Central Bank Independence and Foreign Exchange Policies in Latin America

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The purpose of this paper is to analize the links between central bank independence and foreign exchange policies, in the light of the recent experience of the major Latin American countries. To that end, the paper stars with a brief review of the literature on the subject. The second section on the paper deals with the different structures or models of central bank and foreign exchange management adopted in Latin America. The third and central part sets up an analytical model which describes the objective function of the authority and derives the expected inflation path for each type of Latin- American central bank model. The paper ends with a section of monetary games illustrating the conflicts that arise between the Government and an independent central bank, when the monetary and foreign exchange policies are not controlled by the same authority.