

## Assessing the Malaysia's Vulnerability to Financial Crises

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### *Abstract*

*The major economic upheavals of 2007 and 2008 in US and more recent European debt crisis have put financial crises back on the agenda. They have renewed public and academic interest in the causes of historical crises like the 1997 Asian crisis. The dominant view is that the Asian crisis was caused by macroeconomic mismanagement, and poor corporate finance and governance practices. Although East Asia was accused of poor corporate governance and lack of transparency in 1997, the recent crises originating in U.S and Europe have highlighted similar problems in developed markets too. Before the advent of US Subprime Mortgage Crisis and European Debt Crisis, it used to be fashionable to say that emerging markets in South Asia including Malaysia were vulnerable to such crises due to their over reliance on exports. Present paper is an effort to compare the three major crises of the recent past Asian Financial Crisis 1997, US Subprime Mortgage Crisis 2008, and the most recent European Debt Crisis, focusing on the Leverage pattern of corporate firms. The Study has compared debt ratios in Asia relative to G7 countries and has investigated whether debt reliance in Asia rose in the years before the crash. The paper has also examined conventional factors as explanations for country differences in leverage within Asian countries and vis-à-vis the G7 countries.*

**Key words:** South Asian financial crisis, US financial crisis, macroeconomic mismanagement, corporate finance and corporate governance