

Asian Financial Crisis Impact on Malaysia Harvard Case Solution & Analysis

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INTRODUCTION



FINANCIAL CRISIS 1997

In year 1988-1996, Malaysia is one of the miracle economies in East Asia due to the maintenance of high growth rates in average 8.9% and the inflation rate about 3%-4% per year. The employment rate is high emphasis by the increasing in manufacturing and electronics sector.

Economic crisis is the situation when the economy of a country experience suddenly downturn causes by financial crisis. An economy facing on economic crisis in fact of falling in GDP, drying up in liquidity, and raising a falling price according to deflation or inflation.

An economic crisis can take a form on recession and depression and known as real economic crisis.

FINANCIAL CRISIS 1997 STAGES IN FINANCIAL CRISIS



Stages is 1997 Financial Crisis MALAYSIA

- On July 2007, Malaysia budget deficit of 10.5% of GDP, which is the highest in the region.
- In 2008, Malaysia was suffered a recession of 1.9% (GDP). Domestic Product (GDP) growth due to Asian financial crisis.
- The crisis is originated cause from Thailand.
- Financial crisis, state in long-term economic and financial downturn of which economy stability for Malaysia.
- On May 2007, the The bull market ended, because there speculation effects.
- On the right side, the market ended and came under where selling pressure.
- Dark Pigeon Malaysia's financial crisis, order to improve in the financial market to update the value of the ringgit.

The crisis is originated cause from Thailand

ISSUES REGARDING MALAYSIA 1997 CRISIS

From March to July 1997, the ringgit's dollar exchange rate fell from 198.14 per US\$ to 380.07 per US\$.

By the end of 1997, the exchange rate had further fallen to 400.00 per US\$.

Dark Pigeon Malaysia want to share up the value of the ringgit to rising and then lower value, but this did nothing to help its side, and the loss of confidence grew as investors to withdraw the value of the ringgit to 400.00 per US\$.



FINANCIAL CRISIS CAUSES

Reasons Behind This Crisis

A host of reasons were cited for the crisis, chief among them the contagion effect caused by the general negative sentiment in Asian stock markets as a whole, as well as concerns of lack of transparency, poor corporate governance, market manipulation as well as manipulation of the Ringgit through strategies such as widespread short selling of Malaysian stocks.

The Effects of Crisis

- The weakening of the ringgit to the US dollar
- A decline in fund raising activities
- Corporate restructuring
- Failure of the part of several stockholding firms to regularize their financial positions
- A rise in non-performing loans in the banking sector

WAYS TO OVERCOME CRISIS



In August 1998, the government introduced a series of measures which were designed to stabilize the ringgit, ensure an orderly and fair market in the trading of Malaysian securities, and to improve overall transparency in the Malaysian capital market.

Exchange controls were introduced to restrict the amount of ringgit that could be transferred out of the country.

Offshore trading of the ringgit was banned to stabilize the currency.

Ways to Overcome Crisis



Corporate Governance Reforms

- Recommendations on the reform of laws mainly the Companies Act 1965 involved clarifying the responsibilities of key corporate participants and etc.
- A significant number of these recommendations have been implemented, the latest of which were amendments to the Companies Act 1965 which were passed in Parliament in 2007.

Development of the corporate bond market



Measures to resolve weaknesses in insider trading laws

The Securities Industry Act 1983 was amended in 1986 to ensure that trading based on possession of inside information was clearly prohibited rather than the previous position which required a fiduciary relationship in existence between the insider and the company before a person could be regarded as an insider.

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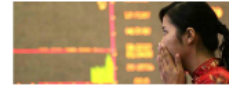
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Stages is 1997 Financial Crisis MALAYSIA

- On July 2007, Malaysia budget deficit of 10.5% of GDP, which is higher than the average of 5.5% in other Asian countries.
- In 1998, Malaysia was suffered a recession of -7.9% GDP. Domestic Product (GDP) growth rate to Asian Financial Crisis.
- The crisis is originated cause from Thailand.
- Financial crisis state in August 1997, and the government and the central bank of Malaysia to stabilize the economy stability for Malaysia.
- On May 2007, the The bull market ended because of the speculation effects.
- On the right side of the chart, the value of the ringgit fell to a low of RM0.80 per US dollar.
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ISSUES REGARDING MALAYSIA 1997 CRISIS

From March to July 1997, the ringgit fell from RM1.48 to RM0.80 per US dollar. By the end of 1997, the exchange rate had fallen below RM0.80 per US dollar.



FINANCIAL CRISIS CAUSES

Reasons Behind This Crisis

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FINANCIAL CRISIS 1997

STAGES IN FINANCIAL CRISIS



Stages is 1997 Financial Crisis

MALAYSIA

- On July 1997, Malaysia began attracting on international attention for its entanglement in a major regional economic crisis.
- In 1998, Malaysia was suffered a contraction in Gross Domestic Product (GDP) growth due to Asian Financial crisis.
- The crisis is originated cause from Thailand.
- Economic crisis make a negative perception and dramatic collapse of the world economy especially for Malaysian.

- On May 1997, the Thai baht came under severe pressure from speculative attacks.
- So, the ringgit also not spared and came under severe selling pressure.
- Bank Negara Malaysia's immediate take action to intervene in the foreign exchange market to uphold the value of the ringgit.

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The Effects of Crisis

- The weakening of the ringgit to the US dollar
- A decline in fund raising activities

Issues

REGARDING MALAYSIA 1997 CRISIS

From March to July 1997, the ringgit-US dollar exchange rate fell from RM2.48 per US\$1 to RM2.57 per US\$1.

By the end of 1997, the exchange rate had further fallen to RM3.77 per US\$1.

Bank Negara Malaysia tried to shore up the value of the ringgit by raising short-term interest rates, but this did nothing to halt its slide, and the bank eventually gave up attempts to maintain the value of the ringgit. In early 1998, the ringgit had hit a low of RM4.88 per US\$1.

