The Impact of Pre-announced Day-to-day Interventions on the Colombian Exchange Rate

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The adoption of a managed regime assumes that interventions are relatively successful. However, while some authors consider that foreign exchange interventions are ineffective, arguing that domestic and foreign assets are close substitutes, others advocate their use and maintain that their effects can even last for months. There is also a lack of consensus on the related question of how to intervene. Are dirty interventions more powerful than pre-announced ones? This paper compares the effects of day-to-day interventions with discretionary interventions by combining a Tobit-GARCH reaction function with an asymmetric power PGARCH(1,1) impact function. Our results show that the impact of pre-announced and transparent US$ 20 million daily interventions, adopted by Colombia in 2008–20–12, has been much larger than the impact of dirty interventions adopted in 2004–2007.We find that the impact of a change in daily interventions (from US$ 20 million to US$ 40 million) raises the exchange rate by approximately Col $2, implying that actual interventions of US$ 1,000 million increase the exchange rate in one day by 5.50%. We also find that capital controls have a positive effect.

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