

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.

Autor o Editor

Jose E. Gomez

Julian A. Parra

Mauricio Villamizar

Central banks in emerging countries frequently build-up (diminish) reserves while attempting to depreciate (appreciate) their domestic currencies. Even if these interventions are effective, they often entail various costs. Basu (2012), nonetheless, proposes a model in which the sole announcement of an intervention schedule leads to a desired exchange rate without actually buying or selling foreign currency. In this paper we present a generalization that allows for imperfect credibility of foreign exchange intervention. Namely, market dealers know that the central bank carries strategic incentives when announcing its schedule and may not perfectly believe it. We show that, under this setup, it may be impossible for central banks to achieve the desired exchange rate level without changing their position of international reserves.

The series Borradores de Economía is published by the Economic Studies Department at the Banco de la República (Central Bank of Colombia). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.