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Currency Market Reactions to Good and Bad News During the Asian Crisis

by

Gab-Je Jo *

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ABSTRACT

There is considerable disagreement among analysts about the extent to which the spread of the Asian crisis was based on reasonable changes in expectations about fundamentals versus pure contagion effects resulting from imperfections in the behavior of currency and financial markets. In this paper we focus specifically on the behavior of the foreign exchange market for the five Asian countries. We find little support for the hypothesis that the Asian currency crisis was dominated by panic in the markets such that investors and speculators reacted much more strongly to bad than to good news. While the strongest reactions were to home news, there were also a number of significant cross effects. Almost all of these were of the same sign, suggesting that investors typically assumed that what was good for one country was good for all. Again, there was no systematic evidence of stronger reactions to bad than to good news. The markets may have overreacted in general, pushing currencies below the levels justified by the fundamentals, but, if so, this did not undercut the markets ability to respond to good as well as bad news, nor do these responses appear to have been systematically smaller to good than to bad news. The symptoms of the blind panic that has so often been alleged do not appear in the data.

The JEL Classification Numbers: F300, F340, F310.

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1. Introduction

The recent rash of international financial crises has generated considerable interest in the behavior of international currency and financial markets, with the economist's traditional theory of efficient speculative behavior becoming increasingly challenged by views of rational or irrational herding effects, momentum trading, and excessive swings between optimistic and pessimistic moods in markets. There is considerable disagreement among analysts about the extent to which the spread of the Asian crisis was based on reasonable changes in expectations about fundamentals versus pure contagion effects resulting from imperfections in the behavior of currency and financial markets.¹

One popular view is that international investors and currency traders selectively filter information based on their basic moods or outlooks of optimism and pessimism. Such "confirmation bias" has been found in many aspects of human behavior.² Thus it is certainly a plausible hypothesis. For currency markets the implication is that in good times bad news will be heavily discounted relative to good news, while during crises or other times of pessimistic views, bad news will be weighted more heavily than good news.

Recent studies by Kaminsky and Schmukler (1999) and Baig Goldfajn (1999) find some evidence of such asymmetric responses. Kaminsky and Schmukler test this hypothesis during the Asian crises for the days of largest changes in the dollar value of a set of nine Asian stock markets. They find a sizably stronger reaction to bad than to good

¹ Compare, for example, Furman and Stiglitz (1998) Radalet and Sachs (1998) and Willett (2000).

² For discussion and reference to the literature on herding and other possible imperfection in the behavior of financial markets, see Kaminsky and Schmukler (1999) Kim and Wei (1999) and Willett (2000).

news. Baig and Goldfajn look separately at the reactions of stock markets and exchange rates for five major crisis countries. In this paper we focus specifically on the behavior of the foreign exchange market for the same five countries. Our methodology is similar to Baig and Goldfajn but we use an expanded set of news events. Our time period (from July 1997 to April 1998) also differs slightly from Baig and Goldfajn's (from July 1997 to May 1998). Baig and Goldfajn find significant effects of bad news for all five countries, but significant effects of good news for only three. In our sample, however, we find significant effects of both good and bad news for all countries. Furthermore we find no systematic pattern of higher coefficients for bad than good news.

The rest of this paper is organized as follows: Section 2 summarizes the chronicles of Asian crises. Section 3 discusses the data sets and methodology incorporating dummy variables for bad and good news. Section 4 interprets the tests and discusses the evidence. Section 5 concludes.

2. A Brief Overview of the Asian Crisis Chronicle³

Figure 1 plots the daily exchange rates in the five major Asian crises-suffered countries during the crisis period from January 1997 to June 1998.

During 1997 the pressures on the Thai baht increased as Thailand's largest finance company failed on May 23. Around the same time, Thailand's finance minister, Amnuay Viravan, who was strongly against devaluing the baht, resigned on June 19. On July 2, right after the announcement of "no devaluation" by the Prime Minister on June 30, the

³ For more detailed reviews see Goldstein (1998) Pempel (1999) and Willett (2000).

Bank of Thailand announced a floating system of the baht and called on the International Monetary Fund for assistance.

As the Thai baht's depreciation began to affect ASEAN currencies, other South East Asian countries abandoned their currency defenses and adopted more flexible exchange rate policies. The Philippines allowed a wider float range for the peso against the dollar on July 11, and Indonesia widened its rupiah trading band on July 11 and started to float the rupiah in August 14. Also, Malaysia announced the abandonment of its defense of the ringitt on July 14.

By August 1997, the absence of strong steady policy responses by the governments of the crisis countries was contributing to greater uncertainty for investors. Some statements of political leaders further provoked the uncertainty and concern in the capital market. For example, after Malaysian Prime Minister Mahathir bitterly attacked "rogue speculators", the Malaysian ringgit fell further.

In October 1997, the devaluation of the Taiwan dollar further scared investors in Asian markets. Because of the high linkage and similarity between Taiwan and Hong Kong, the devaluation of the Taiwan dollar created doubt about whether the Hong Kong peg to the U.S dollar would be changed. Consequently, on October 23, one week after the devaluation of the Taiwan dollar, the Hong Kong Hang Seng stock market index crashed by 30 percent, more severely than the 1987 crash.

At this point, international investors started to reassess the situation in Korea where several of the largest conglomerates went into financial turmoil after Hanbo Steel company collapsed in January. The Korean government delayed the decision to handle the financial trouble of Kia Motor Group until October 22. Along with the presidential

election campaign, former president Kim Young-Sam was bitterly attacked by the opposition party for the suspicious connection between his son and the collapsed Hanbo Steel company. The government failed to pass the Financial Reform Bill on November 18 because of the opposition party's rejection, which further lowered confidence in capital markets. Also, in November, global investors became frightened by the news that international rating agencies were downgrading Korea's foreign debt which was estimated at more than \$100 billion, with short-term debt estimated at 80% of the total. Consequently, the Korean government announced on November 21 that it would seek an IMF rescue package. In addition, Japan's troubled financial sector deepened the crisis in Korea. For example, Japan's fourth-largest brokerage, Yamaichi Securities, announced that it would shut down on November 24. The Finance and Economic Ministry in Korea reported that the Japanese banks withdrew about 8 billion dollars of the 14 billion dollars withdrawn by foreign banks during October and November 1997.

On January 6 of 1998, the Indonesian government announced an expansionary budget, which violated the terms of their IMF program. This led the rupiah to collapse to more than 10,000 from about 7000 within two days. By the late-January 1998, the Asian financial crisis had begun to calm down as the U.S. pledged to pressure international commercial banks to roll over Korea's short term debt. On January 16 of 1998, Korea and international banks completed the agreement to roll over much of the short-term debt of Korea. The Indonesia rupiah seemed to start to rally after the news that the Indonesian government signed the second agreement to accept IMF reform program on January 15, 1998. Indonesia announced new reforms on January 27 designed to restore confidence in its banking sector, guaranteeing commercial bank obligations and allowing overseas

investment in local banks. However, political instability and riots, and Indonesian president Suharto's plan to implement a Currency Board system, made the crisis persist longer in Indonesia than in other Asian emerging economies.

