

# **Financial Cycles in Emerging Asia: An Analysis using Financial Conditions Index**

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## **Abstract**

Using financial conditions index (FCI), this paper analyze relationships between financial conditions and business cycles in Indonesia, Korea, Malaysia, and Thailand in order to examine the role of financial factors in business cycles in East Asia. Based upon estimation results, this paper found that financial conditions had significant effects on business cycle. In the Asian crisis, deteriorations of financial conditions could accounted for 80~85% of GDP declines, which the main factors were depreciations of exchange rates and declines of stock prices. Moreover, declines of the stock prices were common in all countries in 2000-01 and in 2008-09. Patterns of financial cycles varied across the countries. While financial factors play a major role in their business cycles in Korea and Thailand, they don't play an important role in Indonesia and Malaysia, except in the Asian crisis.

Keywords: financial conditions index (FCI), financial cycle, business cycle, Asian crisis, global financial crisis

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