

# The Impact of Different Types of Foreign Exchange Intervention

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Discussion by

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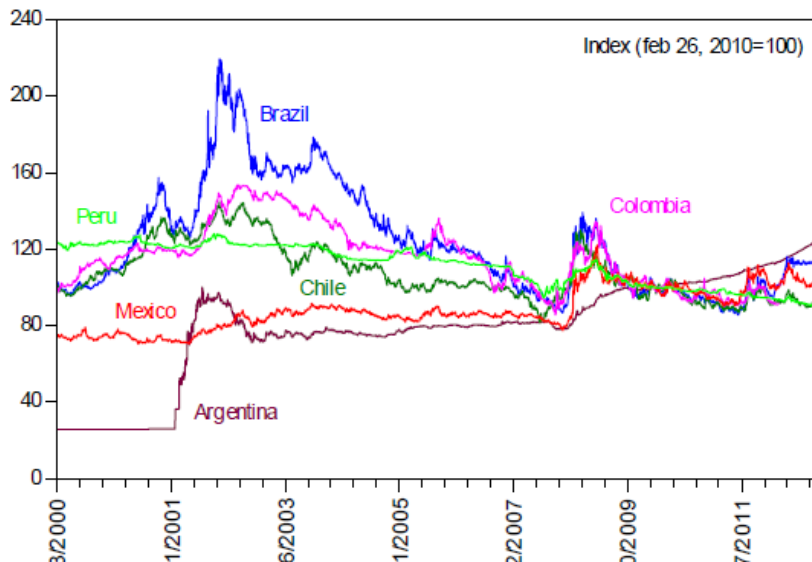
**Are dirty interventions or open, preannounced and transparent interventions better?**

**Objective of the CB: modify the future level of the exchange rate or to simply stabilize its future path?**

- (Observation 1) Different operational regimes: discretionary 2004-2007 preannounced interventions 2008-2012
- (Observation 2) Institutional arrangements: IMF Flexible Credit Lines, Capital controls 2006-2007
- (Observation 3) Regional interdependence: Comovement with Brazil - trade or financial linkages?

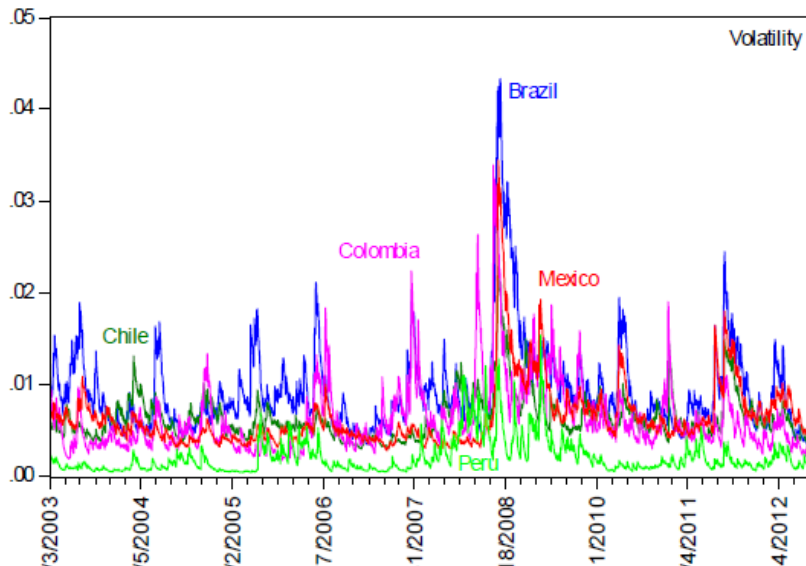
- Arguments for intervening: cross country comparisons
  - (financial stability is taken care of by FCL)
  - this leaves us with FX level and volatility
- Institutional background on sales and purchases betw. 2000-2012: Try to say something about the change in regime from discretionary to preannounced interventions
- Econometric model with a reaction function (2004-2007) and exchange rate equation (2004 2012). Testing different regimes.
- Event Study analysis: Testing different types of interventions

# Starting point: Strong appreciation trend for Brazil and Colombia



Starting point:

