3) Ariff,M&Ababakar,Y,(1999)

2- The Financial Crisis (2007)

An impact of the global financial crisis since the middle of 2007 have confirmed the raising interaction between global financial conditions and subsequently the financial intermediation at the domestic level and the effectiveness of the monetary policy of the central bank.

Unfortunately, the economy of the Malaysia has already experienced remarkable financial deepening over the last decade. During the phase of the financial crisis, the central bank played a large role in monitoring and regulating in stability of the financial market (Chen, Q., Filardo, A., He, D. and Zhu, F., 2015).

Fourthly: Fiscal Policy

Fiscal policies are the measures through which the government adjusts their level of spending and rate of tax to influence and monitor the economy of a nation. It is the sister policy of monetary policy by which the central bank manages the supply of money of a nation. These policies are used in different combinations to lead the economic goals of a country. When the inflation is very effective, the economy may be required to get slowdown. In a situation like this, the government can manipulate the fiscal policy to increase the rate of tax to take out the money from the economy. Fiscal policy can also lead to lowering the government spending which in turn will decrease the circulation of money. The probable adverse impact of policies like this over the long run could lead to high level of unemployment and lethargic economy. Moreover, the procedure continues as the government utilizes the fiscal policy to balance the taxation and spending level with the aim of even out the business cycles. The impact of fiscal policy is not same for everyone. It depends on the political goals and direction of the makers of policies. A decrease in the tax rate could adversely affect the middle class people, which is the biggest economic group. In period of rising taxation and economic decline, normally the same group ends with paying high taxes as compared to the wealthier group of people. when the government thinks of adjusting the spending level, the policy may have impact on the particular group of people. One of the crucial barrier that the policy makers face is to decide about the level of involvement that the government must have towards the economy. In fact, various levels of interference are there for several years by the government. However, for the major part, it is identified that the level of government involvement is crucial to obtain a vibrant economy that the economic well-being of the people depends.

Fifthly: Financial measures during the financial crisis

The first stage: financial measures during the financial crisis in (1997-1998(

on December 5, 1997, ap- proximately five months after the crisis first hit the Malaysian economy. The pack- age consisted primarily of tightening adjustments to fiscal and monetary policy. In terms of fiscal policy, the adjustments called for an 18 per cent reduction in government expenditure (including a 10 per cent pay cut for government ministers), as well as the postponement of several infrastruc- ture mega-projects such as the Bakun dam, the Express Rail Link, and the land bridge to Thailand. As a strategy to maintain competitiveness, policies to strengthen the country's balance-of-payments account were pursued. For example, exports were encouraged and imports were discouraged, the latter through an increase in import taxes on certain goods and services. Measures to increase exports included reducing the cost of doing business through such means as tax incentives to boost the manufacturing, agriculture, and services sectors. In order to stem the outflow of domestic funds at that time, the government also imposed a freeze on new overseas investments by Malaysian firms which in 1996 had amounted to RM 10.5 billion (including retained earnings overseas).

The primary drawback of this policy phase was that it lacked a long-term focus and did not address long-term concerns. As a response to this, the govern- ment established the National Economic Action Council (NEAC) in January 1998 as a consultative body to the cabinet. The main task of the NEAC was to formulate a comprehensive framework for responding to the crisis. After the National Ecnomic Recovery Plan (NERP) was released eight months later, Malaysian policies to respond to the crisis began to take on a more comprehensive and coherent shape.

One of the key recommendations included in the NERP was the easing of fiscal policy, as well as the lowering of the cost of capital to revitalize the economy.

With this, the focus of economic policies shifted away from the preven- tion of further economic contraction toward reflation of the economy.

Also,In terms of fiscal policy, the government introduced a stimulus package worth RM 7 billion, as well as ear- marked and/or expanded existing specialized funds to ensure priority sectors ac- (Ariff,M&Ababakar,1999,P418-420).

The second stage: financial measures during the financial crisis (2007-2008) until 2014.

Central Bank of Malaysia is still looking for ultimate Financial Policy management tool to reduce the uncertainty in the financial domestic market and ensure the reduction of the interest rates at greater maturities. Therefore, the study of the research is investigated the role of the central bank and highlights the requirement to implementing Financial policy function. It is already understood that the Central Bank of Malaysia has the prominent features to handle the systematic risk of the financial market. However, the impact of the economic problem during the emergence of the financial crisis still influence on the control mechanism the domestic Financial policies Malaysia went through the international crisis in financial aspect in terms of national as well as its corporate balance sheet. Inspite of various signal for financial crisis, Malaysia couild not prepare them for the unavoidable correction. The re-pricing risk took place in a dramatic way, which were much more than what was expected. The complex nature of the crisis created massive risks for the financial stability(Taylor, J.B., 2013).

In the mid of the year 2007, short-term rate of money market, for example, overnight rate started rising suddenly. Among others, the first Central bank was ECB to react and they immediately reacted with the issues of unlimited liquidity that had overnight maturity with the pre-decided rate of policy. The problem for the current research are crucial as it scrutinized the role that central bank played during the crisis and the requirement of enforcing their credit management role on other banks in future and at present.

The market stabilization by ensuring short-term credit functions properly and prevention the collapse of the financial institutions due to restrictions in the field of liquidity are the main problem faced by Central bank of Malaysia during the phase of the financial crisis in the international market. Though the financial institution has adopted the expansionary monetary policies during the period 2007-14, but it has increased the public debt and the government liabilities.

