Abstract

Japanese monetary authorities used to employ various intervention techniques to adjust the level of the dollar/yen exchange rate and reduce its volatility. Application of the GARCH-in-mean model for estimation of the effect of these operations demonstrates that depreciating interventions reduced volatility effectively from 1995 until 2002. Frequent interventions of the small scale had a tendency to increase volatility during period 1991-1995. Foreign exchange interventions conducted by US Fed have increasing, means negative, effect, on the conditional variance. Frequent interventions of the great scale do not affect the volatility; it is determined mostly by the persistent level of the conditional variance from the latter periods. Recent interventions conducted by the Bank of Japan after the financial crisis do not show any considerable effect on both the volatility and the level of the exchange rate.