



IS FX POLICY COMMUNICATION EFFECTIVE? EVIDENCE FROM EMERGING MARKETS

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September, 2023

MOTIVATION

- Communication has become an important part of economic policy. FX announcements (PR and news).
- Empirical evidence of FX announcements having an impact on the exchange rate level or volatility in AEs
- Evidence concerning this impact in EMEs remains largely unexplored.



WHAT AND HOW?

- Examine evidence regarding the effectiveness of FX communication in MX and COL (2000-2019)
- FX communication: press releases and unofficial statements (news) by economic authorities (signalling weakening or strengthening intention)
- Through a study-event approach (calendar-portfolio method).



HOW (METHOD)?

- We group communications into events, depending on the days between them, $x=\{2, 5, 10, 15\}$.

Table 1. Events in Colombia and Mexico

		Colombia		Mexico	
		Weaken	Strengthen	Weaken	Strengthen
$x=2$	(1)	109	16	8	24
	(2)	1.28	1.00	1.00	1.12
$x=5$	(1)	91	16	8	22
	(2)	1.53	1.00	1.00	1.22
$x=10$	(1)	71	16	8	21
	(2)	1.97	1.00	1.00	1.28
$x=15$	(1)	62	16	8	20
	(2)	2.25	1.00	1.00	1.35

Note: (1) is the number of events; (2) is the average length of the event.



HOW (METHOD)?

- Different pre-event windows to calculate the expected level of the FX, $c=\{2,5,10,15\}$.
- Different post-event windows to check if there is significant and persistent impact $k=\{2,5,10,15\}$.
- We check for the statistical significance of α in the following regression:

$$e_k^i - \bar{e}_k^i = \alpha + \beta X + \mu_k$$



HOW (METHOD)?

- We control for some risk factors X:

Table 2. Variable Definitions

Variable	Unit	Source
CB Policy Rate	Percentage Points	Central Bank
5-year CDS	Index	Bloomberg
VIX	Index	Bloomberg
Intern. Reserves	USD (millions)	Central Bank
GBI	Percentage Points	Bloomberg
FF Effective Rate	Percentage Points	Federal Reserve
PCOMM	Index	Bloomberg
LA Common Factor	Index	Gamboa and Romero (2022)
FX net purchase	USD (millions)	Central Bank



RESULTS

Table 3. Effect of FX Communications on the Exchange Rate Level

Number of regressions (of a total of 16 for each specific criterion) where the constant term exhibits statistical significance at a 95% confidence level.

	Colombia		Mexico	
	Weaken	Strengthen	Weaken	Strengthen
x2	16	0	13	0
x5	16	0	13	0
x10	16	0	13	0
x15	16	0	13	0
k2	16	0	12	0
k5	16	0	8	0
k10	16	0	16	0
k15	16	0	16	0
c5	16	0	12	0
c10	16	0	16	0
c15	16	0	12	0
c20	16	0	12	0



CONCLUSION

- We find an asymmetric effect of FX communications (strong evidence for weakening, and no evidence for strengthening)
- There is previous evidence of asymmetric reaction of FX to macro news or verbal interventions (e.g., Jansen & De Haan)
- We believe this is related to credibility (market perception of fear of appreciation)

