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Abstract

In the last two decades, the Banco de la República de Colombia has assiduously intervened in the foreign exchange market, except in the last 5 years. The objectives are to accumulate international reserves, reduce excess of exchange rate volatility and moderate deviations of the exchange rate with respect to its trend. This article assesses the magnitude and duration of the exchange rate impact of the different types and instruments of foreign exchange intervention and derives policy implications. The most important results are: First, the transmission channels of exchange rate policy act to a certain degree and under certain conditions. Second, the different types of intervention or instruments have little or no impact on the exchange rate and are short-lived. Third, there is no evidence that oral intervention has any exchange rate effect. Fourth, the structure of the foreign exchange market impacts the transmission of the intervention through its degree of liquidity. Fifth, the initial conditions of the economy and the type of shock it experiences influence the size, duration, and degree of transmission of the intervention. The most important policy implication is that floating exchange rate, as has happened in recent years, is the right policy.