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FX interventions in Brazil: a synthetic control approach*

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Abstract

In the aftermath of the Taper Tantrum, the Central Bank of Brazil announced a major program of sterilized foreign exchange intervention. We use a synthetic control approach to estimate its impact on the level and volatility of the exchange rate. Our counterfactual results, based on the experience of other emerging markets, indicate the program led to an appreciation of the Brazilian real in excess of 10 percent. Some of our estimates also point to a decline in the option-implied volatility. A second announcement extending the program had more muted effects, and subsequent extensions had little or no impact.


Keywords: FX interventions; synthetic control; sterilized exchange rate interventions; FX derivatives; Brazil.

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