

Turkey's Banking Regulatory Introduced New Restrictions on Offshore Settlement of Turkish Lira Denominated Transactions

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Following its restrictions on FX swaps, the Banking Regulation and Supervision Agency of Turkey (**BRSA**) introduced new limitations on offshore settlement of certain Turkish Lira (**TRY**) denominated transactions. Some important highlights on the new BRSA decision are as follows:

- the aggregate of Turkish Lira denominated (i) inter-bank placements; (ii) depo transactions; (iii) repo transactions; and, (iv) loans (**TRY Transactions**), to be entered into between Turkish banks and offshore financial institutions (including consolidated subsidiaries and branches of Turkish banks), shall be limited to 0.5% of their most recent statutory equity capitals (**0.5% Threshold**);
- if a Turkish bank is over the 0.5% Threshold, it is not permitted to enter into a new TRY Transaction or renew an existing TRY Transaction until such Turkish bank ensures full compliance with the 0.5% Threshold; and
- the aforesaid ratio shall be calculated on a solo basis.

As the underlying ratio of the Decision, the BRSA draws attention to the slowing economic activity and the hardship experienced by real sector in terms of production and employment, as a result of the COVID-19 pandemic, and projects the Decision as a counter-measure, which is expected to divert the Turkish Lira liquidity from offshore markets to domestic market in order to tackle the funding problems of private and public sector.

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