

RECENT AMENDMENTS TO CAPITAL MOVEMENTS CIRCULAR OF TURKEY

Central Bank of Turkey introduced new rules, one of which enables revolving loans denominated in foreign currency to be utilized by Turkish residents under certain conditions.

On December 25 and 26, 2018, Central Bank of the Republic of Turkey (“**CBRT**”) has consecutively published amendments on the Circular on Capital Movements (“**Circular**”) with respect to renewal of foreign currency loans (“**FX Loans**”), FX Loans that are exempted from the FX income criteria and FX revolving loans. With the recent versions of the Circular, the following amendments have entered into force:

- The restructuring benefits or similar benefits granted by the banks and financial institutions in favor of the borrower, who fails or expected to fail to satisfy its obligations arising from FX Loans towards the aforesaid entities only due to its financial troubles, will not qualify as renewal of the FX Loans in accordance with Decree No. 32. Before this amendment, banks were stated as the only lender covered under this rule whereas this is broadened with the recent amendment by including the financial institutions into the scope of the same rule.
- With a new provision adapted to the Circular, Turkish residents are now permitted to utilize FX revolving loans on abroad for their transactions and/or business outside of Turkey, which fall under the scope of “*Loans Eligible to be Utilized without Bringing to Turkey*” under the Circular,

provided that such loan shall be repaid outside of Turkey with the income gained from transactions and/or business outside of Turkey and there is not any fund and/or resource transfer from Turkey for such loan's repayment purpose. It is further stated that such income gained from transaction and/or business outside of Turkey which is utilized for the repayment of the aforementioned FX revolving loans, may not be declared as "FX Income" to the respective authorities in Turkey.

- FX Loans and financial leasing transactions engaged by Turkish residents who are eligible to provide FX Loans through their investment incentive certificates as well as for the purpose of financing of certain machines and tools listed in the Decree on the VAT Rates Applicable to Goods and Services, are exempted from the FX income criteria for providing those FX Loans. With this amendment, financial leasing transactions are also brought into the scope of the rule.

Conclusion

With the current amendments, CBRT loosened the ban on FX revolving loans and allowed Turkish residents to provide FX revolving loans for the purpose of financing their transactions and/or businesses outside of Turkey only if such loan is repaid on abroad and also, broadened the scope of the exemption from FX income requirement for certain types of FX Loans.

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