

Official Foreign Exchange Intervention

**Shogo Ishii, Jorge Iván Canales-Kriljenko,
Roberto Guimarães, and Cem Karacadag**

Contents

Preface	v
I Introduction	1
<i>Shogo Ishii</i>	
II Best Practices in Official Interventions in the Foreign Exchange Market	2
<i>Jorge Iván Canales-Kriljenko, Roberto Guimarães, and Cem Karacadag</i>	
How Can Intervention Be Effective?	2
Trends in Foreign Exchange Intervention	5
Policy Issues	5
Intervention Operations	12
Conclusions	15
III Survey of Foreign Exchange Intervention in Developing Countries	18
<i>Jorge Iván Canales-Kriljenko</i>	
Prevalence of Foreign Exchange Intervention	18
Sterilized or Not Sterilized?	18
Relative Size of Foreign Exchange Intervention	20
Information Advantage	25
Conclusions	26
IV The Empirics of Foreign Exchange Intervention in Emerging Markets: Mexico and Turkey	27
<i>Roberto Guimarães and Cem Karacadag</i>	
Empirical Analysis and Evidence on Intervention	28
Policy Context of Intervention in Mexico and Turkey	30
Effectiveness of Foreign Exchange Intervention	33
Conclusions	40
Appendix	41
References	43
Boxes	
2.1. Intervention Through Options	14
2.2. Choice of Counterparties and Transparency	16
Tables	
3.1. Foreign Exchange Intervention by Exchange Rate Regime and Market Access, 2001	19

3.2. Characteristics of Foreign Exchange Intervention in Developing and Transition Economies, 2001	20
3.3. Developing and Transition Economies That Do Not Always Sterilize Foreign Exchange Intervention, by Exchange Rate Regime and Market Access, 2001	21
3.4. Magnitude of Foreign Exchange Intervention in Selected Developing and Transition Economies, 2000	22
3.5. Selected Regulations on Forward Foreign Exchange Transactions in Developing and Transition Economies, 2001	24
4.1. Turkey: Central Bank Foreign Exchange Intervention, March 2001–December 2003	32
4.2. Mexico: Descriptive Statistics	35
4.3. Turkey: Descriptive Statistics	36
4.4. Mexico and Turkey: Asymmetric Component GARCH Model Estimates	38
4.5. Mexico and Turkey: Probit Model Estimates	39
A4.1. Analytical Methodologies of Empirical Studies on Intervention Effects on the Exchange Rate	41

Figures

2.1. Intervention and Exchange Rate Impact	8
4.1. Mexico: Exchange Rate, Interest Rate, and Inflation	30
4.2. Mexico: Exchange Rate and Foreign Exchange Intervention	31
4.3. Turkey: Central Bank Intervention and the Exchange Rate, March 29, 2001–October 3, 2003	33
4.4. Turkey: Central Bank Intervention and Exchange Rate Returns, March 29, 2001–October 3, 2003	34
4.5. Turkey: Exchange Rate Trend and Volatility	34

The following symbols have been used throughout this paper:

- ... to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 2004–05 or January–June) to indicate the years or months covered, including the beginning and ending years or months; and
- / between years (e.g., 2004/05) to indicate a fiscal (financial) year.

“Billion” means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term “country,” as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.