ABSTRACT

In this thesis we examine the effect of foreign exchange interventions in small open economy, focusing on the Czech experience. In the first part we model volatility development before and after the intervention using GARCH model. In the second part we estimate relationship between macroeconomical variables using vector autoregressive model. In this part we estimate impulse response function of exchange rate and inflation. In second part of VAR modeling we provide counterfactual analysis, which compare actual development of variables with alternative scenario in which the interventions would not happen .

Our results suggest that the interventions is associated with few months delayed decrease in volatility. Base on scenario analysis the interventions increased inflation by approximately 1.5 % and without the intervention the economy would in deflation around -1 % nowadays.

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