- foreign investors are required to maintain deposits (***encaje***), without any interest payments, equal to 30% of (the external credit portion of) their investment or pay an equivalent financial cost (through an alternative arrangement); and

- repatriation of capital is allowed only after one year.

Both of these restrictions impose an extra cost on investment in Chile. The cost of the deposit requirement depends on the interest rate and (expressed as a rate per unit of time) decreases with the length of the investment. The repatriation restriction, on the other hand, involves giving up the option to sell assets of the investment and repatriate funds before one year. The deposit requirement in practice also functions as a tax instrument on investment and generates revenue for the Government of Chile.

Foreign direct investment (in excess of US$25,000) in Chile can be made under Foreign Investment Statute Decree Law 600 (DL 600) which provides some favourable terms for such investment. Inflows under DL 600, however, are subject to the same deposit requirements and repatriation restrictions as those under Chapter XIV. Two types of portfolio investments are exempted from the deposit requirement. These are:

- investment (over US$25 million) in stocks of a number of Chilean companies listed on New York Stock Exchange through American Depositary Receipts (ADRs); and

- investment (over US$1 million) in Chilean Investment Funds to be sold outside Chile.

ADRs are exempt from any repatriation restriction, while a 5-year repatriation restriction applies to the investment funds.[18]

Since July 1992, the Chilean peso has been pegged to a basket of currencies

[18] For further details of these regulations see "Foreign Investment Regulation in Chile (as of April 1, 1996)", Department of Finance, International Economic Relations Division, Draft.