

Essays on Economic Policy (ESPE in Spanish) - Public Savings and the Effectiveness of Sterilized Foreign Exchange Intervention

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Abstract

Although theoretical models exist that support the Effectiveness of Sterilized Foreign Exchange Intervention (FXI), practiced by central banks with the objective of affecting the level and reducing the volatility of the exchange rate, empirical works provide mixed testimony for developed and emerging countries. Using a GARCH model, this paper aims to offer empirical evidence of how periods of public savings enhance the effectiveness of sterilized FXI for Colombia. To do so, it is necessary to estimate a policy shock measure based on the determinants of foreign exchange (FX) purchases made by the Colombian Central Bank over the 2010-2014 period. During this time span, Banco de la República performed an innovative type of foreign exchange purchases known as Pre-Announced Day-to-Day Interventions. A reaction function for this type of intervention has not yet been estimated. Here, this reaction function will be estimated with an ordinary least squares (OLS) model.