

Türkiye: Banking Sector Outlook

4Q 2024

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Key messages



Credit



A weak trend in total credit growth continues with the ongoing monthly credit growth caps which supports the tight monetary stance. FC credit growth has also been suppressed after the more restrictive limits since July.



Credit segments



Demand for TL commercial lending remains subdued, being substituted by FC borrowing. Consumer loan growth is driven by credit cards and general purpose loans. However, trend rate of credit cards implies some moderation compared to previous months. Housing loans somewhat accelerate on top of the rate cut expectations of the CBRT.



Deposits



The de-dollarization tendency of residents continues, albeit more slowly. The share of TL deposits increased to 57.3%; and the share of FX-protected deposits fell below 7% (compared to 26% in Aug23).



Profitability



Profitability and NIMs of the banking sector stay under pressure due to high funding and RR costs, and regulatory lending caps. We expect the easing cycle of the CBRT to be a cautious combination of both rate cuts and easing over deposit and credit rules, helping the sector recover gradually 1Q25 onwards.



Asset quality



The accelerating NPL trend continues for retail loans despite the most recent restructuring options. Although being low, the NPL for SME credits has a steady upward trend as well. Cost of risk (CoR) increased slightly to 0.85%.



Asset quality peers



Total NPL amount rose significantly btw 2Q24 and 3Q24 for peer public and private banks. However, the increase in restructured loans was higher in public banks.



Capital



The sector's capital buffers are solid. Regulatory forbearance on FC risk weighted assets and security portfolios also support reported CAR ratios. The reversal of risk weights on consumer loans in Sep'24 additionally provided a positive impact of around 90bps.

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Turkish Banking Sector: Credit Developments

Tight monetary stance is supported by macroprudential measures



Regulations for TL deposit share and KKM:

- Targets for TL deposit share with retail TL deposit share of at least 60%; commercial TL deposit share abolished recently;
- Targets for KKM gradual reduction (overall KKM activity target reduced to 70% from 75%)



Loan growth caps

- Limits on TL loan growth (2% for TL commercial loans excluding export & investment loans); 2% auto loans; 2% GPL
- Limits on FX loan growth (1.5%)

