The effectiveness of Monetary 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 Monetary Policy (MP) to Avoid, Reduce or Treat the Financial Crisis in Malaysia. Scholars have yet to agree on the issue concerning the appropriate monetary measures, particularly with respect to the question of whether or monetary policy is 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 countries. The results of this research provide empirical support for the extended model. Moreover, this work has added to the understanding of Monetary Policy (MP) to Avoid, Reduce or Treat the Financial Crisis in Malaysia also with theories research.

Keywords: Financial Crisis, Monetary Policy, Financial Crisis in Malaysia, Effectiveness of Monetary Policy.

Background:

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.

Therefore, a number of studies had examined the effectiveness of monetary policy during the Financial Crisis in Malaysia. Nearly all of the studies mentioned fiscal policy being more effective as opposed to monetary policy during the financial crisis (International Monetary Fund (IMF), 2008a; 2008b). So, with respect to monetary policy, the report demonstrates the ability of countercyclical

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monetary policy in supporting the shortening of economic recession.

Somehow, the crisis limits its effective. Meanwhile, (Hutchison et al. 2010, p973-987) who studied the impact of monetary policy during the sudden-stop balance of payments crisis in developing nations reported monetary expansion did not appear to demonstrate noticeable effect. This has led the authors to suggest the coordination of monetary policy with financial crisis.

From here, Understanding the factors that determine the effectiveness of monetary policy in financial crisis with reference to central bank of Malaysia is crucial since instrumental theoretical perspective can be derived from it. Such knowledge leads to the creation of effective and more meaningful services in the context of monetary policy in financial crisis. This is attainable via an expansion according to a number of ways for assessing the effect of the monetary policy on the country's economy. Somehow, considering that interest rate is not applicable within the context of developing countries, changes in discount rate and international reserves are used instead (Bin Ibrahim, 2010, p267). This study contributes to the literature on this subject via the effectiveness of monetary policy in Malaysia, as an effort to provide resolution to the crisis relating to banking and currency during financial crisis Malaysia.

In addition, the impact of the global financial crisis since mid-2007 has emphasized the increased interaction between global financial conditions and thus financial intermediation at the domestic level and the effectiveness of central bank monetary policy (Chen et al. 2015).

The above discussion clearly shows that Central banks have contemporarily focused on treating the crises of the finance, but they have already recognized a significant role in helping to prevent them (Reinhart & Rogoff 2013, p455-457). It can thus be said that this study brings to the table a comprehensive theoretical focusing on the antecedent's factors of the effectiveness of monetary policy in financial crisis with reference to central bank of Malaysia.

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.

Despite these attempts, researchers have not yet agreed on the issue of appropriate monetary measures, especially with regard to the question of whether fiscal policies are a more effective tool in dealing with the financial crisis or not. The majority of comprehensive theoretical frameworks are fragmented. In a way, this framework has been tested in developed countries. Very few studies have been conducted in developing countries.

Therefore, there is still a need to study and investigate the effectiveness of monetary 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 monetary measures are taken to reduce it?

secondly: Research Objectives

1. To identify the effectiveness of the monetary measures taken by Central Bank of Malaysia during the phase of the Global Financial Crisis.

2. Identify the effectiveness of monetary policy in reducing, alleviating, or treating the financial crisis

3. To explore monetary 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. The importance of the study lies in shedding light on the monetary policy and its role in reducing, alleviating or treating financial crises.

2. Identify the main causes of financial crises

3. The study derives its practical importance in 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

5. The importance of this research lies in evaluating the role of financial measures in reducing the risks of the repercussions of the financial crisis.

Fourthly: Research Field

1. The researcher tried to summarize the concept of monetary 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.

2. 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 monetary policy.

Fifthly: Research Methodology

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 monetary 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 & 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, P455-457) 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 a 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 & 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 & Sun,2011,P335-342) 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 1: Liquidity management and corporate investment during a financial crisis

With this article, (Campello et al.,2011, P199-197) 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 need 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 .

Article 2: Capital regulation, risk-taking and monetary policy: a missing link in the transmission mechanism

In this article, (Borio and Zhu,2012,P236-251) conducted an extensive research on the financial systems of the country. The research has been based on the principles of monetary economics. A research and comparison conducted to show the interaction amongst the business cycles, capital regulations and mechanism on transmission have been shown. The findings of this paper highlights that there has been insufficient information and attention that had caused the main problem between the monetary policy and risk pricing. It will be tried in future to eliminate this information lag so that risk pricing can be conducted without any flaws. The concept of risk-taking has been developed and then used to see the link of mutually reinforcing events like liquidity, transmission mechanism, etc. According to this journal a "risk taking channel" has been proposed in this paper.

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 are 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). Evidently, (Fetai, 2013, p3-66) 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 (Li & Tang, 2010, P41-83).

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 firesales, 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 (Ilić, M., 2013, P 88-103).

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 & 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 & Lazaroski, 2018, p1-2).

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.1-2)

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

First: 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. (Ariff,M&Ababakar,Y,1999,P418)

Second: 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. et al., 2015).

Fourthly: Monetary policy

Monetary policies are the procedure through which the country's monetary authority like the currency board or the central bank manages the money supply while targeting the interest rate or inflation rate to assure the stabilization of price and the currency's general trust. Monetary policies includes the activities of currency board, central bank or any other committees for regulation that establish the growth rate and size of money supply that in turn impact the rate of interest. Monetary policy is managed through amending the rate of interest, selling or buying the government bonds and alterations of money banks that are needed to maintain as the reserve in the bank.

