Volatility Regimes in Central and Eastern European Countries’ Exchange Rates

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October 2007

2007/487
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This version: September 2007

JEL-Classification: E42, F31, F36

Keywords: CEEC, exchange rate volatility, regime switching GARCH, Markov switching model, transition economies

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.

For helpful suggestions I would like to thank Olaf Hübler, Lukas Menkhoff and two anonymous referees.

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