

The main objective of this work is to model volatility of Euro to Czech Koruna exchange rate between 1.1.1999 and 30.12.2005 and investigate changes in its behaviour. In order to achieve this we search for structural breaks in exchange rate time series. We model the conditional variance with ARCH model (autoregressive conditional heteroscedasticity) between particular break points. Our findings are that since year 2002 volatility of Euro to Koruna exchange rate has been decreasing. This conclusion is confirmed by measuring historic volatility by using month average and daily observations. This may have been caused by changing monetary policy, more precisely by adopting new regime of maintaining monetary stability - implicit inflation targeting.