Foreign Exchange Intervention Policy

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The monetary policy strategy of *Banco de la República* (the Central Bank of Colombia) aims to maintain a low and stable inflation rate, as well as to reach output levels close to its potential. Additionally, *Banco de la República's* policy contributes to preserve financial stability and to the proper functioning of payment systems.

In this context, exchange rate flexibility is considered a key element in achieving these objectives, based on the following aspects:

- Exchange rate flexibility allows the exchange rate to act as an adjustment variable in the face of shocks to the economy, helping to reduce volatility in economic activity;
- Exchange rate flexibility enables the use of the interest rate as an independent instrument to steer inflation and output toward their desired values;
- Exchange rate flexibility reduces the incentives for economic agents to take on excessive exchange rate risks, which is essential to maintain financial stability.

Although the exchange rate is flexible, *Banco de la República*, as the foreign exchange authority, reserves the right to intervene in the foreign exchange market. Such intervention does not restrict exchange rate flexibility, is not intended to set or target a specific exchange rate level, and pursues objectives that are consistent with the inflation-targeting strategy.

Specifically, *Banco de la República's* intervention seeks to:

- Accumulate foreign reserves to reduce external vulnerability and improve access to foreign credit;
- Mitigate exchange rate movements that do not clearly reflect the performance of the economy's fundamentals, and that could adversely affect inflation and economic activity; and
- Moderate rapid and persistent deviations of the exchange rate from its trend to prevent disorderly performance of the financial markets.





To ensure that foreign exchange interventions are consistent with the inflation-targeting strategy, foreign currency purchases and sales are sterilized when necessary to stabilize the short-term interest rate at the level

that the Board of Directors of *Banco de la República* (BDBR) considers consistent with the achievement of the inflation target and the evolution of output around its potential level. This means that the effect of the monetary expansion or contraction resulting from the purchases or sales of foreign currency is offset so that the short-term interest rate does not deviate from the level prescribed by the BDBR.

When deciding to intervene in the foreign exchange market, *Banco de la República* assesses the benefits and costs for the country, as well as the impact on its own financial statements. Additionally, the volume of foreign currency purchases is determined with the aim of ensuring that the level of foreign reserves is adequate to cover the external deficit, external debt payments, and other potential capital outflows.



Fuente: https://www.banrep.gov.co/en/monetary-exchange-policies/foreign-exchange-intervention-policy