FX volatility appears to be the same for the two regimes



# Finding #1 Reaction function

Method	Tobit - GARCH
Dep. Var:	$(I_p^{disc})_t$
Constant	32.8118 [4.9626]***
$(I_{disc}^p)_{t-1}$	0.7136 [7,118]***
$\sum_{j=1}^{20} \Delta S_{t-j}$	-0.3958 [-1,7185]
$S_{t-1} - \bar{S}_{t-1}$	-833.8378 [-7,6926]***
$D_{net\_pos}$	-23.5185 [-0,8154]
$\pi_t - \pi^*$	-62.8904 [-7,2246]***
Observations	1000

## Finding #2 Exchange rate equation

Method:	Simultaneous Equations - GARCH			
Dep. Var:	$\Delta s_t$	$\Delta s_t$	$\Delta s_t$	$\Delta s_t$
	(1)	(2)	(3)	(4)
Constant	-0.0602 [-3.186]***	-0.0598 [-3.171]***	-0.0659 [-3.502]***	-0.0594 [-3.151]***
$(\hat{I}_{disc}^P)_t$	0.0012 [1.817]*	0.0013 [1.946]*	0.0013 [1.882]*	0.0013 [1.926]*
$I_{t-1}^{20}$	0.0044 [2.273]**	0.0042 [2.171]**	0.0046 [2.384]**	0.0041 [2.16]**
$\Delta \rho_{CDS_t}$	0.0209 [15.644]***	0.0201 [14.868]***	0.0202 [14.979]***	0.0203 [15.011]***
$\Delta i_t$	-0.00007 [-0.104]	0.00003 [0.051]	-0.00008 [-0.121]	0.00003 [0.053]
$\Delta i_t^*$	0.0025 [2.789]***	0.0024 [2.739]***	0.002 [2.205]**	0.0021 [2.306]***
$\Delta q$	0.1136 [4.699]***	0.1165 [4.825]***		0.116 [4.807]***
$\Delta S_t^{brasil}$		0.0683 [4.378]***	0.064 [4.108]***	0.0667 [4.269]***
$\Delta tax_t$			0.0061 [2.546]**	0.0055 [2.291]***

## Finding #3 Event Study - difficult to interpret

- Few observations - gets worse once we condition on specific controls
- Assume that the two intervention types are independent of each other
- Test assumes that the intervention regime exits successfully
  - Carry trade speculators may have a good run but may lose everything in the final crash
  - BoE “Black Wednesday” 16.9.1992
- Test is not risk adjusted
  - internal and external imbalances may increasing in time



## Comment #1 What questions does the paper answer?

- It only says something about the intervention regime (discretionary versus preannounced)
- However, difference between the two is not large - other factors are more important.
  - CDS risk, Brazil, U.S. interest rates, real shocks
- Unclear if the pre- post-financial crisis environment are driving the results. Greater **regional** and **international activism** in the preannouncement period.
- Paper only looks at the daily impact: no answer on whether volatility reduction is an objective. Need alternative specifications of the reaction function.

## Comment #2 Not all discretionary regimes are the same

**Table 1: Newswire reporting of SNB interventions 1989-1995 versus 2009-2010**

Newswire reporting	1989-1995	2009-2010	2009	2010
correctly reported SNB interventions	63	17	9	8
falsely reported SNB interventions	0	5	3	2
SNB no comment days	0	12	6	6
SNB no comment on intervention day	0	8	4	4
SNB no comment on non intervention day	0	4	2	2
total number of intervention days	67	47	10	37

Notes: The information in Table 1 is based on the Factiva search “SNB intervention” to identify a newswire reporting confirmed by a trader.

## Comment #3 How do the results match up with the stated objectives of *Banco de la República*?

Monetary policy strategies have been implemented within a flexible exchange rate scheme that is governed by intervention rules with the following objectives:

- To maintain an **adequate level of international reserves**
- To limit **excessive volatility** of the exchange rate in the short term
- To **moderate excessive appreciation or depreciation** of the nominal exchange rate that could **jeopardize the achievement of future inflation targets**, as well as the economy's external and financial stability

## Comment #4 Unclear how do the other operational instruments fit in?

- Capital controls are found to have a larger impact on the exchange rate than interventions
- The importance of FCL is mentioned
  - is this access seen as a sign of strength or weakness?