(figure 1 about here)

3. Data and Methodology

We construct dummy variables for important news of fundamentals and policy changes during the Asian financial crisis period, following the methodology used in Kaminsky and Schmukler (1999) and Baig and Goldfajn (1999). We use daily data on changes in exchange rates against dollar in the crisis-affected countries as the dependent variable. The source of daily exchange rate data is the 'Pacific Exchange Rate Service' at the University of British Columbia. In addition to dummy variables, following Baig and Goldfajn, the Yen/Dollar exchange rate and U.S. Stock Market Index (daily NYSE) were included as explanatory variables to account for common external shocks in currency markets.

The sources of market news are “Chronology of the Asian Currency Crisis and its Global Contagion” from the Roubini's Asian crisis web site, and "Chronology of the Asian Economic Crisis" from the web site of the University of Virginia, in which they collected information from several news sources (Reuters, Wall Street Journal, New York Times, CNN⁴, Financial Times, Bloomberg, etc.).⁴ We also collected news from newspaper summaries prepared by Asia Pulse, and we checked the appendix in Baig and

⁴ See <http://www.stern.nyu.edu/~nroubini/asia>, and <http://www.people.virginia.edu/~teb7c/asianchronology>.

Goldfajn (1998)'s paper and Kaminsky and Schmukler (1999)'s paper. Compared with the sample of news reports used in Baig and Goldfajn (1999), from July 1997 to April 1998 seventy four additional or different news reports are used in this paper.⁵

We classify the daily news releases according to the country of origin, and according to the categories of bad news and good news. For news already included in Baig and Goldfajn (1999) or Kaminsky and Schmukler (1999)'s paper, we followed their coding of good and bad news. For additional news events included in this paper, we followed the criteria delineated by Baig and Goldfajn: We classified as good news, reports of financial aid agreements, credible economic reforms, the upgrade of credit ratings, the removal of capital controls, good economic indicators (such as lower inflation rate, rising stock market index, trade surplus etc.,), news forecasting a better economic outlook and political stability: We classified as bad news, reports indicating conflicts with international organizations, financial troubles or bankruptcies of firms, non-credible economic reforms, the downgrade of credit ratings, the imposition of capital controls, worse than expected economic indicators (such as higher inflation rate, crashing stock market index, etc.,) and political instability. Where the effects seemed to likely to be unclear we excluded the event.

Under the hypothesis of herding panic, investors may show significantly asymmetric responses to "bad news" and "good news" about fundamentals as the crisis goes on. To test this hypothesis, we estimate the following regression:

$$(1) \quad EX_t^i = \mathbf{a}^0 + \mathbf{a}^i GN_t^i + \mathbf{b}^i BN_t^i + \mathbf{g}^i FN_t^i + \mathbf{e}_t^i$$

⁵ The chronology of the daily news releases used for dummy variables is available from the authors on request.

where EX is the change of daily exchange rates, GN^i is a dummy variable for domestic "good news", BN^i is a dummy variable for domestic "bad news", and FN are other economic variables, specifically the U.S. stock market index and Yen/US dollars. These dummy variables take a value of 1 for good news or for bad news, and zero if there is no news of that type during a specific day.

Our initial analysis is only for news about the home country. However, for questions of herding behavior and contagion we might expect there to be more asymmetry in the response in the home currency to news about other countries in the region. Thus we extended the analysis to test for these effects. We ran the following regression

(2)

$$EX_t^i = a^0 + a^i GN_t^i + b^i BN_t^i + \sum_{j=1}^{n-1} a_{gn}^j GN_t^j + \sum_{j=1}^{n-1} b_{gn}^j BN_t^j + g^i FN_t + e_t^i$$

where GN^j is a dummy variable for foreign "good news", and BN^j is a dummy variable for foreign "bad news". According to our data set, for only 68 out of 209 days there were neither domestic own news nor foreign news that could be classified as clearly good or bad.

4. Tests

Our findings differ from those of Baig and Goldfajn in several respects. As reported in Table 1, we do not find significant effects for the control variables (the US stock market index and the dollar/yen exchange rate) as they did but we do find significant effects of both good news and bad news for all five countries. These results are not sensitive to using either the stock market or exchange rate variable as the only

control. We also do not find any systematic pattern of differences in the size of the coefficients on bad versus good news. The good news coefficient is higher than for bad news for Indonesia, Thailand, and Malaysia and lower for Korea and the Philippines. The only case of substantial difference in the coefficients is for the Philippines, where the bad news coefficient is almost three times as large as for good news, and this is the only case where the differences are statistically significant.⁶ Across countries, the estimated coefficients are remarkably similar in size, typically being in the range of 0.01 to 0.02, with the exception of Indonesia where the coefficients for both good and bad news are substantially higher. This ordering is consistent with our qualitative assessment that there was more big news concerning Indonesia.

There were two cases where good and bad news arrive together in the data set. One case is for Korea on December 24, 1997 and the other is for Indonesia on January 15, 1998. Despite the possibility that there could be no change in the currency value since two types of news are already reflected, the Korea won appreciated and the Indonesia rupiah depreciated. This seems to be because the importance of one type of the news dominated that of the other type of the news. For this reason, we used 0, 1, 2, 3 scheme instead of 0 or 1 dummy variables for the news, where 0 is no news, 1 is not much important, 2 is normally important, and 3 is very important. As reported in table 2, we still find the consistent pattern of home country news effects although the coefficients for good and bad news declined in all five countries.

The addition of the foreign news variables reported in table 3 does not substantially alter the pattern of home country news effects. The main difference is that

⁶ The Wald test statistic for differences in the coefficients is 4.99. This is significant at the five percent level. None of the other differences are close to conventional levels of significance.

the coefficient for good news in the Philippines falls by roughly half and loses its significance.

We find considerable evidence of significant home country effects of news about other countries in the region. Of 20 possible cases we find foreign news to be significant in 12. As we would expect the coefficients on foreign news are generally much lower than the coefficients on home country news. The exceptions are the effects of good news in Indonesia on the Malaysian ringgit, the effects of good news in Korea on the Indonesia rupiah and the effects of bad news in Malaysia on the Philippines peso. Again, there is no systemic pattern of bad news being more frequently significant or having larger coefficients than good news. In deed, of the fourteen cross effects estimated to be significant, nine are for good news. The only country with more significant cross effects for bad than good news is Malaysia, with effects of good news on Thailand and bad news on the Philippines and Indonesia. With the single exception of the effects of good news in Korea on Malaysia, all of the significant coefficients had the same sign for the cross effects as for the home effect. This is consistent with the view that many investors looked at the region as a whole so that good news for one country was frequently taken as good news for all. The exception to this pattern is Korea which was little affected by news in the other four countries. This independence was asymmetric, however, with news in Korea frequently having effects on the other four. Again, however there is no systematic pattern of larger effects from bad than from good.

