

# Session 1: Global Financial Crisis: Causes, impacts, policy responses, latest developments and trends

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# Background

- 60% of world economies in recession
- Stock market investment values plummeted by about 50%
- Bonds, commodities, hedge funds and private equity fallen sharply
- Depositors with financial institutions getting lower returns and worry about safety of institutions

# General Trend in Financial Crisis

- Loss of confidence
- Disruptions in financial intermediation process
- Downward spiral of asset prices
- “We know what we don’t know but more worst if we don’t even know what we don’t know”

# Overcoming Crisis

- Not only about building resilience but
- Having the capacity to effectively manage the crisis
- Several parallel with Asian crisis in 1997:
  - Crisis followed a period of strong growth, rapid credit expansion and rising fuel prices
  - Originate from imprudent lending practices, excessive risk taking that resulted in formation of asset bubbles

# Overcoming Crisis

- In Asia, domestic credit rose to unsustainable 180% of GDP
- In US, ratio was 240% in 2007
- In Asian financial crisis, economic contraction severe (7% to 13%)
- In current crisis, the spillover effect on the economy has yet to be fully felt

# Overcoming Crisis

- Ideology of the West on market mechanism versus pragmatic Asia approaches to deal with it
- For example in Malaysia –account for irrational market behavior and herd instinct that occur during crisis
- Deviate from conventional approach but taken with great transparency
- Leadership in crisis management is also important

# Strategic Actions

- Response to crisis must be at early stage – pre-emptive actions requires anticipation of trajectory of crisis. Delay will raise cost of crisis
- Response must be comprehensive – clarity of objectives and focused on necessary actions

# In 2009

- 4<sup>th</sup> Quarter of 2008 – economy grew at 0.1%
- Steep decline in net export of 40%
- GDP expect to grow only 0.5%, compared to official forecast of 3.5%
- The worst yet to come for Asia ?



# Responses:

- Malaysia:
- Stimulus package 1 – 1% of GDP
- Stimulus package 2- ?% of GDP (10 March 08)
- Lowering interest rate and statutory reserve requirement
- Increase government spending
- Decrease electricity tariff
- Cushion layoff - decrease foreign labor

# Views

- Recovery efforts bold and substantial - to have a clear and present significant and visible impact on people's economic life
- Focus on strategic solutions not just stimulus
- Embrace key strategic long-term initiatives – not short-term popular measures - sending wrong signal to public

# Views

- A review of national policy that can retard national unity, investments and economic efficiency
- Leveraging on Middle East, China and India (MCI)
- Cooperation to develop and execute national development plans –academics – business – civil service
- Promote Islamic Financing