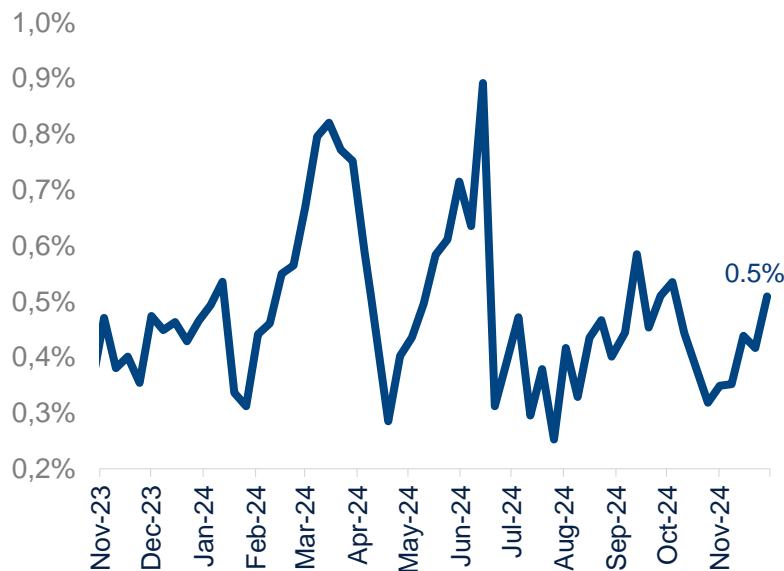


Liquidity management

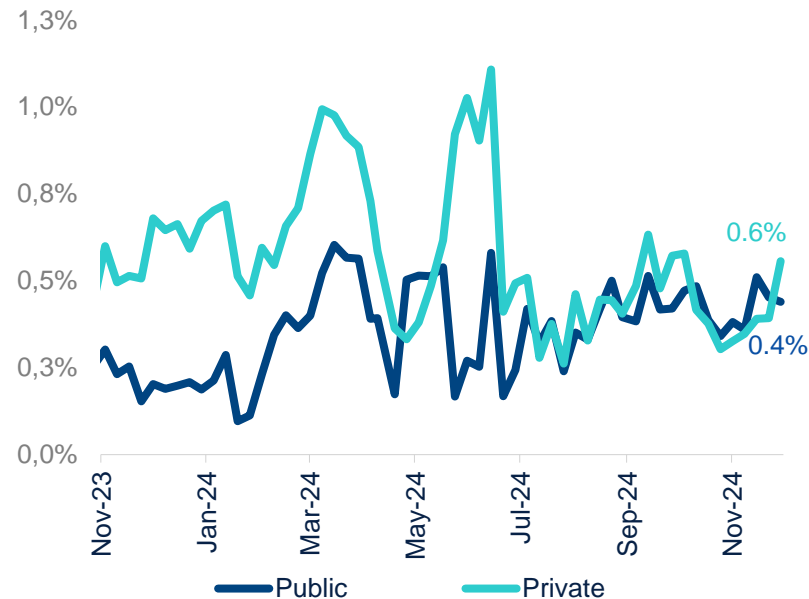
- Reserve requirement ratios (increase in TL RR for TL deposits, TL RR for FC deposits)
- TL deposit auctions
- Reverse swap auctions of the CBRT with local banks

Credit growth trend rates of public and private banks both move in line with the monthly growth caps.

TOTAL CREDIT GROWTH (FX ADJ)
4-WEEK AVERAGE



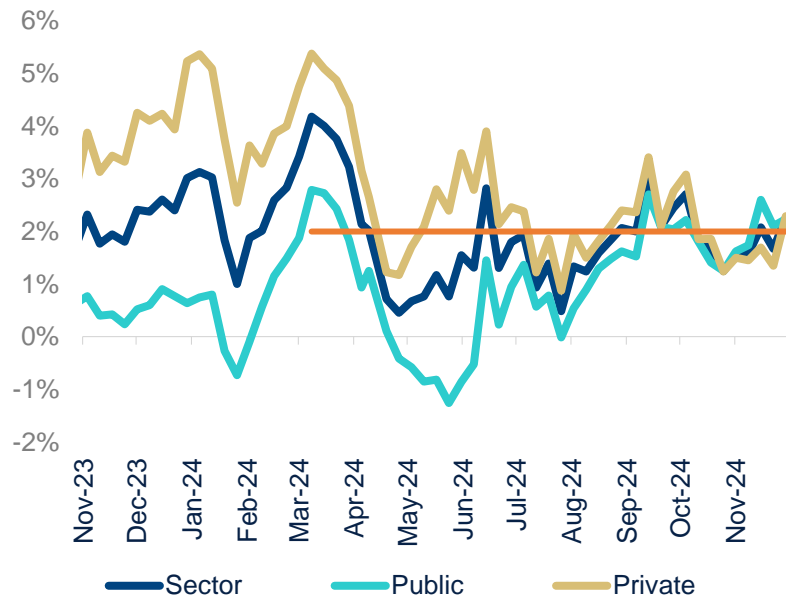
TOTAL CREDIT GROWTH (FX ADJ)
4-WEEK AVERAGE



TL credit growth hovers around the limits whereas the deceleration in FC credits becomes more pronounced after 3Q, also caused by the parity impact.