(tables 1, 2 and 3 about here)

5. Conclusion

In coding the news for good news and bad news none of the studies to date (including ours) has tried to take account of the likely importance of events reported. Thus in a small sample it is quite possible that there could be sizable differences between the average importance of the good and bad news for some countries. Despite this possibility, however, we find little support for the hypothesis that the Asian currency crisis was dominated by panic in the markets such that investors and speculators reacted much more strongly to bad than to good news. As would be expected news has bigger effects on the home country than on others, but we do find a good deal of evidence of significant cross effects. These are almost always of the same sign, suggesting that investors viewed these countries as a group with good or bad news for one being good or bad for all. On this score, however, Korea appears to have been seen as more independent. Again, there is no systematic evidence of stronger reactions to bad than to good news.

The markets may have overreacted in general, pushing currencies below the levels justified by the fundamentals, but, if so, this did not undercut the markets ability to respond to good as well as bad news, nor do these responses appear to have been systematically smaller to good than to bad news. The symptoms of the blind panic that has so often been alleged do not appear in the data.⁷

⁷ A telling point that more than financial market panic was at work was there strong speculative pressure against the Korean won did not start until several months after the fall of the Thai baht.

APPENDIX

07-02: After several weeks of speculative attacks, The Bank of Thailand announces a managed float of the baht and calls on the International Monetary Fund for “technical assistance”.

07-11: The Philippines central bank says in a statement it will allow the peso to move in a wider range against the dollar

07-11: Indonesia widen its rupiah trading band to twelve from eight percent.

*07-14: The Malaysian central bank abandons the defense of the ringitt.

*07-15: The South Korean Kia Group's financial troubles arose.

07-23: Non-performing loans of the 13 Thailand commercial banks (excluding the Bangkok Bank of Commerce and the Union Bank of Bangkok) average 8 percent of assets, ranging from 4 percent for Bangkok Bank to 10.5 percent for Krung Thai Bank.

*07-23: S&P and Moody give several Korean banks a negative credit rating outlook.

07-24: Malaysian Prime Minister Mahathir Mohamad launches bitter attack on “rogue speculators.”

07-25: In Japan, Former chairman of Dai-Ichi is indicted on charges that he made loans totalling 11.78 billions yen to a suspected corporate racketeer

08-10: Payoff scandal in Japan widens as Yamaichi Securities, the nation's third largest financial company, forces its top board members to resign.

08-11: Contradictory statements about the appropriate level of the Ringgit made by the Malaysian PM and bank officials.

08-14: Indonesian analysts raise grave concerns about unhedged dollar exposures of domestic corporations. The central bank abolishes its system of managing the exchange rate through the use of a band and allows it to float.

08-22: Thailand's \$23.4 billion outstanding forward currency contracts surprises most market analysts.

08-22: Daiwa Securities, the second largest brokerage company in Japan, says that it is also being investigated in the payoff scandal.

08-24: Malaysian PM Mahathir Mohamad blames U.S. financier George Soros for leading attack on East Asian currencies: "All these countries have spent 40 years trying to build up their economies and a moron like Soros comes along."

*08-25: Standard & Poor may cut ratings for Thailand sovereign debt.

*08-28: Tighter credit as reserve requirements rise in Malaysia.

08-28: Leading international financial firms say that they will pull back substantially from Thailand in response to new capital control measures imposed by the Ministry of Finance.

*09-03: Trading restrictions have been imposed in Malaysia

09-04: Several multi-billion dollar projects delayed or canceled in Malaysia.

*09-08: Deregulation package (including cuts in government spending) will help bring down interest rate.

09-10: Bank Indonesia reduces one-month interest rates by 2 percentage points to 25 percent.

09-12: Moody's Investors Service analyst said that up to five unidentified banks may fail in Thailand because of their problems.

09-12: Hokkaido Bank and Hokkaido Tokai-Mitsubishi Bank of Japan postpone their planned merger until the huge bad loan problems of the respective banks are sorted out.

*09-09: Jinro (19th largest chaebol in Korea) becomes the third large Korean firm to go bankrupt with debts of nearly \$3 billion.

*09-16: IMF reported to be dissatisfied with progress in Thailand and threatens to withhold remaining rescue loan package if it does not implement necessary policies.

09-17: Standard & Poor's downgrades seven financial institutions in Thailand.

09-17: Five current and former employees of Yamaichi Securities Company are arrested on illegal payoff charges in Japan. Yamaichi is also banned from under-writing Government bonds.

*09-18: Concern that loan defaults and political tension could cause an outflow of investment in the Philippines.

*09-20: PM Mahathir tells delegates to IMF-World Bank conference in Hong Kong that currency trading is immoral; should be stopped.

09-24: Arrests and resignations of current and former officials of Daiwa and Yamaichi Securities continue in Japan.

09-25: Indonesian Social Minister Inten Suweno says the death toll from famine and a cholera outbreak in Indonesia's remote Irian Jaya province has risen to 271.

09-25: Office of Nikko Securities in are raided in connection with the payoff scandal in Japan.

09-29: Thailand will raise value added tax (VAT) for most water and phone services.

10-01: Malaysia's PM Mahathir repeats his call for tighter regulation, or a total ban, on forex trading.

10-03: Nikko Securities chairman and six other officials resign over the payoff scandal in Japan.

10-06: Bank of Japan releases survey indicating that bank managers have turned more pessimistic. The survey results are worse than expected.

*10-14: Devaluation of the Taiwan dollar.

10-16: The Bank of Thailand revises downward its growth forecast for 1997 from 2.5 percent to 1 percent.

10-20: The five biggest banks in Thailand report third-quarter profit declines ranging from 13 percent at Siam Commercial Bank to 86

percent at Krung Thai Bank. Thai Finance Minister, Thanong Bidaya, announces that he would resign.

*10-21 : The Hong Kong stock market crash by the Hang Seng index 23.34 percent down.

10-22: The Indonesian central bank prepares a list of troubled banks that will be liquidated as part of a bailout plan.

10-22: In Japan, LDP's package to jump-start the economy falls short of expectations

10-23: The Big 4 securities houses of Japan, Daiwa, Yamaichi, Nikko, and Nomura Securities, report lower profits and falling commission for the first half of the 97-98 fiscal year.