The financial system of Malaysia has experienced considerable evolution, especially over the past few years. Their economy turned from pure bank-base system to more diversified system and that were characterized by increased functions of non-bank monetary intermediaries and financial markets. Concurrently, the inter connections with regional and global financial system have also been raised with matching movement in real segment. While these improvements have created more effective monetary intermediation, the best possible segregation of resources and risk diversification are also allocated at the speed and nature at which the vulnerabilities and the risks are transferred across the national boundaries and domestic market. Due to this, the policymakers and the central bank required to construct the barrier to assist the strong functioning of financial system and a enlarged tools for policies to treat with the shocks and risks efficiently (Taylor, J.B., 2013)

Sixthly: The effects of fiscal policy on the financial crisis

Much has already been written about the impact of financial crises on the economic situation. Since this paper is primarily concerned with the event of financial crises, the effects of the crisis and subsequent policy responses by the government on the economy have been recognized starting with a shift towards more expansionary policies and controls on currency and capital see (Ariff and Abubakar 1999; Ariff et al. 1998).

Despite, Insufficient regulation in the financial market such as for securitization, directed to the construction of whole classes of assets like sub-prime mortgages that were not enough sound with regard to the economic market. This led to the increasing of substantial risk to the financial stabilization as cash inflow and outflow with regard to these classes of assets will be extensively vulnerable in declining the price. Considering all these facts, it is argued that the central banks globally had contributed to influencing the asset prices through maintaining the policy rates at a low level for prolonged period in a situation of global liquidity, robust growth of economy comprised with low default risks and low inflation rates.

With this regard, the financial stability of Malaysia had been widely attributable to reform series taken up to strengthen the flexibility of financial system to overcome such emerging shocks and risks. In addition, Malaysia relied on broad strategies, identifying the various policies for instrument that may be needed for various objectives and situations. Macro prudential methods executed over the last few decades had been targeted for identifying the risks in particular sectors of the economic sectors and financial segments. This enabled the fiscal policy to focus on the stabilization of prices.

Due to the above mentioned reasons, during the crisis period, the central bank served well as they had a unambiguous and clear view about the robust strategy and an approach to communication based on the principles. Moreover, the central bank did not require altering their strategies or mandates. It also involved the analysis of asset price, credit and money (Erol et al. 2014, P114-128).

As fittingly described by (Reinhart and Rogoff ,2009a) “financial crises are They often require immediate and comprehensive policy responses, call for major changes in financial sector and fiscal policies, and can necessitate global coordination of policies.

Due to the above mentioned reasons, Fiscal policy plays major roles in guiding investment and spending behavior to meet development and stabilization goals in both the public and private sectors. Malaysia has achieved rapid economic growth and significant poverty reduction, while keeping a relatively successful record of curbing inflation in comparison to other developing countries.

Conclusions:

1. Financial crises and their wide-ranging effects reflect the importance of achieving strong knowledge and understanding of crises. The consequences of financial turmoil can be significant and greatly affect the management of economic and financial policies.

2. The main types of crises (banks, currencies, and debts), one or more of the following factors are often associated with the occurrence of financial crises: mass withdrawal of bank deposits, fluctuations in real estate market prices, an increase in the number of bankruptcies in the banking sector, and speculative attacks. on the local currency, external liquidity problems, or high state indebtedness.

3. Fiscal policy plays major roles in guiding investment and spending behavior to meet development and stabilization goals in both the public and private sectors.

4. The central bank of Malaysia had observed the importance of the "macro prudential" approach to observe and regulation for the identification of the system-wide risks and takes suitable actions for maintaining financial stability.

5. The crisis has shown that rapid and high economic growth is largely unsustainable in the long term, especially if it is not accompanied by an equal building of governance institutions at the corporate and national levels.

6. With the economy beyond the crisis stage and leading indicators showing signs of recovery, it may be time to look beyond the crisis to new drivers of economic growth. Reforms have been made in a wide range of areas, including ownership rules; Liberalizing investment rules; Improving prudential regulation in the banking sector; Capital market

7. Recovery efforts in Malaysia have essentially been home-grown, Conceptually, policy responses by the government after the floating of the ringgit went through two distinct phases, the first being centered around tight fiscal and monetary policies, and the second based on expansionary policies.

With this, the focus of economic policies shifted away from the prevention of further economic contraction toward Economic recovery

Recommendations:

1. The necessity of using modern scientific methods to measure the risks of financial crises to make the right decisions, as the crisis has shown that a degree of coherence and consistency in the policy-making process must always be maintained.

2. It is necessary to conduct analyzes purpose of identifying similar features and different effects of crises, and it will help in early recognition of financial instability before it causes severe disturbances in the functioning of the financial market. Therefore, it is possible to conclude that every economy, regardless of its degree of development, needs to establish a policy Flexible, reasonable, appropriate and disciplined financial resources in order to respond appropriately to the future.

3. It is necessary to make central banks aware of the importance of implementing one of the main recommendations contained in the National Environmental Research Program (NERP), was the easing of fiscal policy, as well as the lowering of the cost of capital to revitalize the economy.

4. The need to strive to enhance the implementation of changes (corporate governance reforms; and corporate restructuring) reflects many positive aspects of growth because they create gains in supply-side efficiency. For example, as bond markets open up, financial sector activities are likely to expand, contributing positively to GDP growth.

5. It is necessary to activate a macro prudential approach to inspection and regulation that can help identify system-level risks responsible for financial stability. a serious approach toward undertaking the appropriate reforms adopted, it is not unlikely that Malaysia will emerge even stronger and more competitive in the long run.

6. It is necessary for researchers to study previous literature that addressed financial crises, their consequences and impacts, as well as the best responses to them, as they form an integral part of current political discussions, as the residual effects of the financial crisis are still being around the world.

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