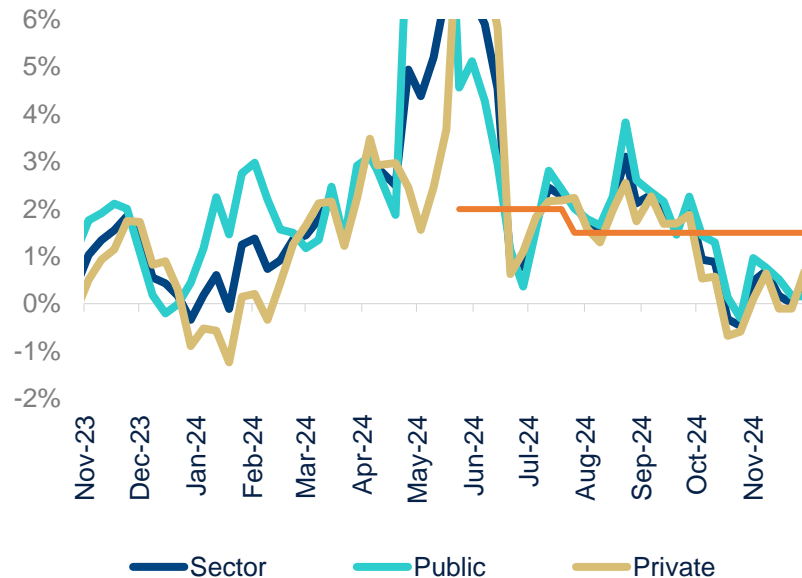
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



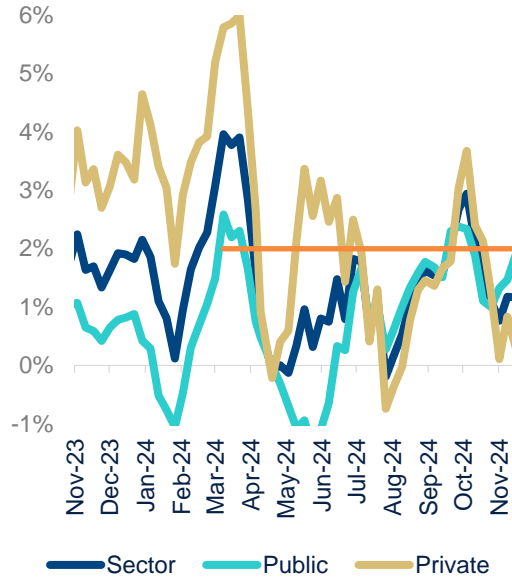
FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS

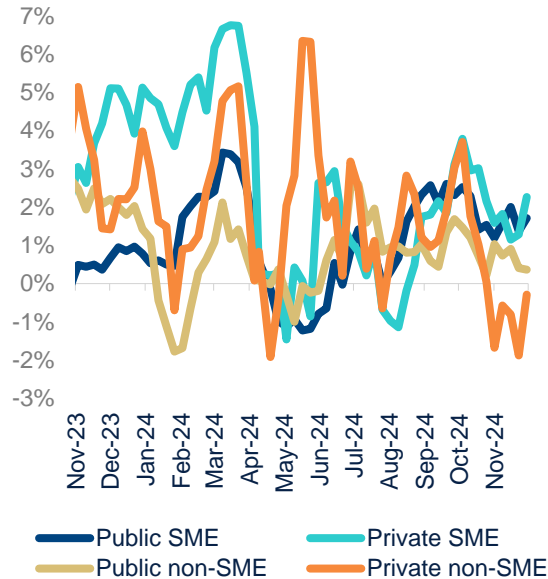


TL commercial credit growth remains weaker on top of non-SME activity. FC credits' growth is led by public banks' SME lending.

