

Discussion:  
When is foreign exchange intervention effective?  
Evidence from 33 countries  
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# Structure of discussion

- Summary (Praise)
- Comments
  - 1 International coordination
  - 2 Theory
  - 3 Signaling game

# Summary

- What a comprehensive study!
  - ▶ Official intervention: 33 central banks: “The countries which we approached...” for 1995-2011
  - ▶ Communication: Factiva also for official and rumor
  - ▶ Other characteristics such as
    - ★ exchange rate regime
    - ★ size
    - ★ direction
    - ★ volatility
    - ★ sequence
    - ★ macroeconomic condition

# Main (out of many) conclusion

- Effectiveness is measured by four criterion: “Event”, (“Direction”, ) “Smoothing”, and “Stabilization”
- Unconditional
  - ▶ “more than 60% of FX interventions are successful at moving the exchange rate in the intended direction”
  - ▶ “Smoothing is successful in 88% of cases”
  - ▶ “managing to keep the exchange rate within the narrow band in about 84% of intervention episodes”
- Conditional
  - ▶ “intervention effectiveness is systematically determined by several plausible characteristics”
    - ★ in floating regimes: with large volumes
    - ★ in broad band regimes: in more volatile periods
    - ★ in narrow bank regimes: at very high exchange rate volatility

# Main (out of many) conclusion cntd

- Communication
  - ▶ “more effective at moving the exchange rate if they are noticed by markets”
  - ▶ “central bankers’ communication is taken particularly seriously by markets in volatile phases”
- Robustness
  - ▶ Identification issues such as endogeneity of FX intervention, coordination with monetary policy, and coordination with capital control are considered
  - ▶ 25 tables are shown in addition to 8 tables in the main text in the appendix
- This paper will serve as the must-read article for studies on FX intervention!

## Comment: International coordination

- If FX intervention is always effective, what happens if two countries simultaneously intervene FX markets toward different directions or with different motives (direction vs stabilization)?
  - ▶ There should be the case when intervention is ineffective
  - ▶ As analyzed in this paper, FX intervention is a conditional event
    - ★ Conditionality (endogeneity) is considered but not fully
    - ★ Propensity score matching only enables us to understand what if there had not been intervention when there were
    - ★ Understanding when FX intervention is ineffective seems also important since the title of the paper is “When is foreign exchange intervention effective?”
  - ▶ **Conditions in counterpart country may also be important factors**
  - ▶ This issue is also related to “n-1 (redundancy) problem”

## Comment: International coordination ctnd

- How are interventions synchronized among different (especially emerging) countries?
- Are interventions more effective when coordinated (intentionally or unintentionally) with other countries?
  - ▶ Success seems to be dependent on how other similar countries intervene the markets, especially when the international financial markets are highly volatile

## Comment: International coordination ctnd

- A bit related issue is **whether there is a difference in the effectiveness of FX intervention between pre-GFC and after-GFC?**
- There may have existed some synchronization of FX intervention.



## Comment: Theory

- “we are mindful that our reduced-form regressions do not allow us to precisely disentangle the different channels of FX intervention”
  - ▶ Channels through signaling and portfolio rebalance are raised as possible candidates
  - ▶ This paper will stimulate further discussions on the theory behind the effectiveness of sterilized intervention
- FX intervention can have real impacts following “capital control as dynamic terms of trade manipulation” by Costinot, Lorenzoni and Werning (JPE2014) and Farhi and Werning (IMFER2014)
  - ▶ Capital control can be used as stabilization policy to alleviate the distortions stemming from externality
  - ▶ Davis, Fujiwara, Huang and Wang (2018) show the conditions for the equivalence between FX intervention and dynamic capital control tools such as tariffs and taxes considered in the previous paper
  - ▶ **FX intervention is used for active capital control**

## Comment: Signaling game

- “As we are only using actual interventions in these estimations, the oral interventions we analyze here always go hand in hand with actual activity”
- Analysis on the oral interventions without actual activity will be very intriguing
- In a Perfect Bayesian Nash equilibrium of the signaling game *a la* Spence (1974) or the cheap-talk game *a la* Crawford and Sobel (ECMA1982), there can be multiple equilibria: separating and pooling equilibria
  - ▶ In *separating* equilibrium, actions are different by message
  - ▶ In *pooling* equilibrium or *babbling* in cheap talk, actions are indifferent by message and information is not used
- **Statistical evaluation of the cheap-talk or signaling game seems possible with this data set**
  - ▶ This should have huge implication for communication policy including forward guidance
  - ▶ Bayesian priors can be also computed as unconditional moments