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A Model of Thailand Financial Crisis and Unconventional Monetary Policy

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Abstract

During the Asian Financial Crisis in 1997-1998, many Asian economies encountered the chaos in capital outflow and suffered from increasing in foreign debts according to the depreciation of their exchange rates. At that time, regarding monetary policy aspect, IMF suggested the countries facing this financial turmoil to level up their interest rates in order to attract the capital inflow and the depreciation of exchange rates could be pacified. However, some disputes occurred that increasing in interest rates might increase the borrowing cost for the financial intermediaries. This policy could be harmful rather than useful for the economy. As a result, I develop a quantitative dynamic stochastic general equilibrium (DSGE) to investigate the effect of higher interest rate toward Thailand economy in 1997. After that, I apply the unconventional monetary policy, which allows the central bank to inject credit into financial institutions to stimulate the economy, to observe counterfactually whether this policy possibly mitigates the severity of the crisis.

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