International Reserve Policy and Effectiveness of Sterilized FX Intervention in Colombia

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Publication Date: Wednesday, 31 of July 2019 ABSTRACT
Two FX policy issues are discussed based on the recent Colombian experience. First, the increased participation of foreign investors in local bond markets since 2014 induced a reassessment of international reserve adequacy. We present the resulting LCR-type methodology to evaluate adequacy, together with a brief description of the international reserve management strategy in Colombia. Second, we shed some light on the debate regarding the effectiveness of sterilized FX intervention, showing that exchange rate effects depend on the “flimsiness” of exchange rate expectations or their fundamental determinants. To support this, we provide both empirical and theoretical evidence.

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