Chile
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I. PURCHASE OF FOREIGN DEBT

The following is a summary of recent developments in the banking industry and foreign investment in Chile.

In May 1985, the Chilean government issued Chapters XVIII and XIX of the Exchange Control Rules, authorizing purchase of Chilean foreign debt, to be exchanged for pesos and used for certain purposes. The purpose of the new rules were to pay debts or to acquire stock, fixed assets, or assets received in payment or by foreclosure, or to finance new investments in Chile. Should the rule be used to finance new investments, the investment must be approved by the Central Bank. The capital cannot be remitted abroad in less than ten years, and no profits can be remitted in the first four years, after which a maximum of twenty-five percent of those profits can be remitted annually.

One advantage of the system is that the debt is acquired at a discount (generally thirty percent) and then used to acquire pesos, at the official rate, for the full face value of the debt.

Anyone acquiring the foreign debt may obtain the peso equivalent by selling the notes to a Chilean Bank. The Central Bank controls the amount of the notes that Chilean banks can take under this system, and places a limit of approximately twenty million dollars per month. The Central Bank has estimated that 236 million dollars of the foreign debt has been purchased under this system during the last six months of 1985. Of this, about 115 million dollars was purchased to pay debts or to acquire new assets, and 121 million dollars to finance new investments.

II. REDUCTION OF MINIMUM FOREIGN INVESTMENT AMOUNT

The Foreign Investments Committee reduced from $100,000 to $25,000 the minimum amount of foreign investment that may be brought in under the Foreign Investments Law, with its attendant rights such as of remittance of capital and profits.
III. FOREIGN CURRENCY FUTURES CONTRACTS

Effective on January 1, 1986, the new Chapter XXIII of the Summary of Foreign Exchange Rules (Compendio de Normas de Cambios Internacionales) allows foreign currency futures contracts to be made with banks, in certain foreign contracts. The futures contracts must have maturity periods of not less than fifteen days and no more than one hundred and eighty days. However, contracts made between banks have no minimum period. Certain limits are imposed on banks controlling the extent to which they may enter into such contracts. For example, the total amount of foreign currency subject to such contracts made with a particular bank may not exceed that bank's paid capital and reserves. The value of the contracts for the sale of foreign currency also must not exceed the value of contracts for the purchase of the same currency by more than ten percent or US$ 500,000, whichever is greater.

IV. NORMALIZATION OF THE BANKING SYSTEM

Normalization of the banking system occurred following the intervention of the country's major private banks on January 13, 1983. Banco Colocadora Nacional de Valores, one of the two banks in the Cruzat-Larrain group that intervened for normalization, will be consolidated with Banco de Santiago. The principle features of the normalization process are an increase in the capital of the intervening banks, the sale of the banks' stock to the general public, and an eventual end to the provisional administration of the banks and their return to private hands. This process has already been advanced in two of Chile's largest banks, Banco de Chile and Banco de Santiago.

V. PESO-DOLLAR EXCHANGE

In mid-February, the official exchange rate was approximately 183 pesos to the dollar; the parallel rate was 204 pesos to the dollar. The government's exchange rate policy, since 1983, has been to devalue the peso gradually against the dollar at a rate equivalent to the Chilean rate of inflation minus the external rate of inflation. However, in 1986, the peso has apparently been devalued less than the formula requires. The Central Bank has presumably devalued the peso less in order to reduce the inflationary impact of the devaluation. However, sources at the Central Bank suggest that the
reason for the lesser rate of devaluation is the dollar's decline in value against other foreign currencies.

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