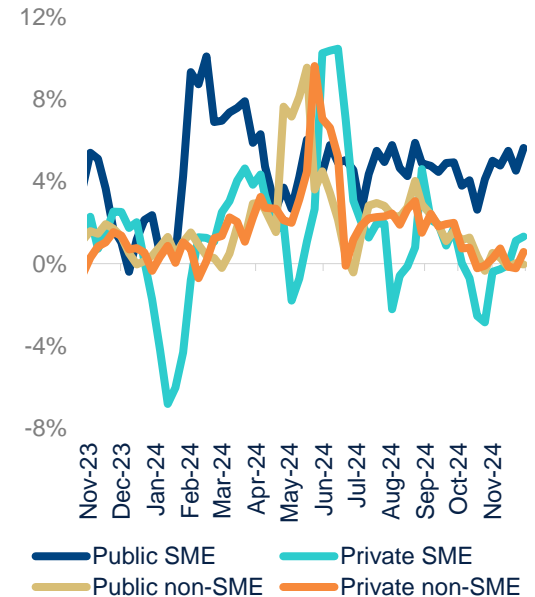
TL COMMERCIAL CREDIT GROWTH
4 WEEK CUMULATIVE, DEPOSIT BANKS



TL COMMERCIAL CREDITS GROWTH
4 WEEK CUMULATIVE



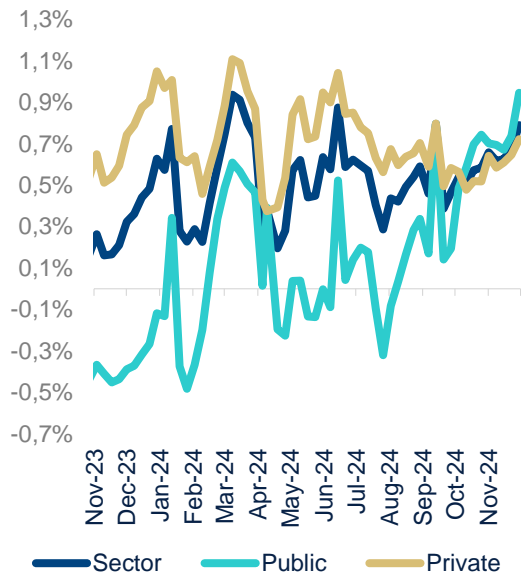
FC COMMERCIAL CREDITS GROWTH
4 WEEK CUMULATIVE



Retail lending is stronger in public banks due to general purpose loans. Credit card spending growth moderates but remains above monthly inflation.

