

Title: Equilibrium Exchange Rates and Exchange Rate Misalignments in the Visegrad Group

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Abstract:

The main objective of this diploma thesis is to estimate equilibrium exchange rates for four countries forming Visegrad Group partnership and to evaluate whether their exchange rates are overvalued, undervalued or in equilibrium with their economic development and with market. We focused on two widely used models, Behavioral Equilibrium Exchange Rate Model and Fundamental Equilibrium Exchange Rate Model and estimated several alternations of each model. Results where then compared and we derived implications for each country. We could clearly see that each country is developing differently in terms of equilibrium exchange rates. While the exchange rate of Czech Republic seems to oscillate steadily around its equilibrium value, we spotted higher misalignments for the rest of the country. Also, we saw that Hungary is on path of constant depreciation, which is related with economic issues country is struggling. Polish Zloty is characterized by overall high amplitude of movements of its exchange rate and by frequent undervaluation of the currency, implying favorable development of the economy, taking into consideration the constant growth and productivity gains. For Slovakia we saw that despite its dynamic growth most of the models were showing that the currency was overvalued. We observed also the development of equilibrium exchange rate even after adopting common euro currency in order to see the macroeconomic implications as the real exchange rate was just nominal exchange rate deflated by price ratios.

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