

## **ABSTRACT**

The Asian economies were severely hit by the East Asian financial crisis mainly caused by immense capital outflows in mid-1996. Prior to 1996 financial liberalization policies led to build up of foreign capital flows which occurred in a weak financial and corporate sector. Pegged exchange rate policies made these economies vulnerable to speculative attacks. IMF intervened to provide financial support to restore confidence in these economies. Malaysia however refused IMF aid and opted for its own policy prescription because of its stronger macroeconomic and institutional fundamentals. The initial macroeconomic stabilization efforts by imposing a constricting monetary and fiscal policy and adoption of flexible exchange rates by IMF did not yield the expected results. Malaysia opted to impose selective exchange controls and to peg the exchange rates to stabilize domestic financial markets. Long term financial and social structural reforms were introduced which were necessary to provide the foundation for a return to sustainable growth. To date, Korea has undertaken the deepest structural reforms followed by Malaysia whereas Indonesia has still a long way to go. The global slowdown experienced in mid 2001 was the second shock experienced by these countries. In response to this export shock the countries affected opted to reduce interest rates and implement fiscal stimulus measures as to stimulate domestic demand, which was in contrast to the response during the crisis. Countries that are more linked to the global economy like Korea and Malaysia were found to have been more adversely affected. These recent developments should provide a strong basis for a review in the current policies as to provide strong and sustainable growth in the future.