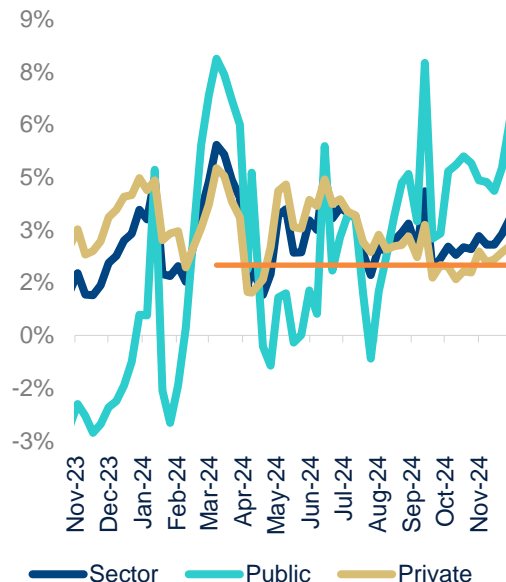
CONSUMER* CREDIT GROWTH

4 WEEK CUMULATIVE, DEPOSIT BANKS



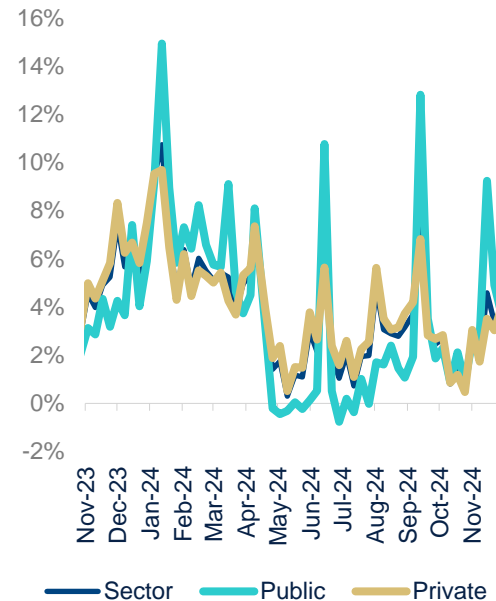
GENERAL PURPOSE LOANS

4 WEEK CUMULATIVE, DEPOSIT BANKS



RETAIL CREDIT CARDS SPENDING

4 WEEK CUMULATIVE, DEPOSIT BANKS

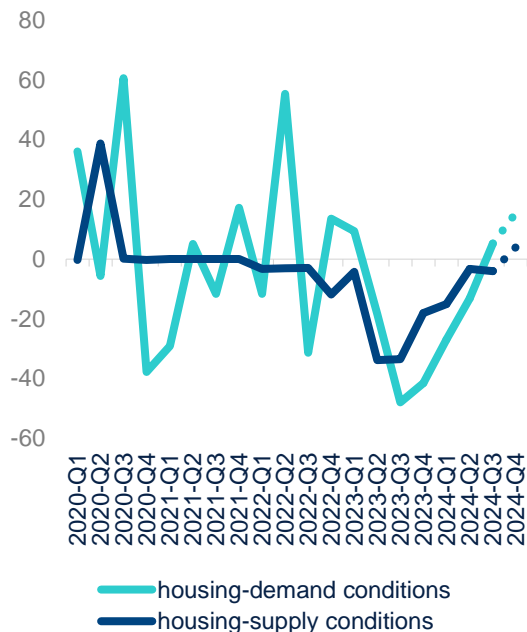


* housing, auto, general purpose loans (GPL).

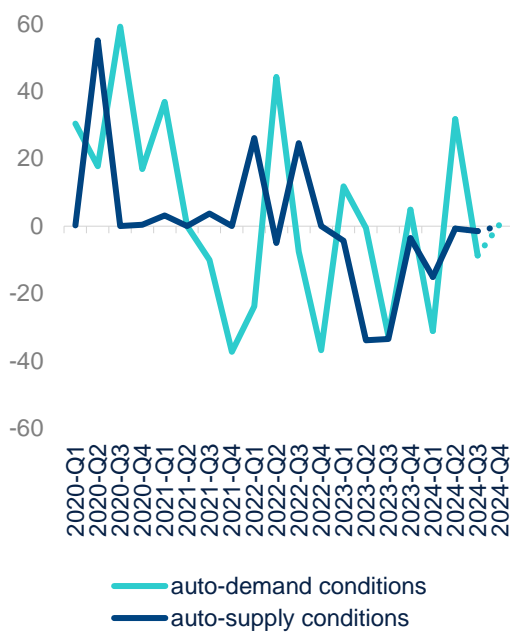
Source: BRSA and Garanti BBVA Research.

Tightening in credit standards continue for GPL loans in 4Q24 whereas both supply and demand conditions soften for housing loans.

CREDIT CONDITIONS: HOUSING NET BALANCE



CREDIT CONDITIONS: AUTO NET BALANCE



CREDIT CONDITIONS: GPL NET BALANCE

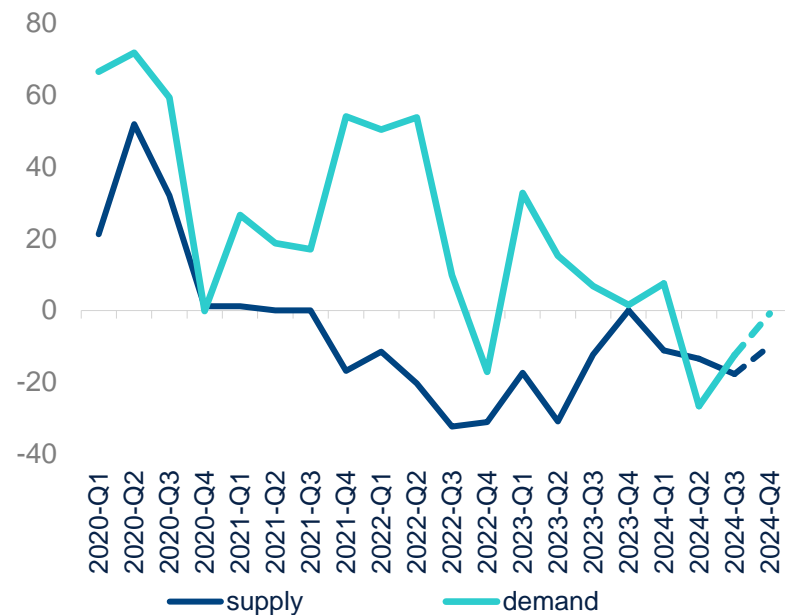


>0 Easing; <0 Tightening.