10-27: The payoff scandal in Japan grows as Hitachi admits that ten of its employees paid money to racketeers.

10-29: Thailand's Prime Minister's own party members and coalition partners threaten rebellion if he does not make some changes to the cabinet by November 5.

10-29: The Ministry of Finance in Japan suspends Daiwa from bidding and underwriting Govt. Bonds.

11-04: Indonesia's President Suharto's second son Bambang Trihatmodjo, owner of 25 percent of Bank Andromeda, promises to take legal action against the government after his proposal to inject 350 billion rupiah into the bank is rejected.

11-06: Traders said the dollar rise versus the won reflected the U. S. currency's strength versus the yen. 'The dollar's sharp rise against the Japanese yen in global trade boosted the U.S. currency against the won in Korea,' said a dealer at Seoul Bank. In addition, dealers said sentiment about South Korea is negative, based on media reports in the Western press stating that South Korea's economic crisis is set to get worse.

*11-07: Stocks drop on concern that currency may weaken if Korean Won continues to depreciate.

11-07: In Indonesia; sources claim that the Minister of Finance has resigned as a consequence of the legal action taken by Bank Andromeda.

11-11: The private sector in Thailand faces about \$16 billion worth of maturing foreign debts in the next 14 months, of which cash-strapped Thai corporate borrowers would need to roll over at least an estimated \$6.0 billion.

11-12: Analysts express concern about Japan's banking sector difficulties to be compounded in the face of its exposure to Asia, particularly Hong Kong.

11-17: South Korea abandons its defense of the battered won.

11-18: The Financial Reform Bill fails to pass in the National Assembly in Korea.

11-18: Malaysia's infrastructure firm United Engineers (M) Bhd (UEM), one of a handful of blue chips favored by foreign investors for predictable

cash flows, says it had bought a 32.6 percent stake in debt-laden affiliate Renong Bhd.

11-19: Japan's prime minister denies that he is considering using public funds to help ailing banks, raising fears of massive bankruptcy.

11-21: In Japan, Yamaichi Securities Co. said it is considering whether to close down, with a final decision planned for Monday. The company, one of Japan's so-called "Big Four" securities houses, is facing severe financial problems and pressure from government regulators over newly discovered debts.

*11-20: Stocks in Malaysia plunges on concern of more corporate bailouts of troubled companies by cash rich units.

11-24: Troubled Tokyo brokerage Yamaichi Securities Co. Ltd., the fourth-largest in Japan, announces that it is closing its doors.

11-25: Standard & Poor's ratings agency on Tuesday lowers South Korea's currency ratings because of its growing financial crisis and warns that current events could result in another downgrade in the next few months.

12-01: Devastated by bankruptcies and debt defaults, several Korean commercial and merchant banks are on the brink of collapse. Korean and IMF officials continue to disagree on the details of the aid package.

12:02: Director of Banking Supervision at Bank Indonesia, Budi Rohadi, is quoted as saying the government could not rule out liquidating more banks in an effort to improve the banking system. Standard & Poors

places the Indonesian power producer IPPs bonds and loans on credit watch. The credit watch placement reflects a potential shift in government support of the electricity company.

12-03: Moody's Investors Service put another group of Japanese banks under review for a possible downgrade.

*12-06: The Halla group--Korea's 12th largest chaebol-- declares itself insolvent.

*12-08: Malaysian government announces measures to avoid asking the IMF for help.

12-08: Announcements are made of a Korean government takeover of a major bank and a merger in the ailing auto industry (Daewoo and Ssangyong Motor Co.) A U.S. economist reiterates concerns that last week's record-breaking \$57 billion bailout package for Korea organized by the International Monetary Fund would not be enough.

12-09: Rumors that Indonesia's President Suharto is gravely ill swept Southeast Asia.

12-09: South Korea's foreign-exchange reserves have run dangerously low, with its official reserves standing at \$23.9 billion on Dec. 2, down from \$30.5 billion at the end of October.

12-11: Overnight, Moody's Investors Service lowered South Korea's foreign debt currency ceiling and downgraded the ratings of 31 Korean issuers. Standard & Poor's cuts ratings on three South Korean financial institutions.

12-11: The Rating Agency Malaysia Bhd (RAM) says that it has downgraded bond issues guaranteed by Sanwa Bank and the Tokai Bank.

*12-11: Poor economic outlook in the Philippines.

*12-12: Suharto may have serious health problems.

12-15: A possible freeze on Indonesian loan repayments raises concerns of a deepening financial crisis.

12-15: The Philippines government challenges the markets by telling banks they could keep their money if they were not willing to lower interest rates. "We do not need that money if the rates are going to be so high," assistant finance secretary Gil Beltran tells Reuters after the Bureau of Treasury rejected all bids at Monday's auction. The rejection, which the Treasury last did two years ago, comes as a surprise because the state's fiscal position is extremely shaky.

*12-16: Stocks in the Philippines decline.

12-18: Voters in South Korea elect longtime dissident Kim Dae-jung, the most critical candidate of the IMF bailout to serve a five-year term as president, leaving analysts's concerned that the country's financial markets will be further battered.

12-19: The failure of a foodstuffs trader, Toshoku Ltd.—the fourth-largest bankruptcy in post-war Japan, renews concerns about the precarious state of the Japanese economy

12-22: Moody's says it has downgraded the foreign currency ceiling for bonds and bank deposits of Indonesia, Malaysia and South Korea. It also downgrades Thailand's foreign currency ceiling for bonds and confirmed the ceiling for bank deposits.

*12-23: International credit rating agencies downgrade the Korea's foreign currency debt.

12- 24: Some U.S. banks appear to be concerned about the ability of South Korean companies to repay their loans in the wake of the country's ongoing financial crisis.

*12-24: A research report from IndoSuez securities puts foreign debt at twice the Indonesian government forecast.

12- 24: The outlook for Japan's financial sector worsened Wednesday as Standard & Poor's cut its ratings on two of that country's major banks.

0 1-02: Standard & Poor's downgrades Indonesia's sovereign ratings.

0 1-05: Thailand announces that it would ask the International Monetary Fund to ease the terms of its \$17.2 billion bailout package.

*01-05: S&P cuts Malaysia's sovereign ratings.

0 1-06: Indonesia announces its budget without a tough reform agenda and overly optimistic projections.

01-07: Market reports that the IIMF is dissatisfied with the Indonesian reform effort raises fears that the second tranche of the IMF package would not be disbursed.

*01-08: the IMF may withdraw its bailout package for Indonesia.

01-09: The Petroleum Authority of Thailand (PTT) is ordered to suspend construction of its gas pipeline in forest areas.

*01-09: Fear that economy is headed for a recession in the Philippines.

