THE CENTRAL BANK OF TURKEY SMOOTHENS OPERATIONAL MECHANICS FOR CROSS-BORDER REFINANCING DEALS

On 16 March 2021, the Central Bank of Turkey ("**CBT**") has amended Article 22 of its Capital Movements Circular originally dated 2 May 2018 (the "**Capital Movements Circular**") in an effort to smoothen the operational mechanics of refinancing cross-border loans by allowing the application of refinancing loan proceeds directly towards the repayment of existing facilities (without bringing such proceeds into Turkey).

As a general rule, the proceeds of any cross-border loans utilised by a Turkish resident must be brought into Turkey through the intermediation of Turkish banks. This general rule had certain exemptions with respect to export financings or in relation to businesses that are entirely carried out abroad. However, since refinancing transactions were previously not carved out from this general rule, the proceeds of refinancing loans were required to be brought into the borrower's accounts in Turkey before being transferred back abroad to repay existing facilities. Especially when a refinancing is planned to occur in a single day, this requirement often made cross-border refinancing transactions in Turkey (which are already challenging due to time differences and different bank requirements) rather cumbersome from an operational perspective by adding an additional layer of money transfers.

Finally, CBT has introduced on 16 March 2021 a new exemption for cross-border refinancing transactions according to which the proceeds of the refinancing facilities may now be directly applied towards the repayment of existing facilities without first being brought into Turkey. As a result of this development, we expect refinancing transactions to be a lot easier from an operational perspective.

In order to benefit from this exemption, the borrower of the relevant existing facility (that is to be repaid) and the borrower of the new facility should be the same entity. The remaining portion of new facilities (after the repayment of existing facilities) must be brought into Turkey by the relevant borrower in accordance with the general rule. The borrower must also confirm in writing to its Turkish intermediary bank that the missing portion has been applied towards the repayment of its existing facilities.

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