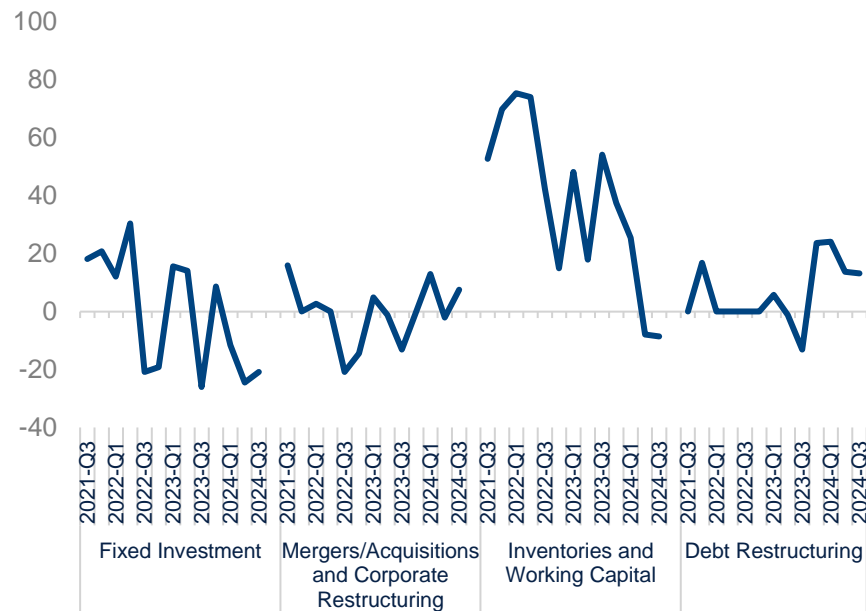
Source: CBRT Bank Lending Survey 3Q24.

Both supply and demand conditions for commercial credits are expected to soften in 4Q24. Commercial credits mostly used for restructuring purposes.

CREDIT CONDITIONS: COMMERCIAL NET BALANCE



FINANCING NEEDS OF THE REAL SECTOR FOR DIFFERENT PURPOSES (POSITIVE= INCREASE IN DEMAND, NEGATIVE=DECREASE IN DEMAND)

