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Journal of
INTERNATIONAL
FINANCIAL
MARKETS,
INSTITUTIONS
& MONEY

Int. Fin. Markets, Inst. and Money 14 (2004) 25–36

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The accuracy of press reports regarding the foreign exchange interventions of the Bank of Japan

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Received 1 May 2002; accepted 4 March 2003

Abstract

This paper presents evidence on the accuracy of press reports regarding the foreign exchange market interventions conducted by the Bank of Japan (BoJ) between January 1995 and December 1999. We find that the reports of interventions in the financial press are a relatively inaccurate indicator for the actual interventions of the BoJ. We also find that the accuracy of press reports of BoJ interventions is higher for those interventions that were carried out jointly by the BoJ and the Federal Reserve.

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JEL classification: F31; F33; G14

Keywords: Foreign exchange market; Central bank intervention; Bank of Japan

1. Introduction

A substantial body of research in the international finance literature has analyzed the effects and the effectiveness of foreign exchange market interventions of central banks. This research has not only broadened our knowledge of how central bank interventions affect the level and the volatility of exchange rates but has, thereby, also yielded important insights into how foreign exchange markets work.

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A prerequisite for undertaking such research is the availability of high-quality intervention data. With respect to the largest economies and the most important currencies worldwide, intervention data, until recently, were made available to researchers only by the Federal Reserve (Fed) and the Deutsche Bundesbank. In contrast, the Bank of Japan (BoJ) did not release official data on its foreign exchange market interventions.¹ As a consequence, researchers who tried to analyze the interventions of the BoJ had to use intervention reports in the financial press to identify BoJ intervention days without knowing how accurate these intervention reports were (see Dominguez, 1998; Ramaswamy and Samiei, 2000). In the academic literature, there is remarkably little empirical evidence on the accuracy of press reports of central bank interventions. Empirical studies addressing this issue are only available for press reports of Bundesbank and Fed interventions (see Dominguez and Frankel, 1993; Klein, 1993; Osterberg and Wetmore-Humes, 1993).

In this paper, we go beyond earlier studies of the accuracy of intervention reports in the financial press by assessing the accuracy of press reports of BoJ foreign exchange market interventions. To this end, we use the fact that the BoJ recently changed its information policy and released a comprehensive dataset on its interventions in foreign exchange markets.² This dataset has not yet been used to study the accuracy of press reports of BoJ interventions. Comparing the data on actual BoJ interventions with reports of BoJ interventions published in the financial press during a period from 1995 to 1999, we find that press reports are a relatively inaccurate indicator of the actual interventions of the BoJ. Furthermore, our results suggest that the accuracy of press reports of BoJ interventions is higher for interventions that the BoJ carried out jointly with the Fed.

We organize the remainder of the paper as follows. In Section 2, we use our new dataset to provide some descriptive statistics of the actual BoJ and Fed foreign exchange market interventions during the period 1995–1999. This is the period for which we assess the accuracy of reports of BoJ interventions published in the financial press. In Section 3, we analyze in detail the link between the actual and the reported BoJ interventions in the foreign exchange market. In Section 4, we supplement this analysis by estimating a statistical model to test for systematic differences between the actual and the reported BoJ interventions. In Section 5, we offer some concluding remarks.

2. The actual interventions of the BoJ and of the Fed

To assess the accuracy of press reports of BoJ interventions, we use a recently released dataset on the foreign exchange market interventions of the Bank of Japan (2002). This dataset contains daily data on the foreign exchange market interventions of the BoJ

¹ In Japan, the jurisdiction over deciding on whether or not to intervene in the foreign exchange market rests with the Japanese Ministry of Finance. The Bank of Japan conducts transactions as an agent of the Ministry of Finance. See Ito (2002) for a discussion of the institutional details.

² In July 2001, the Japanese Ministry of Finance published daily official intervention records covering the period from 1991 to 2001. The data can be downloaded from the internet page of the Japanese Ministry of Finance. We provide the address of this internet page in our list of references. This page is in English. The dataset is publicly available (i.e., no password or ID number is required to download the data).

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