*01-12: Stocks fall on Indonesian financial problems amid concerns that loans to Indonesia may become bad debt.

01-15: Bank Indonesia, the central bank, announces that it would raise interest rates on SBI (central bank) certificates across the entire spectrum of maturities, from overnight to one-year.

01-21: Indonesian corporates are resorting to rupiah payments on U.S. dollar debt, while renewed political jitters added another broadside.

01-21: Bankers in New York say overnight that efforts to restructure South Korea's debt burden may have grown more difficult with the country expected to reject any proposal to raise money through a large bond offering.

01-22: Indonesia's corporate debt is estimated at \$65 billion.

01-22: Vehicles sales in Malaysia are expected to drop by 60 percent this year.

*02-04: Thailand stocks fall as investors concluded that prices were out of line with earning prospects.

02-05: The Indonesian government has estimated that about 10 percent of its workforce of 90 million people will be unemployed by the end of the year.

02-06: The Japanese government declares the economy “stagnant” in a monthly report that offeres the darkest assessment of the country’s business climate in more than 20 years.

02-10: Korean unions voice opposition to job losses and threaten possible strikes

02-11: Riots break out to protest rising food prices in Indonesia.

President Suharto warns that unknown “parties” are seeking to undermine the economy.

02-12: IMF gives cool reception to Indonesia’s currency board ideas.

*02-16: The Washington Post said IMF managing director Michel Camdessus had written to President Suharto expressing strong disapproval of the plan. "In the present circumstances ... if a currency board proposal were adopted, we would not be able to recommend to the IMF Board the continuation of the current program because of the risks to the Indonesian economy," Camdessus said.

02-20: Indonesian and US officials contradict each-other on the implementation of the currency board system.

02-23: Rating Agency Malaysia (RAM) says on Monday it has downgraded Damansara Realty Bhd’s 300 million ringitt convertible redeemable guaranteed unsecured loan stocks to B 1 from BBB3.

02-23: The G7 singles out Japan for criticism after a weekend meeting.

“In Japan, activity is low and the outlook is weak,” a statement released after the meeting read.

02-25: New Korean premier sworn in, but opposition obstructs approval vote.

03-02: New inflation figures suggest possibility of hyperinflation in Indonesia, as year-to-year rate hits 32 percent.

03-04: Malaysia's central bank says the blue chip Sime Dalby Bhd's banking unit—one of the country's top 10 banks—needs over a billion ringitt in fresh capital. It also says that the country's second largest bank, government-run Bank Bumiputra Malaysia Bhd, and two finance companies also may need capital injections.

03-04: Central bank officials revealed that the Thailand Financial Institutions Development Fund had liabilities of 1.1 trillion baht as of mid-February, compared with just 36.2 billion baht in mid-1995.

03-05: Currency board confusion continues as Indonesian authorities say that it was still part of the reform plan. Also an IMF review is delayed as reports say very little progress has been done on reforms.

*03-05: Bank stocks fall on concern that losses of banks in Malaysia will be repeated across Asia.

*03-09: Over the weekend news broke that the IMF, worried about the government's commitment to economic reform, would delay the disbursement of funds to Indonesia.

03-11: Prosecutors raid the Bank of Japan (BOJ) and arrest one of its top officials.

03-12: Concerns are raised over the recapitalization requirements of some Thailand companies, following news that fixed line communications company Telecom Asia Plc would raise its registered capital through an issue of 777 million new shares, without announcing terms as yet.

03-14: Indonesia's President Suharto announces cabinet replete with cronies and relatives.

03-20: In Japan, a huge derivatives trading loss is reported at health food maker Yakult Honsha Co. Ltd.

03-27: The long awaited economic-stimulus package is announced in Japan, and it does not include tax cuts to bolster economic growth.

03-30: Food riots spread through Indonesia.

03-31 South Korea's February industrial output showed negative annual growth for the second month in a row while February output was down 1.9 percent on a year earlier. All indicators points to recession.

04-02: Moody's ratings on RHB Bank Bhd, essentially reflect the rating agency's overly pessimistic views on the Malaysian economy and banking sector.

04-02: Indonesia reports a trade surplus of \$1.78 billion in January against \$1.53 billion in December. But the rising surplus stemmed not from rising exports—which actually fell to \$4.15 billion from December's \$4.70 billion—but from collapsing import.

04-02: The release of a Bank of Japan survey indicates that corporate confidence in the Japanese economy had sunk to a dramatic low.

04-03: Moody's Investors Service lowers its outlook on Japan's sovereign debt rating.

04-10: The much anticipated speech by Prime Minister Hashimoto on the economy of Japan falls short of expected reform announcements.

04-15: A decline in industrial production in February and a rise in inflation to a five-year high in March show the Malaysian economy could slow down faster than expected.

04-14: Indonesia's much-heralded economic reforms programme suffers a set back after newspapers quote a senior cabinet minister as saying one of the measures agreed with the IMF may not be implemented. "This is the Republic of Indonesia here, this is not the IMF republic," Republika newspaper quoted Trade and Industry Minister Mohamad "Bob" Hasan as saying.

04-16: Kia Motors' workers in Korea begin a strike.

04-16: More news of corporate difficulties surface in Malaysia

GOOD NEWS

*07-04: Devaluation of the baht will revive economy

*07-14: The IMF offers the Philippines almost \$1.1 billion in financial support under fast-track regulations drawn up after the 1995 Mexican crisis

07-17: The inflation outlook is stable for the Philippines.

07-29: In an uncharacteristically decisive move, Japan's Ministry of Finance announces punishment of unprecedented severity for Nomura Securities and Dai-Ichi Kangyo Bank for illegal payments.

07-28: Thailand seeks IMF for a rescue package.

08-05: Thailand unveils an austerity plan and complete revamp of finance sector as part of IMF suggested policies for a rescue package.

*08-11 : The IMF unveils in Tokyo a rescue package for Thailand including loans totaling \$16 billion from the IMF

*08-16 : An unnamed Beijing source tells a local Hong Kong newspaper that China is prepared to use US\$50 billion to defend the Hong Kong dollar.

08-20: IMF approves a \$3.9 billion credit for Thailand.

08-27: The Central Bank of Japan announces that it will keep interest rates down to facilitate economic recovery.

*09-04: The Indonesian government announces an economic reform package with a ten-point plan of austerity measures.

*09-05: Malaysia takes steps to liberalize their equity markets.

09-05: Malaysia's PM Mahathir's announces infrastructure spending will be slowed and that the recently imposed ban on short sales of shares would be lifted as of today.

09-08: Malaysia's central bank said on Monday that banking groups with at least two Tier-1 banks would be allowed to freely combine and rationalize their internal operations to improve efficiency.

*09-09: The Philippines central bank able to buy dollars in spot markets.

