

Foreign investors' expectations and Thailand premium: An econometric study in the 1990's

Christelle PUIBASSET^{a*}, University of Aix-Marseille ¹

The paper studies foreign investors' expectations about the Thailand banking system in the 1990's. It uses two indicators: The Thailand premium and the spread of the stock price index. The Thailand premium appears on the 19th may 1997 whereas the spread of the stock price index suddenly falls three days before and decreases slowly since the forth quarter 1996. By using data from the 1st January 1993 to the 29th June 2001 and the multivariate unobservable components model of Harvey (1989) and the cross correlations, the paper shows that the absence of expectations about the liquidity risk of the Thailand banking system explains the short term capital inflows before the Asian crisis, in the first half of the 1990's.

JEL classification :

Keywords : multivariate unobservable components model, cross correlation, Thailand premium, expectations, liquidity risk

* E-mail address : puibasset@yahoo.fr

¹ 2, rue Jules Ferry, 13100 Aix-en-Provence, France