

Cyprus narrows the scope of application of interest rate ceilings as regards to Credit institutions and intercompany loans

In 2011, a radical amendment on the Criminal Code created an offence on the 'persons' who charge more than the permitted interest rate ceiling which is currently 12.57%. The scope, however, of the amendment was imprecise rendering the applicability on intergroup structures of the interest rate ceiling introduced, uncertain. It was nevertheless interpreted to cover loans extended by 'persons' who were not financial institutions with interest received or charged or collected on the granting of loans, extension of repayment, pre-payment and renewal exceeding the permitted ceiling.

Group companies with a presence in Cyprus can now breathe a sigh of relief in light of the latest amendment to the Criminal Code as regards the interest rate ceilings imposed earlier on this year. A new amendment effective as from the 16 December 2011 has carved out of the scope of the interest rate ceiling provisions the following:

- a) Credit institutions;
- b) A loan where the borrower and the lender are legal persons who are considered to be related parties for the purposes of Section 33 of the Cyprus Income Tax Law;
- c) A loan extended to a legal person, where the funds have originated directly or indirectly from sources outside Cyprus, provided that (i) the amount of the loan exceeds €1.000.000 and (ii) the minimum disbursement is €500.000;
- d) A loan extended to a legal person, which is disbursed abroad (i.e. outside Cyprus) and provided that (i) the amount of the loan exceeds €1.000.000 and (ii) the minimum disbursement is €500.000.

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