*09-16: Indonesia says it will postpone projects worth 39 trillion rupiah.

09-19: Koko Sato, Japanese politician once convicted in bribery scandal, but recently appointed to cabinet, suggests he will resign, thus defusing a political crisis for the Prime Minister.

*09-19: Central bank lowers rates for reserve repurchase instruments in the Philippines.

10-02: Thailand's newly published inflation reports say pressure not too high.

10-08: Indonesia says it will ask the IMF for financial assistance.

*10-08: Malaysian Finance Minister says that the budget would restore the economy's health.

*10-09: Borrowing cost come down as the Philippines central bank cuts the overnight borrowing rate.

10-09: Thailand's PM Chavalit Yongchaiyudh is told by Japanese PM Ryutaro Hashimoto that Japan will extend \$8 billion to Thailand as part of a trade and investment insurance scheme.

10-31: The IMF announces a \$23 billion multilateral financial package involving the World Bank and Asian Development Bank to help Indonesia stabilize its financial system.

*11-03: Stocks soar in the wake of IMF rescue package and bank reform for Indonesia.

*11-03: Hong Kong saw some of the most dramatic gains, with the Hang Seng index rising 2.62 percent at the opening

*11-04: Thai PM Chavalit announces that he will resign because he lost public confidence for his inability to implement needed economic reforms.

*11-08: Democratic Party leader Chuan Leekpai appointed PM of Thailand.

11-11: South Korea's Ministry of Finance and Economy announces that it plans to put forth all efforts to stabilize the country's currency against the U.S. dollar by resolving concerns about financial market turmoil.

Local newspapers, meanwhile, report that the government will soon announce a package of measures, which includes widening overseas borrowing by state-run corporations and a restructuring in merchant banks.

11-14: South Korea's majority party vows to pass a reform package it says will clean up debt-ridden banks. The proposed reform—the first of its kind in half a century—calls for a major shakeup of the nation's banking industry to encourage foreign investors to return to South Korea.

11-17: The failure of the Hokkaido Takushoku Bank, the first of Japan's big banks to collapse under the weight of bad loans, is the latest—and strongest—sign yet that the Japanese government is prepared to allow market forces to reconfigure the domestic financial landscape.

*11-20: Korean government widens trading band to shore up financial sector.

11-21: South Korea said it would seek a rescue package from the International Monetary Fund.

11-24: Malaysia's solid export growth of 2 1.7 percent in September raises hopes that it will cushion the economic slowdown.

11-27: The Bank of Japan and the Finance Ministry makes a rare statement of assurance to calm investors. Finance Minister Hiroshi Mitsuzuka states that no more financial failures are imminent after the Yamaichi failure.

12-04: IMF Managing Director Michel Camdessus signs a letter of intent on Wednesday covering an international accord to provide Korea with \$57 billion to help dig it out of its financial mess.

12-08: Deputy Prime Minister and Finance Minister Anwar Ibrahim set the new economic agenda Friday, announcing Malaysia's most sweeping policy changes in a decade. Among other things, he pledges to slash government spending by 18 percent, curb big-ticket imports and restrict bank credits and stock-market fund raising.

12-09: News is released that the Japanese government will issue 10 trillion yen in new bonds to support the financial system.

*12-15: Hopes of accelerated assistance from the IMF in Korea.

12-16: Following IMF guidelines, the Korean authorities announce to sell off two troubled banks and push forward with a \$10 billion sovereign bond issue.

12-17: Prime Minister Ryutaro Hashimoto of Japan announces a special two trillion yen (\$15.7 billion) cut in personal income taxes.

*12-24: The International Monetary Fund (IMF), the United States and 12 other nations Wednesday pledged to speed \$10 billion in bailout money to South Korea to support its embattled economy.

12-30: A group of key U.S. and German banks agrees to help Korea manage its estimated \$100 billion in short-term debt. The International Monetary Fund approves a \$2 billion payment for troubled South Korea Tuesday, bringing IMF payments to more than \$11 billion in just under a month.

*01-02: In a plan being proposed by U.S. bank J.P. Morgan & Co., South Korea could convert its bank debt into government-issued bonds with various maturities, the Wall Street Journal said Friday.

*01-06: The Philippines widen bands in which the currency can be traded.

01-09: Expectations of some type of Indonesian debt accord intensifies following telephone conversations between U.S. President Bill Clinton and Asian leaders, and a new commitment from Indonesian President Suharto to implement economic reforms.

01-09: A proposal for the South Korean government to issue about \$25 billion in bonds to stem the country's debt crisis wins increased support at a meeting of international banks.

*01-12: the Korean government takes steps to ease a cash crunch.

01-13: The IMF and Indonesia neared an agreement over the IMF bailout.

US Deputy Treasury Secretary Lawrence Summers leaves his meeting with Suharto by saying that Indonesia will implement its economic reform program "as soon as possible."

*01-14: the IMF announces reform package for Indonesia and Suharto commits to the IMF package.

01-15: Indonesia's Suharto signs an agreement, second in 4 months, with the IMF that requires him to dismantle the monopolies, and the family-owned businesses

01-15: International banks agreed to roll-over much of Korea's short-term debt due by the end of March.

01-16: Prime Minister Ryutaro Hashimoto of Japan hints during a meeting of his ruling Liberal Democratic Party that the party may consider another round of tax cuts

*01-16: International lenders on Friday officially completed a plan to roll over South Korean short-term debt through March 31

*01-19: Korea was upgraded by international credit companies.

*01-19: Michel Camdessus makes favorable comment about Malaysian economy.

*01-19: Optimism that the Philippines would be the 1st to emerge from the South East Asian crisis.

0 1-26: Indonesia's government and the country's indebted companies hold talks with foreign bankers to resolve a huge corporate debt problem through a probable debt moratorium. A debt freeze proposal is also forwarded.

*01-26: Korea's government negotiators close an agreement with international creditors to exchange \$25billions of commercial bank debt for long term loans.

*01-27: Indonesia announced new reforms Tuesday to restore confidence in its banking sector, guaranteeing commercial bank obligations and allowing overseas investment in local banks.

0 1-28: South Korea's government and global creditors agree to exchange about \$24 billion of the Asian nation's short-term debt for government-guaranteed loans.

*01-30: the Philippines stocks soar on investor confidence.

*01-30: Thailand plans to lift currency controls.

02-02: Bank of Thailand announces lifting of capital controls imposed last May to defend the baht.

02-06: The International Finance Corporation and other banks agrees to provide \$42 billion in credit for 42 domestic companies in Indonesia.

Also, the government pledges to move quickly to set up a bankruptcy law in line with the International Monetary fund's requirements.

02-09: Finance Ministry announced that it would complete the liberalization of South Korea's financial markets to overseas investors.

