Oral FX Interventions in Emerging Markets: the Colombian case

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Publication Date: Monday, 28 of February 2022 Abstract Do oral FX interventions (i.e. announcements made by central bank officials and economic authorities) influence the exchange rate behavior in emerging economies? Following an event study approach, we evaluate whether this type of interventions in the Colombian FX market have an impact on the level or volatility of the exchange rate (U.S Dollar / Colombian peso). We find there is no conclusive evidence of a statistically significant impact. This finding consistently arises across different subsamples and parameters. Robustness tests based on the exchange rate authority that makes the announcement or the mechanism used for actual interventions yield the same conclusion. We interpret these findings as possible evidence of the fact that higher levels of uncertainty (and hence lower credibility levels) or the predominance of global over domestic factors may reduce the effectiveness of oral interventions in emerging economies.

Fuente: https://www.banrep.gov.co/en/oral-fx-interventions-emerging-markets-colombian-case