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Contracts to be made only in Turkish currency

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According to the amendment made to article 4-g of the Council of Ministers Decree numbered 32 regarding The Protection Of The Value Of The Turkish Currency made by the Presidential Decree numbered 85 published in the Official Gazette dated 13/9/2018 numbered 30534 (“Presidential Decree”); Turkish resident real and legal persons can no longer execute certain contracts denominated in or indexed to foreign currency .

Presidential Decree also regulates that these contracts executed in foreign currency or indexed to foreign currency before 13 September 2018 should be converted to Turkish Lira until 13 October 2018.

Accordingly, it is not possible to execute below contracts in foreign currency as of 13 September 2018. Such contracts which were made in foreign currency before 13 September 2018, should be converted to Turkish Lira until 13 October 2018 in accordance with the Turkish Lira conversion rules determined under article 8/(28) of Communiqué numbered 2008-32/34 which is summarized below.

1. Real Estate Sales Contracts: In the event of sale of real estate which is located in Turkey among Turkish residents, sales price and other payment obligations related to the real estate sale cannot be determined in foreign currency. Foreign currency denominated contracts signed before 13 September 2018 should be converted into Turkish currency.

Kindly note that natural and legal persons domiciled in Turkey is considered as Turkish residents in terms of foreign exchange laws.

Exceptions: Branches, representation offices and liaison offices located in Turkey belonging to persons domiciled abroad, as well as companies in which persons domiciled abroad directly or indirectly have fifty percent or more shares or joint control and companies in free zones within the scope of their activities in free zones can execute foreign currency denominated real estate sales contracts if they are the buyer side of the relevant contracts.

2. Real Estate Rental Contracts: In case of renting the real estate which is located in Turkey between Turkish resident persons, price of contract (rent) and other payments related to renting obligations (such as deposit) cannot be determined in foreign currency. Foreign currency denominated real estate rental contracts signed before 13 September 2018 should be converted into Turkish currency.

Exceptions:

1. Branches, representation offices, liaison offices located in Turkey belonging to persons domiciled abroad, as well as companies in which persons domiciled abroad directly or indirectly have fifty percent or more shares or joint control and companies in free zones within the scope of their activities in free zones can execute foreign currency denominated real estate rental contracts if they are executing the contract as the lessee.
2. Real estate rental contracts in relation to the operation of hotels certified by the Ministry of Culture and Tourism can be executed in foreign currency .
3. Real estate rental contracts for the lease of duty-free shops can be executed in foreign currency .
4. Real estate rental contracts signed within the scope of the projects to be performed in relation to the execution of bids, agreements and international treaties in foreign currency and the parties of which are public institutions may be agreed upon in foreign currency.

3. Employment Contracts: The contract value and other payment obligations in the employment contract executed among persons domiciled in Turkey should be determined in Turkish currency. Wages and other payment obligations related to the employment should be specified in Turkish currency. Foreign currency denominated employment contracts signed before 13 September 2018 should be converted into Turkish currency.

Exceptions:

1. Branches, representation offices, liaison offices located in Turkey belonging to persons domiciled abroad, as well as companies in which persons domiciled abroad directly or indirectly have fifty percent or more shares or joint control and companies in free zones within the scope of their activities in free zones can execute foreign currency denominated employment contracts if they are employer.
2. If the employment contract is to be performed abroad or if seafarers are a party then such contracts can be executed in foreign currency. .
3. Non-Turkish citizens domiciled in Turkey can also execute employment contracts in foreign currency.

4. Service Contracts: In service contracts including consultancy, agency and transportation services to be executed among persons domiciled in Turkey , the contract value and other payment obligations arising therefrom cannot be determined in foreign currency . Foreign currency denominated service contracts signed before 13 September 2018 should be converted into Turkish currency.

Exceptions:

1. Branches, representation offices, liaison offices located in Turkey belonging to persons domiciled abroad, as well as companies in which persons domiciled abroad directly or indirectly have fifty percent or more shares or joint control and companies in free zones within the scope of their activities in free zones can execute foreign currency denominated service contracts if they are the service recipient party of the contract.

2. Service contracts within the scope of exports, transit trade, sales and deliveries considered as export and foreign currency-generating services and activities can be executed in foreign currency. .

3. Non-Turkish citizens domiciled in Turkey can also execute service contracts in foreign currency..

4. Service contracts executed within the scope of activities to be performed abroad by persons domiciled in Turkey can be in foreign currency.

5. Service contracts concluded among persons domiciled in Turkey in relation to the business commencing in Turkey and ending abroad or commencing abroad and ending in Turkey or both commencing and ending abroad can be determined in foreign currency.

5. Vehicle Sales Contracts: Price of vehicle and other payment obligations of vehicle sales contracts made between Turkish resident persons have to be determined with Turkish currency. However, there is no obligation to convert the commercial vehicle (passenger transportation) sales contracts executed for the purpose of passenger transportation into Turkish currency which are concluded prior to 13 September 2018. Other kind of vehicle sales contracts made before 13 September 2018 should be converted to Turkish currency.

6. Vehicle Rental Contracts: Rental payments and other payment obligations of vehicle rental contracts concluded between Turkish resident persons have to be determined with Turkish currency. Kindly note that foreign currency denominated vehicle rental contracts made before 13 September 2018 are valid until the end of the contract period and will not be converted into Turkish currency.

7. Production or Work Contracts: Work contracts to be executed among persons domiciled in Turkey and do not contain foreign currency denominated costs have to be made with Turkish currency. Price of work contract and other payment obligations of such contract have to be determined in Turkish currency. Foreign currency denominated work contracts signed before 13 September 2018 should be converted into Turkish currency.

Exception: Work contracts containing foreign currency denominated costs can be made with foreign currency.

8. Leasing Contracts: Leasing contracts concluded between Turkish resident leasing companies and Turkish resident real persons have to be made in Turkish currency. However, there is no obligation to convert into Turkish currency for foreign exchange denominated leasing contracts signed before 13 September 2018 in relation to the movable goods and real estates.

Exception: Leasing contracts executed between Turkish resident leasing companies and Turkish resident legal persons (such as Turkish companies) or non-Turkish residents can be made with foreign currency. Also leasing contracts in relation to ships defined in the Turkish International Ship Registry Law numbered 4490 and the Law regarding amendment in the Decree Law numbered 491 can be also concluded in foreign currency.

How to convert into Turkish currency?

The contracts which were made in foreign currency before 13 September 2018 must be converted into Turkish Lira with the exchange rate of 1 USD = 4,5093 TRY and 1 EURO = 5,4343 TRY until 13 October 2018. These exchange rates are calculated by taking into account of CPI inflation rate of 19,37% over the period of 2 January 2018-13 October 2018 and Turkish Central Bank's official exchange rates announced on 2 January 2018 which were 1 USD = 3,7776 TRY and 1 EURO = 4,5525 TRY.

Once foreign currency denominated price of a contract is converted into Turkish currency by this statutory way, Turkish currency denominated price of contract can be updated by parties freely in the new period of contract.

However, in real estate rental contracts, the price of contract will be updated for a period of 2 years starting from the date of conversion into Turkish currency by taking into account the increase rate in the Consumer Price Index (CPI). Accordingly, a real estate rental contract converted into Turkish currency on 13 October 2018 will be updated at the beginning of the contract period until 13 October 2020 by taking into account the increase rate of CPI.

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