02-10: Group of Seven is considers establishing a \$16 billion fund to help stabilize regional currencies. President Suharto of Indonesia stresses currency stabilization measures.

02-10: Relaxing a key condition, IMF says that it will allow Thailand to return a budget deficit of one to two percent of GDP in the year. In addition, the IMF will also allow Thailand to ease its high domestic interest rates.

02-10: Philippines President Fidel Ramos on signs an amended oil deregulation law to meet the last condition for the country's exit from International Monetary Fund tutelage.

02-13 Union strikes in Korea are canceled.

02-17: The IMF releases a further \$2 billion to South Korea, bringing total IMF lending to about \$15 billion so far out of its \$21 billion Seoul rescue package.

02-17: Malaysia's central bank on reassures banks and finance companies that they do not face a hard-and-fast March 31 deadline to complete mandated mergers.

*02-18: Standard & Poor's upgraded Korea's debt ratings.

02-19: Malaysia's Deputy Prime Minister Anwar Ibrahim says that there is no reason yet to revise downward the government's four percent economic growth forecast for the current year.

*02-23: The Group of Seven industrialized nations Saturday urged Japan to continue to strengthen its financial system in order to spur its economy and said the outlook for Asian economies that pursue necessary reforms is generally positive. It added that as long as the affected Asian countries follow through with reform, and the rest of the world responds appropriately, the overall effect of the Asian crisis on world growth in 1998 should be manageable.

02-26: Officials express optimism about the ability to deal with Indonesia's \$73 billion in private offshore borrowing.

02-26: Prime Minister Ryutaro Hashimoto said the Japanese government will consider the possibility of bringing forward planned public works spending once the budget for next fiscal year is passed by parliament.

02-27: The Korean opposition agrees to return to parliament, after three days of boycott.

02-27: Malaysia raises the ceiling on foreign share ownership in telecommunications companies to 49 percent from 30 percent.

03-02: A \$3.29 billion trade surplus is reported for Korea in February, compared with a \$2.12 billion deficit a year ago.

03-10: In Indonesia, Suharto is reelected for a 7th term.

03-12: Korea's President Kim Dae-jung calls for a lifting of barriers on hostile mergers and acquisitions by foreigners.

03-13: Korea's international creditors had roll over \$21.3 billion of short-term debts.

03-13: The US compliments Thailand's PM on taking the right reform measures in tackling the crises.

03-13: Top financial and political leaders gather to convince Suharto to follow the IMF accord for Indonesia.

*03-13: Sixth consecutive monthly trade surplus for Thailand.

03-16: Korea's debt rollover by foreign creditors are done over longer period than the shortest possible 1 year, thus signifying confidence in the economic future.

*03-19: China's new premier, Zhu Rongji, said on Thursday that Beijing would defend the Hong Kong currency's link to the U.S. dollar at any cost.

03-20: Indonesia shelves currency board plans.

03-23: Hubert Neiss of IMF says "The IMF and the Indonesian government have made 'considerable progress' toward a new deal to counter the country's grave economic crisis.

03-25: The secretary-general of the ruling Liberal Democratic Party of Japan, Koichi Kato, hints at delaying legally mandated fiscal reforms, a move that would allow Tokyo to introduce bold economic steps in the future, including large tax cuts.

04-06: Standard & Poor's, in a statement issued in London, says the latest bank restructuring move in Indonesia is a "significant step" in the long-awaited consolidation of the banking industry.

04-08: Indonesia says that it has reached agreement with the IMF on a new package of economic reforms and targets, which the IMF would watch closely to ensure compliance

04-09: For Korea, a successful \$4 billion overseas bond sale takes place.

04-20: Various reform measures under IMF auspices begins in Indonesia.

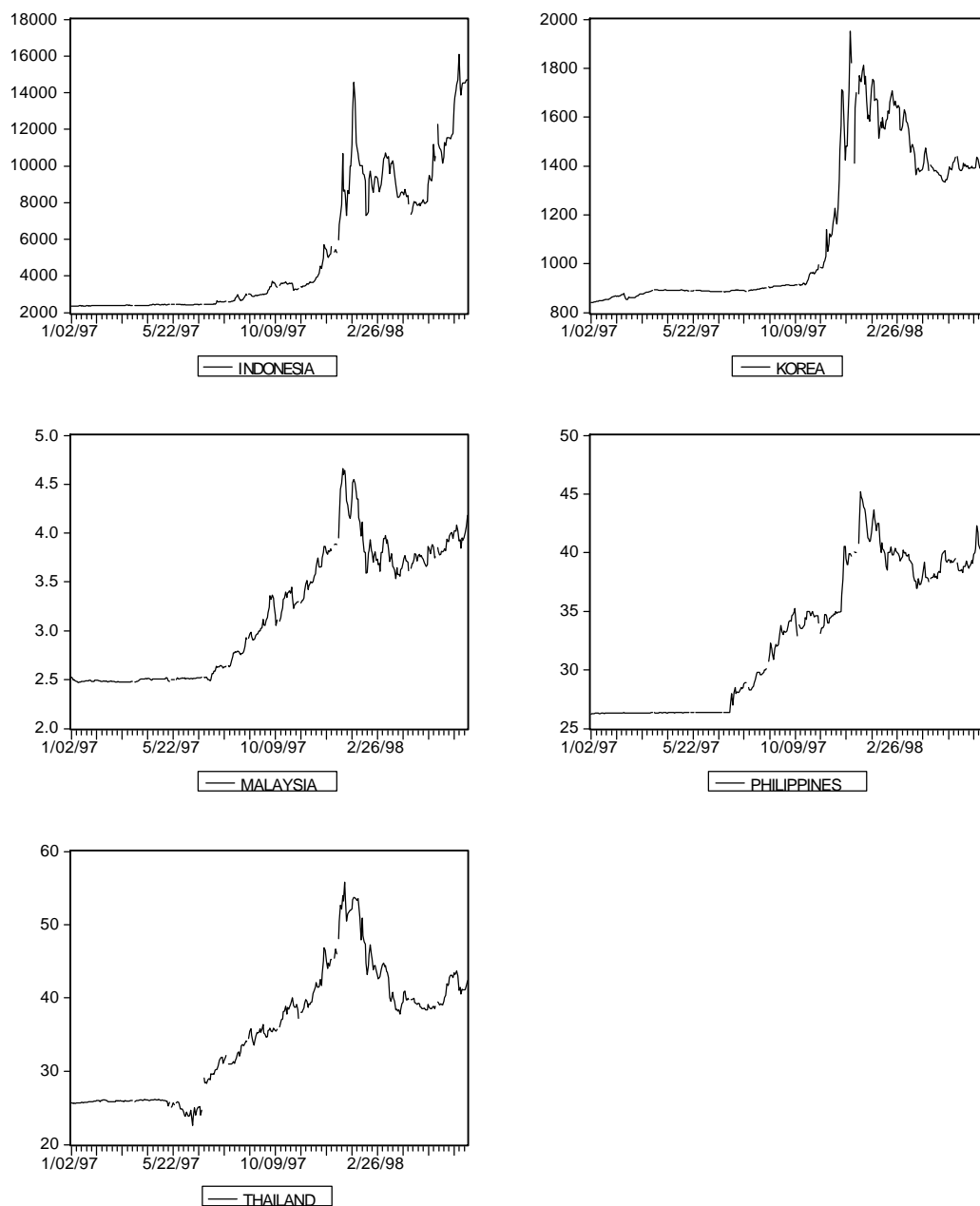
04-23: Malaysia's Finance Minister Anwar Ibrahim gives a thumbs up to the resolution of a drawn-out banking merger between RHB Bank Bhd and Sime Bank Bhd

