

The transparency of the ECB policy: What can we learn from its foreign exchange market interventions?

Michael Frenkel^a, Christian Pierdzioch^b, Georg Stadtmann^{a,c,*}

^a *Department of Economics, WHU Koblenz, Burgplatz 2, 56179 Vallendar, Germany*

^b *Saarland University, Department of Economics, Macroeconomics and International Economics, 66123 Saarbruecken, Germany*

^c *Institute for Development Strategies, Indiana University, Bloomington, USA*

Received 1 March 2004; received in revised form 1 August 2004; accepted 1 April 2005
Available online 1 September 2005

Abstract

In the fall of 2000, the European Central Bank (ECB) conducted several foreign exchange market interventions in order to reverse the depreciation trend of the euro. In this paper, we compare the actual information and communication policy of the ECB with the transparency requirements of major approaches explaining how interventions can affect the exchange rate. The analysis points to several inconsistencies which can be interpreted as reasons for the relative ineffectiveness of the ECB interventions.

© 2005 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

JEL classification: F31

Keywords: European central bank; Transparency; Foreign exchange market interventions

1. Motivation

One of the most important lessons that monetary authorities have learned through this process of analysis and experimentation is that there is no virtue or advantage in vague policy objectives and complex operating procedures [. . .]. Monetary policy does not need to be cloaked in secrecy

* Corresponding author. Tel.: +49 261 6509 273; fax: +49 261 6509 279.

E-mail address: stadtman@whu.edu (G. Stadtmann).

or artificial intricacies to be effective. What is needed to get the job done are one clear objective and one simple instrument.

Gordon Thiessen

Governor of the Bank of Canada, October 2000

Central banks have often tried to manage foreign exchange rates through foreign exchange market interventions. Even after the Bretton Woods System had broken down in the early 1970s and a system of floating exchange rates had been established, exchange rates were not determined by market forces alone but also by the actual or anticipated foreign exchange interventions of major central banks like the U.S. Federal Reserve, the Bank of Japan, or the Deutsche Bundesbank. Mundell (2000), who favors a more stable currency triplet euro–yen–dollar, argues that a step in the right direction would be a policy of intervening in the foreign exchange markets. The European Central Bank (ECB) indeed tried to manage exchange rates by stepping into the foreign exchange market. Confronted with significant and lasting depreciation pressure on the euro in the fall of 2000, the ECB tried to influence the dynamics of the external value of the common European currency (euro) by intervening in the foreign exchange market by selling foreign exchange reserves. On 14 September 2000, representatives of the ECB informed the public that the ECB sold the equivalence of 2.5 billion euros of interest revenues from foreign assets denominated in U.S. dollars as well as Japanese yen “in order to maintain the structure and risk profile of the ECB’s balance as it was at the beginning of 1999” (ECB, 2000a).¹ Being concerned about a strong U.S. dollar reaching a new historical high against the euro, the ECB intervened again in the foreign exchange market on 22 September 2000. This intervention was coordinated with the Federal Reserve, the Bank of Canada, the Bank of Japan, and the Bank of England.² Further interventions with the intention to support the external stability of the euro were initiated solely by the ECB on 3, 6, and 9 November 2000.³

Whenever central banks intervene in the foreign exchange market, they usually sterilize the impact of these operations on the monetary base. Given this practice of sterilization, the question arises as to how such sterilized interventions can affect exchange rates. As a major model describing how sterilized foreign exchange market interventions may affect exchange rates, the so-called signaling model has been discussed extensively in the academic literature (Ghosh, 1992; Edison, 1993; Kaminsky & Lewis, 1996; Fatum & Hutchison, 1999). From the viewpoint of central bankers seeking to make their sterilized foreign exchange market interventions as effective as possible, the most important result of the model is that it has specific implications regarding the degree of transparency of monetary policy. In this paper, we argue that a comparison of the actual information and communication policy of the ECB with the transparency requirements of the signaling model provides important insights with respect to the question why the foreign exchange market interventions of the ECB have been found in empirical studies to be relatively ineffective in breaking the prevailing exchange rate trend of the euro (see Frenkel, Pierdzioch, &

¹ However, some ECB watchers already called this action an intervention. For example, *The Economist* (2000) wrote: “that last weeks intervention by the ECB (if intervention it was) failed to buy the euro was therefore no surprise. To take the second point first, intervening whilst simultaneously denying it is not exactly a clear signal.”

² Gros (2000) regards the September interventions of the ECB as unsuccessful. “The result of last month’s orchestrated central bank intervention in support of the euro has been disappointing to say the least: after an initial rebound, the single currency has sunk below the level at which intervention took place.”

³ Salvatore (2002, p. 133) gives an overview of the development of the external value of the euro since its creation against the U.S. dollar and the yen. He summarizes the effectiveness of the November interventions as follows: “at the beginning of November 2000, the European Central Bank intervened again several times (but alone) in foreign exchange markets in support of the euro, but to no avail.”

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات