

## Interest Rate Ceilings Introduced in Cyprus

On 29 April 2011, Cyprus enacted new legislation<sup>[1]</sup> amending the Criminal Code, effectively introducing an interest rate ceiling impacting personal or intra-group loans which should not be exceeded. The interest rate ceiling is calculated using a formula based on half the average bank lending rate of the previous year (including commissions and other charges which banking institutions charge on consumer loans) plus a margin of between 5 and 10 percentage points, which varies according to various risk factors. This interest rate ceiling is calculated and published by the Central Bank of Cyprus quarterly and on 21 June 2011 was set at 12.18%.

Notably the interest ceiling applies to lenders which are not financial institutions and catches interest received or charged on granting of the loan, extension of repayment, prepayment and renewal. Breach of the provisions constitutes an offence and on conviction a person may be liable to up to 5 years imprisonment or a fine capped at Euro 30.000, or both. The provisions of the new legislation have not yet been tested and it is not clear whether the same would apply to non-Cypriot entities acting as lenders and/or borrowers (Cypriot or non-Cypriot).

The intention of the legislators was to target the increasing problem of loan sharking and profiteering but may ultimately have an impact on the structuring of existing and proposed intra-group loans and should be taken into consideration<sup>[2]</sup>.

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*For more information on this subject, please contact Nancy Erotocritou (nancy.erotocritou@harneys.com) in our Cyprus office.*

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<sup>1</sup> Law No. 72(I)/2011 amending the criminal code

<sup>2</sup> A number of professional organizations have requested that the new legislative provisions be clarified which may result in amendment of the existing provisions. A further update will be provided on any new developments.