

BANKING CRISIS IN MALAYSIA

CAUSES, CONSEQUENCES AND IMPLICATIONS

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Abstract

This research project discusses the causes, consequences, and implications of the Malaysian banking crisis with reference to the East Asian crisis. The research finds that many possible factors can explain the causes of the crisis. In fact, it is difficult to assign weightage to each factor. The East Asian Crisis was partly due to financial liberalisation and fundamental weaknesses in the financial systems of the Asian nations. The crisis was then triggered off by financial panics and spread throughout the region via the contagion effect.

Various problems resulting from this crisis arose in the Malaysian banking sector. The Malaysian government and Bank Negara Malaysia have implemented various policies to restructure the banking sector as part of economic recovery. This restructuring plan covers operational and financial restructuring to ensure the viability and profitability of the banking sector, and at the same time, to regain the investor's confidence.

Some positive signals are visible in the second half of year 1998 resulting from the measures taken as part of the restructuring plan. The research will therefore analyse implications of this restructuring and its potential outcomes, as well as highlight suggestions to ensure the effectiveness of the plan. It will conclude with the summary of this research and recommendations for further study.

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