Abstract

We investigate the interdependence among three CEE stock markets and between CEEs vis–à–vis euro area, using daily data from 2001–2011. Initially, we estimate bivariate ADCC models. Then, OLS regressions are employed to understand the evolution of correlations in time and during the recent financial crises. Finally, we examine the relationship between correlations and volatilities using the simple OLS model and the rolling stepwise regression methodology. Our results indicate that 3 out of 4 series exhibit asymmetries in conditional variances, while only 1 pair out of 6 exhibit asymmetries in correlations. We found that correlations are increased over time and during the recent financial crises for both pairs (CEEs–CEEs and CEEs–eurozone). However, the highest increase is observed for CEEs–eurozone. Mainly, we found a positive relationship between correlations and volatilities, even though this relationship is niether constant in time nor strictly positive or negative during all the sample period, but rather time–varying with periods of being higher or lower than zero.