



The Effectiveness of FX Interventions: A Meta-Analysis

Download Other Working Papers Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. 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 Lucía Arango-Lozano Lukas Menkhoff Daniela Rodríguez-Novoa Mauricio Villamizar-Villegas

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc)

Publication Date: Monday, 14 of September 2020

The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Abstract

There is ample empirical literature centering on the effectiveness of foreign exchange intervention (FXI). Given the mix of objectives and country-heterogeneity, the general lack of consensus thus far is no surprise. We shed light on this debate by conducting the first comprehensive meta-analysis in the FXI literature, with 279 reported effects that stem from 74 distinct empirical studies. We cover estimations conducted in 19 countries across five decades. Overall, our meta-survey reports an average depreciation of domestic currency of 1% and a reduction of exchange rate volatility of 0.6%, in response to a \$1 billion US dollar purchase. Results are qualitatively confirmed but smaller in size under fixed and random-effect estimations. When narrowing in on different economic factors, we find that effects are magnified for cases consistent with the monetary trilemma (greater if financial openness and monetary independence are low). Effects are also larger in emerging than advanced economies, when banking crises remain mild, and when interventions are large in size and are announced.