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WORKING PAPER

Volatility Regimes in Central and Eastern European Countries' Exchange Rates

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Volatility Regimes in Central and Eastern European Countries' Exchange Rates

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Abstract:

The choice of an exchange rate arrangement affects exchange rate volatility: higher flexibility goes ahead with increasing volatility and vice versa (Flood and Rose 1995, 1999). We investigate five Central and Eastern European countries between 1994 and 2004. The analysis merges two approaches, the GARCH-model (Bollerslev 1986) and the Markov Switching-Model (Hamilton 1989). We discover switches between high and low volatility regimes consistent with policy settings for Hungary, Poland and, less pronounced, the Czech Republic, whereas Romania and Slovakia do not show a clear picture.

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