MODELING EXCHANGE RATE VOLATILITIES IN CROATIA

Mile Bošnjak

SKDD – CCP Smart Clear Inc.

Heinzelova ulica 62a,

10000 Zagreb, Croatia

[mile.bosnjak76@gmail.com](mailto:mile.bosnjak76@gmail.com)

Phone: +38514607313

Vlatka Bilas

Faculty of Economics and Business, University of Zagreb

Trg J. F. Kennedy 6,

10000 Zagreb, Croatia

[vbilas@efzg.hr](mailto:vbilas@efzg.hr)

Phone: +38512383114

Corresponding author

Ivan Novak

Faculty of Economics and Business, University of Zagreb

Trg J. F. Kennedy 6,

10000 Zagreb, Croatia

[inovak@efzg.hr](mailto:inovak@efzg.hr)

Phone: +385976891891

Abstract

Modeling and forecasting exchange rate volatility has important implications in a range of areas in macroeconomics and finance. A number of models have been developed in empirical finance literature to investigate this volatility across different regions and countries. Well known and frequently applied models to estimate exchange rate volatility are the autoregressive conditional heteroscedastic (ARCH) model advanced by Engle (1982) and generalized (GARCH) model developed independently by Bollerslev (1986) and Taylor (1986). This paper examines the performance of several ARCH models for EUR and USD against the HRK on daily data sets within time period from 1997 to 2015. Evaluating the models through standard information criteria showed that GARCH (2,1) is the best fitted model for EUR/HRK and GARCH (1,1) for USD/HRK daily return volatility. In accordance to the estimated models there is no empirical evidence that negative and positive shocks imply a different next period volatility of daily EUR/HRK as well as USD/HRK exchange rate return.

JEL: C3, C53, G11, G17

Keywords: GARCH model, Heteroscedasticity, Exchange rate volatility, Croatia

Mile Bošnjak currently works as Chief Risk Officer for SKDD – CCP Smart Clear Inc. He holds PhD degree and master degree in economics from Faculty of Economics and Business University of Zagreb and master degree in computer science from Faculty of Electrical Engineering and Computing (FER) University of Zagreb. His research area covers quantitative economics and international economics. Mile Bošnjak teaches international economics at Faculty of Economics and Business University of Zagreb and statistics at School of health studies, University of Mostar.

Vlatka Bilas currently works at Faculty of Economics and Business, University of Zagreb as an associate professor at the Department of International Economics. She actively participates in preparing and conducting classes for the courses: “International Economics“ and „Regional Economic Integrations“ at the Faculty of Economics and Business, and “Entrepreneurship and Exports in High Technologies” at Faculty of Electrical Engineering and Computing, University of Zagreb. She is also the coordinator of the Professional Specialist Postgraduate Study „Export Management“, as well as specialist postgraduate course „Export Management“. The author has participated in various professional and scientific projects, workshops, and over 20 scientific conferences. She has over 10 scientific books and 100 papers published.

Ivan Novak currently works as senior assistant in department of International economics, Faculty of Economics and Business, University of Zagreb. He actively participates in preparing and conducting seminars and lectures of International business at the Faculty of Economics and Business, University of Zagreb. Author has participated in various professional and scientific projects, workshops, and held lectures at several conferences.