There are two kinds of monetary policies, those are the contractionary and expansionary. Expansionary policies increase the supply of money to lower the level of unemployment, increase the borrowings of private sector, spending of consumers and ultimately the growth in economic sector. On the other hand, contractionary policies slow down the growth rate in the supply of money to manage the inflation. In addition, the contractionary policies increase unemployment, depress the spending and borrowing by businesses and consumers.

Central bank utilizes various tools to outline the monetary policy. This category involves the purchase of various financial properties from commercial banks and quantitative easing.

Fifthly: Monetary measures during the financial crisis

The first stage: Monetary measures during the financial crisis of 1997-1998

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.

on December 5, 1997, approximately five months after the crisis first hit the Malaysian economy. The package consisted primarily of tightening adjustments to monetary policy.

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.6 One of the key recommendations included in the NERP was the easing of fiscal and monetary policies, 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.

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

As mentioned earlier,Following the adoption of an easier monetary policy, , the statutory reserve ratio (SRR) requirement was reduced to 4 per cent in September 1998. Interest rates also declined precipitously with the interbank (three-month) rates falling from approximately 11 per cent in September 1998 to 6.4 per cent in February 1999. The base lending rate (BLR) for commercial banks declined from 11.96 per cent in March 1998 to 8.05 per cent in March 1999. In order to stimulate the economy and to reach a growth rate of at least 1.0 per cent, Bank Negara had set a loans growth target of 8.0 per cent to be achieved by the end of 1998. Unfortu- nately, the target was not achieved and overall, loans growth still remains sluggish. To a certain extent, this is due to an overly cautious stance by banks and a depressed demand for credit. While loans growth is needed to stimulate the economy, the compulsion on banks to achieve a set target may inadvertently result in loans being extended to companies of doubtful credit standing or for nonviable projects. In the long run, this may have adverse implications for the asset quality of banks.

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

Therefore, interest rates were adjusted upward to contain infla- tionary expectations that were likely to follow increasing demand pressures. The statutory reserve ratio (SRR) requirement was kept at the 10 per cent level, though the daily band for averaging balances to meet the SRR was widened. Credit growth was also moderated to approximately 12–15 per cent. Low priority was given to the financing of property (except residential property costing less than RM 150,000 per unit) and for stocks and shares.

With respect to monetary policy, Bank Negara Malaysia reduced the intervention rate from 11.0 per cent to 7.0 per cent, while the SRR requirement was likewise reduced in stages from a high of 13.5 per cent in February 1998 to 4.0 per cent in September 1998 to give borrowers access to funds at reasonable rates. (Ariff & Abubakar 1999; Ariff et al. 1998).

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

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, 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.

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. (Chen, Q., et al., 2015).

Sixthly: The effects of Monetary policy on the financial crisis

After reviewing the monetary measures during the financial crisis in Malaysia, this section reviews the effectiveness of these measures in alleviating, reducing, or treating the financial crisis.

Accordingly, the manifestation of Asian financial crisis has further posed a question among the practitioners as for the effectiveness of monetary 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 monetary measures, there is no agreement yet among the scholars on whether or not the monetary policy is more effective controlling the cyclical fluctuations during the financial crisis (Li & Tang, 2010). Evidently, (Fetai,2013,p3-66) argued that the effectiveness of monetary can be assess by including certain macroeconomic variables during financial crisis.

However, the Malaysia’s financial stability has gone through series of reform as an effort to strengthen its financial system’s flexibility for overcoming the emerging shocks and risks. Malaysia is also reliant on broad strategies, identifying the numerous policies for tool that may be required for multitude objectives and situations. In relation to this, (Manaf, M. et al., 2014,p1-6) mentioned the use of the methods of macro prudential over the last few decades for the identification of the risks in certain economic sectors and financial segments, allowing monetary policy to concentrate on stabilizing prices.

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 monetary policy to focus on the stabilization of prices.

Conclusions:

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

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. Therefore, studying previous literature that dealt with financial crises, their consequences and effects, as well as the best responses to them, is an integral part of current political discussions, as the remaining effects of the financial crisis are still being felt throughout the world.

2. In addition, to clarify 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. This analysis will contribute to identifying the similar features and different effects of crises, and will help in early identification 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 flexible, reasonable, appropriate and disciplined monetary and fiscal policy in order to respond appropriately to the future.

3. 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 .

4. 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.

5. So, there are many lessons that can be learned from Malaysia's experience with the crisis. It is clear that besides the impact of the crisis on the economy, various government policy responses also have an equally significant impact on the economy. It is very important that this is understood and taken into account when formulating policies in the future. 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. Above all, the crisis has shown that a degree of coherence and consistency in the policy-making process must always be maintained. Otherwise, investors will always hold a discount on Malaysia due to political concerns and uncertainties.

6. These changes should yield 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. Likewise, as barriers to investment in certain sectors are removed as a result of the removal of restrictive legislation, local companies will find new areas for growth. In addition, with better regulatory systems, systemic risks in the economy are likely to decrease

7. 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.

8. 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

9. 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.

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 activate a macroprudential 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.

3. 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.

4. It is necessary to confirm one of the key recommendations included in the NERP was the easing of fiscal and monetary policies, as well as the lowering of the cost of capital to revitalize the economy.

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