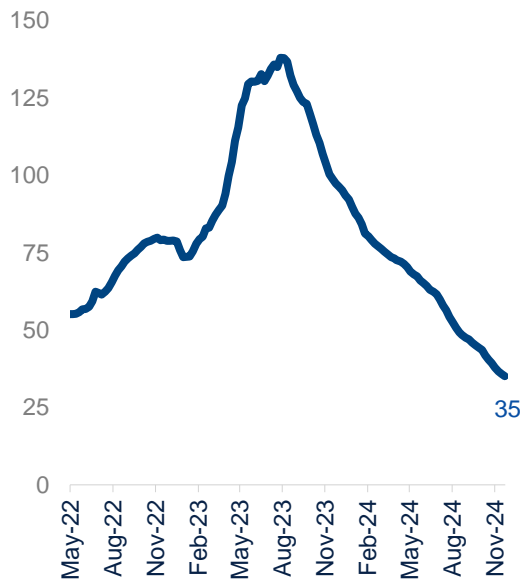


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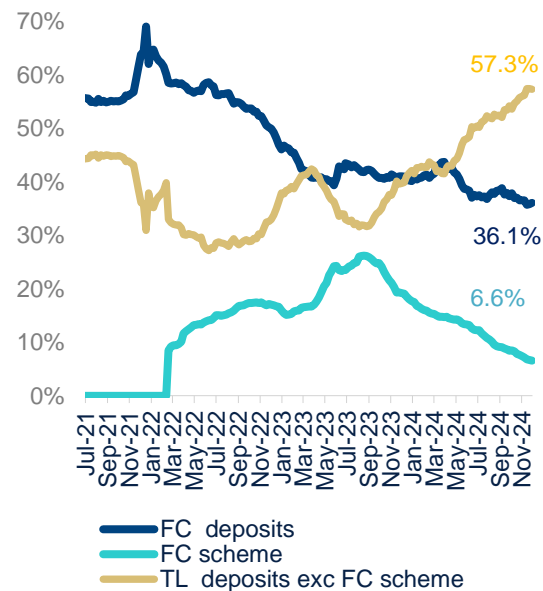
Turkish Banking Sector: Liquidity

Deposit rules and efforts to unwind KKM support the deposit de-dollarization tendency of residents and the attractiveness of TL savings.

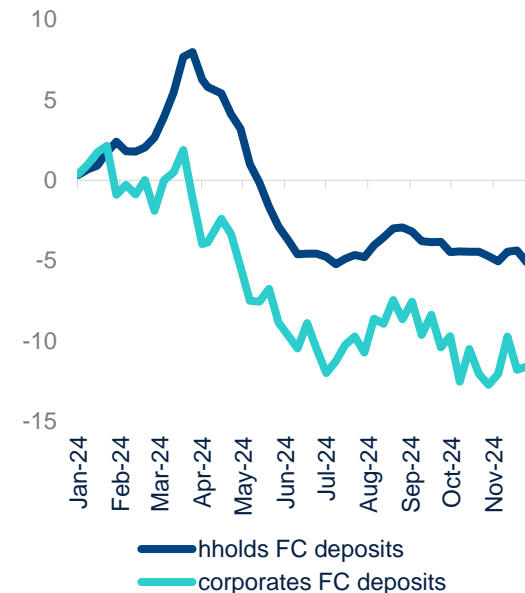
SIZE OF FC PROTECTED SCHEME
IN \$BN, ADJUSTED BY 13-WEEK USDTRY AVG



DISTRIBUTION AMONG DEPOSITS*
% SHARE IN TOTAL



CHANGE IN FC DEPOSITS OF RESIDENTS
bn USD, adj from price effects, year-to-date

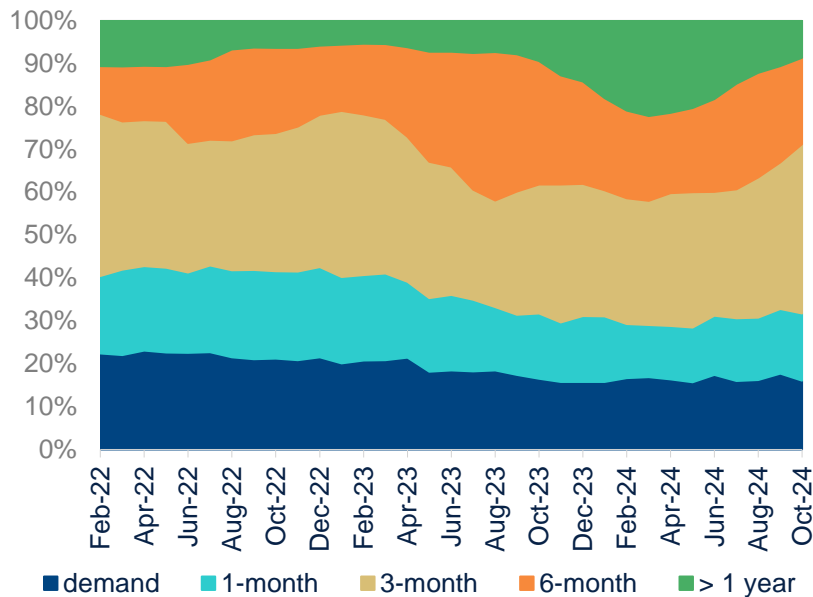


* The CBRT stresses above 60% TL deposit share.
Source: BRSA and Garanti BBVA Research.

