

External Shocks in Emerging Markets: The Case of Malaysia

ABSTRACT

Global integration has resulted in numerous benefits, including increased trade, investment, and economic growth. Meanwhile, integration can make countries more vulnerable to external shocks, such as commodity price fluctuations, or economic and financial crises. These have the potential to significantly affect economic activity. Thus, the present paper investigates the impact of external shock in Malaysia using the open economy SVAR model. The findings discovered that external shocks cause inflationary pressures in the domestic economy. Domestic monetary policy seems to be tightening to reduce inflationary pressures. Shocks in oil prices and foreign monetary policy cause a decrease in the government debt ratio, demonstrating that both external variables have a significant impact on the domestic debt ratio. External shocks, particularly oil prices and foreign income shocks stimulate output and improve the primary deficit. The findings indicate that external shocks have a significant impact on the Malaysian economy.