comprising of the US dollar, the German mark and the Japanese yen (with weights equal to 50%, 30% and 20%, respectively). A 10% wide band is added on either side of the fixed parity. Thus, the Chilean exchange rate policy represents a target-zone regime. In the pure form of this regime, the central bank supports the price of the currency only at the boundaries of the zone. In the Chilean case, however, the central bank also intervenes in the foreign exchange market to control the intra-zone movements of the exchange rate. Thus, the exchange rate policy in Chile could also be described as a "dirty float" or managed flexible exchange rates.

4.2. Assessment of Capital Controls in Chile

Capital controls, especially the deposit requirement, are maintained in Chile with the main purpose of stabilizing the value of Chilean peso.[19] We first briefly examine how successful Chilean capital controls are likely to be in attaining this goal.

Restrictions on capital flows are designed to introduce a wedge in the interest parity relation and thus discourage speculative capital flows. Short-term capital inflows in Chile have, in fact, decreased in the period following the introduction of the deposit requirement (since 1991).[20] A part of this decrease could, however, represent a diversion of speculative inflows to unofficial channels.[21] In any case, there was not much inducement for speculation in this period as expected changes in the value of the peso do not appear to have been large.

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[19] An appropriate and **a stable level of the real exchange rate is considered a key variable for Chilean economic development strategy** of promoting and diversifying exports; see Eduardo Aninat U. and Christian Larrain P., "The Flow of International Capital: Lessons from the Chilean Experience", draft (Santiago, Chile, June 12, 1995).

[20] See, for example, Raul Laban and Felipe Larrain B., "The Chilean Experience with Capital Mobility", in Barry P. Bosworth, Rudiger Dornbusch, and Raul Laban (eds.), **The Chilean Economy: Policy Lessons and Challenges**, Washington, D. C.: The Brookings Institution, 1994, 117-163.

[21] For a discussion of such channels commonly used in Chile, see Ricardo Ffrench-Davis, Manuel Agosin and Andras Uthoff, "Capital Movements, Export Strategy, and Macro-economic Stability in Chile", in Ricardo Ffrench-Davis and Stephany Griffith-Jones (eds.), **Coping with Capital Surges: The Return of Finance to Latin America**, Boulder, Colorado: Lynne Rienner Publishers, 1995, 99-144.