

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

**AUTHOR OR EDITOR**

Jose E. Gomez

Julian A. Parra

Mauricio Villamizar

Autores y/o editores

[José E. Gómez](#)

Central banks in emerging countries frequently build-up (diminish) reserves while attempting to depreciate (appreciate) their domestic currencies. Even if these interventions are effective, they often entail various costs. Basu (2012), nonetheless, proposes a model in which the sole announcement of an intervention schedule leads to a desired exchange rate without actually buying or selling foreign currency. In this paper we present a generalization that allows for imperfect credibility of foreign exchange intervention. Namely, market dealers know that the central bank carries strategic incentives when announcing its schedule and may not perfectly believe it. We show that, under this setup, it may be impossible for central banks to achieve the desired exchange rate level without changing their position of international reserves.

The series Borradores de Economía is published by the Economic Studies Department at the Banco de la República (Central Bank of Colombia). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.