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On the effectiveness of exchange rate interventions in emerging markets*

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Highlights

- On average foreign exchange interventions are effective in moving the real exchange rate in the desired direction.
- We find little evidence of asymmetries in the effect of sales and purchases.
- There is some evidence of more effective interventions for large deviations from the equilibrium.

Abstract

We analyze the effectiveness of exchange rate interventions for a panel of 18 emerging market economies during the period 2003-2011. Using an error-correction model approach we find that on average intervention is effective in moving the real exchange rate in the desired direction, controlling for deviations from the equilibrium and short-term changes in fundamentals and global financial variables. Our results are robust to different samples and estimation methods. We find little evidence of asymmetries in the effect of sales and purchases, but some evidence of more effective interventions for large deviations from the equilibrium. We also explore differences across countries according to the possible transmission channels and nature of some global shocks.

JEL-classification: F31, F37
Keywords: exchange rate; FX intervention; equilibrium exchange rate

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