Foreign exchange intervention: A comparative analysis of announcements versus trades

EUROPEAN ECONOMIC REVIEW
DOI:
https://doi.org/10.1016/j.euroecorev.2025.105119
Publicado:
Martes, 19 Agosto 2025
Authors:
Freddy A. Pinzón-Puerto[e],
Mauricio Villamizar-Villegas[a]
Ver más
[e]Externo
[a]Banco de la República, Colombia
Clasificación JEL:
E58, F31, C22
Resumen:

We investigate the impact of foreign exchange intervention (FXI) distinguishing between announcements and settlement trades. Specifically, we exploit a rule-based policy enacted in Colombia that triggered the issuance of foreign currency options under specific and publicly known conditions, which we classify as announced FXI. Following the auction, traders secretly determined whether to exercise these options, provided the same rule conditions were met, thereby providing a basis for comparison. Our results indicate that, unconditionally, both intervention announcements and settlement trades yield similar effects. However, our conditional analysis reveals significant amplification of announcement effects in scenarios characterized by: leaning with the wind policies, heightened central bank credibility, and increased foreign exchange volatility. This research enhances our understanding of the nuanced exchange rate effects associated with different types of FXI and underscores the pivotal roles of central bank credibility and market volatility in shaping these effects.

Descargar documento

Lo más reciente

Geopolitical risk and emerging market sovereign risk premia
Fredy Gamboa-Estrada, José Vicente Romero
Assessing the effects of recent provisioning rules on consumer credit allocation in Colombia
Fredy Gamboa-Estrada, Diego Cuesta, Camilo Sanchez-Quinto
Settlement liquidity in the Colombian large-value payment system: the role of reserve requirements
Fredy Gamboa-Estrada, Freddy Cepeda-López, Javier Iván Miguélez-Márquez
Otras Publicaciones