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DAILY CURRENCY INTERVENTIONS IN EMERGING MARKETS: INCORPORATING RESERVE ACCUMULATION

Abstract:

This study considers international reserve management motivation of emerging market central banks in foreign exchange market interventions. Emerging market central banks use currency intervention as a policy tool against exchange rate movements and accumulate international reserves as an insurance against sudden-stops in capital flows. To account for both of these motivations, a model of infrequent interventions only with exchange rates is extended to include international reserves-to-gross domestic product (GDP) ratio at the daily frequency. Daily values of the ratio are forecast using the Mixed Data Sampling (MIDAS) model and exchange rate returns. The model is estimated by using the floating exchange rate regime period data of Turkey. Compared with the benchmark model, it is shown that the MIDAS model does a better job in the forecasting of the reserve-to-GDP ratio. In addition to that, there are breaks in the interventions policy in Turkey, and the extended intervention model performs better than the model only with exchange rates especially in predicting purchases of US Dollar.

Keywords:

currency intervention, international reserves, emerging markets, Turkey, mixed data sampling

JEL Classification: F31, E58, G15