Studying and Modelling the FOREX Rate Fluctuations. Evidence from Daily Data of Albanian Market

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Abstract

This study analyses Exchange rate movements in a transition economy and their forecasting. The time varying characteristics of FOREX volatility were explored, by GARCH modelling, discovering that such models might adequately describe the conditional second moments of these exchange rate percentage changes of Albanian market and be predictable on the past information basis, as the FOREX movements are perhaps the most important factors affecting sales, profit forecasts, capital budgeting plans and international investment value, being of a particular significance for Albanian economy, as an emerging country. Daily time series data for 2 years, (2009-2011) of Albanian market exchange rates, with respect to four major currencies (the dollar, Deutsch mark, Greek drachma and the Italian lira), were studied. The volatility is well represented by a GARCH (1, 1) (it might be predictable on past innovations basis, volatility measures) and It has been increased from Friday to Monday for all, mainly of deutschmark and drachma. When trade opened, the weekend-effect, , was found to be positive for all, except USD series that had its value equal to zero. The conditional variance shock did not persist, quickly died out. The first lagged percentage changes for dollar and drachma were both significant and approximately the same, be expected for an emerging economy, indicating market inefficiency. These results were in line with the studies of period and may even recently be of interest to international companies wishing to invest in Albania, using Albanian LEK, as Albania being a recently strategic touristic/investing country.

Keywords: conditional-variance; GARCH; heteroskedasticity; time series; volatility.