FX Interventions Rules for Central Banks
A Risk-Based Framework

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The views expressed in this presentation do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Key Messages

Foreign Exchange intervention rules should

- Depend on market conditions

- Objective, be anchored to a risk tolerance level rather than an aribtrary FX level threshold

- Capture FX non-linearities and asymmetries between appreciation and depreciation

- Be forward-looking

- Be easily operationalizable

We propose an FX intervention rule based on **Conditional Value at Risk**

Regression Table

	Constant	Microstructure	CIP	FXI	Baseline	Robustness
Intercept	1.09	-2.16	2.15	1.67***	1.63	1.64***
Lag FX log returns	0.09***	0.08***	0.08***	0.08***	0.08***	0.08***
Bid-ask spread abs value		0.11**	0.15***	0.14***	0.15***	0.15***
Forward points first difference		0.32***	0.32***	0.32***	0.27***	0.27***
Interbank rate vs Libor			-1.11***	-0.98***	-1.02***	-1.03***
FX intervention in USD lag				0.04	0.04	
VIX first diff					9.78***	9.79***
EURUSD log returns					0.13***	0.13***
FX intervention dummy lag						4.13
Omega	0.15***	0.14***	0.13***	0.13***	0.14***	0.14***
Alpha	0.17***	0.19***	0.18***	0.18***	0.19***	0.19***
Gamma	0.06***	0.06***	0.06***	0.05***	0.05***	0.05***
Beta	0.98***	0.98***	0.98***	0.99***	0.98***	0.98***
Nu	8.81***	9.11***	9.18***	9.15***	7.77***	7.77***
Lambda	0.13***	0.11***	0.12***	0.12***	0.1***	0.1***
R2	0.4 %	4.9 %	5.1 %	5.1 %	14.3 %	14.3 %
R2 adjusted	0.4 %	4.8 %	5.0 %	5.0 %	14.2 %	14.1 %
Number of observations	4511	4511	4511	4510	4510	4510
Significance *10%, **5%, ***1%						

Dynamics of the Mexican Peso against USD

Historical FX level

Historical FX returns

Historical FX returns distribution