Borrador número 893

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. 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.

AUTHOR OR EDITOR

Yasin Kursat Onder Mauricio Villamizar

AUTHORS AND/OR EDITORS

Yasin Kursat Onder

Many central banks that have opted for monetary autonomy have also been reluctant to relinquish

control over the value of their currencies. As a result, they have operated through both interest rate and foreign exchange interventions. However, in the context of the monetary trilemma, both effects can potentially offset each other. Using daily data from the Central Bank of Turkey during the period of 2002 - 2010, we study the effects of simultaneous policies by first purging the intended monetary decisions from responses to real-time macroeconomic variables, and then determining their impact on economic activity. We find that the Central Bank of Turkey adjusted its policy rate mostly in response to inflation levels relative to both the yearly target and agents' expectations, and conducted purchases and sales of foreign currency in response to exchange rate behavior. These responses varied depending on whether interventions were pre-announced. We also find that unannounced purchases of foreign currency had a significant effect in reducing exchange rate volatility but appeared to have no effect on exchange rate changes. On the other hand, changes in the policy rate significantly affected inflation but had no discernible effect on output growth.

Update 04:04 a.m., 30/11/2016