Notes: * indicates different news or additional news, compared with the news used in Baig and Goldfajan's (1998) paper.

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Figure 1. Exchange Rates Movement during the Asian Crisis Period (Jan 97 - June 98).



Sources : Pacific Exchange Rate Service at Univ. of British Columbia.

Table 1. Regression Results: Impact of Domestic News

Regression Method : OLS Dependent Variable: Change in Nominal Exchange Rate					
	Korea	Philippines	Thailand	Indonesia	Malaysia
Constant	0.001 (0.48)	0.002 (1.73)*	0.002 (1.30)	0.003 (0.87)	0.001 (0.86)
Good News	-0.020 (-2.66)**	-0.007 (-1.82)*	-0.023 (-4.44)**	-0.050 (-4.75)**	-0.019 (-3.26)**
Bad News	0.026 (3.43)**	0.019 (3.53)**	0.016 (3.32)**	0.047 (5.38)**	0.015 (3.77)**
Japanese Yen / US Dollar	-0.007 (-0.02)	-0.101 (-0.69)	-0.199 (-1.11)	0.324 (0.76)	-0.113 (-0.67)
US Stock Market Index	-0.166 (-0.72)	-0.121 (-1.16)	-0.057 (-0.45)	-0.436 (-1.40)	-0.195 (-1.62)
Adjusted R ²	0.08	0.07	0.14	0.24	0.10
F-Statistic	5.41	4.59	8.77	15.93	6.44
Number of Observations	194	194	194	194	194
Number of Good News Days	27	16	14	21	10
Number of Bad News Days	22	9	19	34	21

Notes: t statistics are in parenthesis. * denotes 10% significance level, ** denotes 5% significance level.

Table 2. Regression Results : Impact of Domestic News (0, 1, 2, 3 scheme)

Regression Method : OLS Dependent Variable: Change in Nominal Exchange Rate					
	Korea	Philippines	Thailand	Indonesia	Malaysia
Constant	0.001 (0.49)	0.002 (1.69)	0.002 (1.36)	0.002 (0.57)	0.001 (1.08)
Good News	-0.006 (-1.80)*	-0.005 (-2.04)**	-0.010 (-4.20)**	-0.014 (-3.09)**	-0.007 (-2.05)**
Bad News	0.008 (2.60)**	0.013 (4.19)**	0.006 (2.54)**	0.022 (5.27)**	0.006 (2.65)**
Japanese Yen / US Dollar	0.026 (0.08)	-0.099 (-0.69)	-0.214 (-1.18)	0.227 (0.51)	-0.127 (-0.73)
US Stock Market Index	-0.217 (-0.92)	-0.116 (-1.13)	-0.032 (-0.25)	-0.705 (-2.21)**	-0.205 (-1.65)*
Adjusted R ²	0.04	0.10	0.11	0.18	0.05
F-Statistic	2.90	6..12	6.82	11.78	3.61
Number of Observations	194	194	194	194	194
Number of Good News Days	27	16	14	21	10
Number of Bad News Days	22	9	19	34	21

Notes: t statistics are in parenthesis. * denotes 10% significance level, ** denotes 5% significance level.

Table 3. Regression Results: Impact of Foreign News

Regression Method : OLS Dependent Variable: Change in Nominal Exchange Rate					
	Korea	Philippines	Thailand	Indonesia	Malaysia
Constant	0.003 (0.81)	-0.002 (1.60)	0.002 (1.06)	0.000 (0.15)	0.004 (2.26)**
Good News Korea	-0.017 (-2.19)**	-0.007 (-2.04)**	0.003 (0.83)	0.024 (2.40)**	-0.006 (-1.70)*
Bad News Korea	0.025 (3.32)**	-0.003 (-0.92)	-0.002 (-0.46)	-0.006 (-0.65)	-0.003 (-0.93)
Good News Philippines	-0.006 (-0.72)	-0.004 (-0.94)	0.003 (0.67)	-0.005 (-0.40)	-0.000 (-0.10)
Bad News Philippines	-0.015 (-1.26)	0.019 (3.81)**	0.003 (0.42)	-0.002 (0.11)	0.001 (0.22)
Good News Thailand	-0.004 (-0.44)	-0.011 (-2.91)**	-0.022 (-4.54)**	-0.029 (-2.37)**	-0.013 (-2.90)**
Bad News Thailand	-0.001 (0.13)	0.000 (0.06)	0.015 (3.05)**	0.015 (1.30)	0.006 (1.36)
Good News Indonesia	-0.012 (-1.59)	-0.007 (-2.18)**	-0.017 (-4.21)**	-0.048 (-4.73)**	-0.021 (-5.72)**
Bad News Indonesia	-0.006 (-0.96)	0.007 (2.77)**	0.008 (2.37)**	0.043 (4.97)**	0.010 (3.09)**
Good News Malaysia	0.011 (0.96)	-0.007 (-1.42)	-0.015 (-2.50)**	-0.012 (-0.82)	-0.017 (-3.19)**
Bad News Malaysia	0.013 (1.63)	0.011 (3.20)**	0.006 (1.48)	0.026 (2.43)**	0.010 (2.74)**
US Stock Market Index	-0.119 (-0.51)	-0.049 (-0.51)	0.028 (0.23)	-0.523 (-1.73)*	-0.063 (-0.58)
Japanese Yen / US Dollar	-0.066 (0.20)	-0.154 (-1.13)	-0.187 (-1.10)	0.545 (1.29)	-0.142 (-0.93)
Adjusted R ²	0.09	0.22	0.25	0.29	0.29
F-Statistic	2.62	5.52	6.40	7.65	7.69
Number of Observations	194	194	194	194	194

Notes: t statistics are in parenthesis. * denotes 10% significance level, ** denotes 5% significance level.

