



Update Turkey Desk

March 2018

Aggravated Borrowing Conditions for Turkish Borrowers

Aggravated conditions for Turkish borrowers' FX loans – New challenges for Turkish borrowers

Early in 2018 the Turkish Council of Ministers has approved the recent proposal of the Undersecretariat of Treasury (*Hazine Müsteşarlığı*) to amend the Decree No. 32 on the Protection of the Value of the Turkish Currency (“**Decree No. 32**”) and published this in the Official Gazette (*Resmi Gazete*) of 25 January 2018. The amendments will enter into force on 2 May 2018.

Contrary to the present legal environment, borrowing activities of Turkish borrowers (resident individuals or legal persons) in foreign currency (such as in US Dollar or Euro) will be subject to more strict conditions. Especially those Turkish companies which finance their businesses in other currencies than Turkish Lira but do not generate sufficient or any FX revenues will be facing practical difficulties. Borrowing activities of Turkish borrowers from – for example – German lenders will become considerably restricted.

Turkish companies will be permitted to borrow in foreign currency (such as in US Dollar or Euro) only if they also generate foreign currency revenues. If a Turkish legal entity generates foreign currency revenues and has an outstanding loan balance of less than USD 15 million at the date of the loan utilisation, the total of the borrower's existing loan balance and the FX loan planned to be utilised must not exceed the foreign currency revenues of the last three years. If this threshold is exceeded, the excess will be called back or converted into a Turkish Lira loan.

Certain exceptions to the new rules have also been introduced. Especially the following persons will continue to

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FX Loans of Legal Entities: Conditions

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be eligible to borrow foreign currency loans without being subject to the new limitations:

- (i) Public institutions, banks, financial leasing companies and financing companies
- (ii) Legal entities with an outstanding cash loan balance of USD 15 million or more at the day of utilisation
- (iii) Legal entities with investment incentive certificate
- (iv) Foreign currency loans for certain machinery and equipment
- (v) Foreign currency loans to be utilised under certain public tenders of the Undersecretariat of Defense
- (vi) Foreign currency borrowings of legal entities contracted to carry out PPP projects
- (vii) Foreign currency borrowings of the legal entities with no foreign currency revenues in the past three years, provided that such borrowings in foreign currency do not exceed the future foreign currency revenue expected from the borrower's export activities, transit trades, sales and deliveries that are deemed to be export, and operations and services creating foreign currency revenue.

Exceptions

From 2 May 2018, there is a risk for Turkish borrowers that they will not be able to refinance their existing foreign currency loans, if they do not satisfy the newly introduced borrowing conditions or if the exceptions do not apply to them. Also the leveraged buyout and project finance practices have to explore alternative structures in order to walk around the new limitations.

Please do not hesitate to contact us for your questions.



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