Macro-Economic Policy Responses to Financial Crises in Malaysia, Indonesia and Thailand

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Abstract

This article examines the macro-economic policy response of the three Southeast Asian economies most adversely affected by the Asian financial crisis – Malaysia, Thailand and Indonesia – to both the Asian and global financial crises. While the Asian financial crisis culminated in International Monetary Fund packages for Thailand and Indonesia, design flaws in these packages inflicted a large cost in terms of the severity and duration of recession in these economies. Malaysia, however, chose capital controls as a tool of crisis management. While there is no consensus on whether capital controls resulted in a better outcome for Malaysia, they were able to forestall urgent economic reforms and prolong the policies of the incumbent ruling party to the present time. All three economies responded to the global financial crisis with fiscal stimulus packages. The findings point to a rich diversity in both the size and composition of fiscal stimulus and the challenges confronted.

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