Presentation #8: The effectiveness of foreign-exchange interventions

Since the launch of the euro, the ECB has very seldom intervened on the foreign exchange market, despite large swings of the euro exchange rate. The Federal Reserve also refrains from intervening on the market. In contrast, Japan has extensive experience of foreign-exchange interventions. During the recent financial crisis, however, the G7 has carried out coordinated interventions on several occasions. Recently, Switzerland has been successful in stopping the appreciation of the Swiss franc through official interventions.

Issues for discussion

- What are the motivations for official interventions on the foreign-exchange market? Do they differ across central banks? Do they depend on circumstances?
- What are the channels of foreign-exchange interventions?
- What is foreign-exchange effectiveness regarding the different motivations? In what circumstances is effectiveness enhanced? Explain how effectiveness can be assessed empirically.
- To what extent can «oral interventions», i.e. speeches and interviews by senior officials, support foreign-exchange interventions, or even, substitute to them?

Indicative references (the most recommended readings are denoted by a star)

1. Motivation of interventions

2. Effect of interventions


### 3. Oral interventions
