

Abstract

This thesis examines the effects of the COVID-19 pandemic on forward rate agreements (FRA) spreads in the Czech Republic. Since FRA serves as a useful instrument to hedge against possible risk associated with interest rate movements, it is a relevant indicator of a consensus view and perceived uncertainty about the future financial situation. We measure the effects by employing ARMA-GJR-GARCH modeling. Several COVID-19 indices, representing the government response to the pandemic, are included as explanatory variables. The results show a significant drop in FRA spreads as the pandemic began, as well as a strong increase in the FRA spreads volatility, which doubled during that period. Our main findings suggest that the COVID-19 affected the decrease of FRA spreads. However, we were not able to explain the volatility increase by the COVID-19 data.