Deposits up to 3 months accelerate since Mar24 whereas up to 6 months and above 1yr brackets decline significantly with the exit from KKM

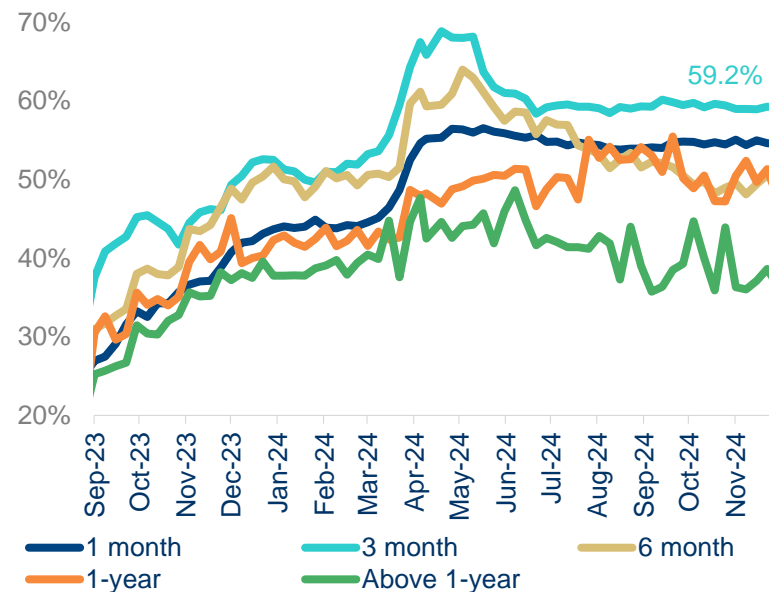
DISTRIBUTION AMONG DEPOSITS

% SHARE IN TOTAL



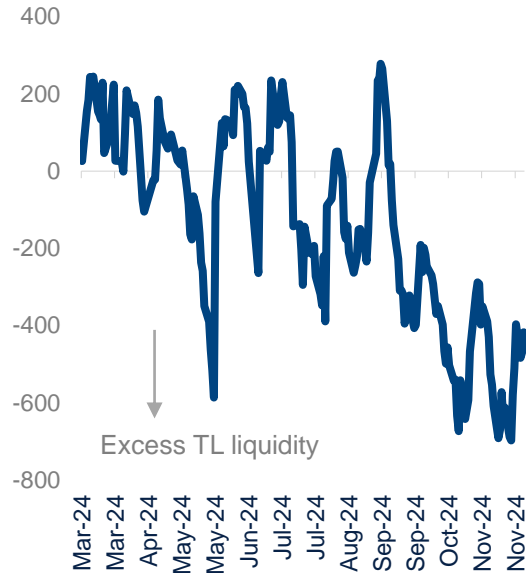
TL DEPOSIT INTEREST RATES

%, FLOW, SECTOR, WITHOUT RR COST

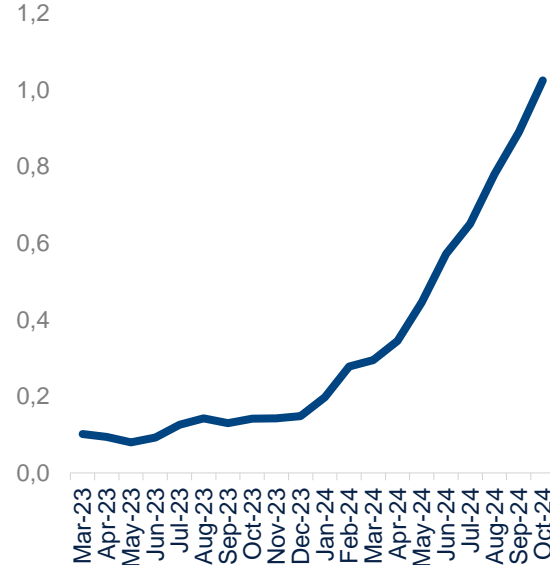


Rise in TL liquidity results in downward pressure on TL rates. The significantly increasing TL market funds might be a potential risk for future dollarization

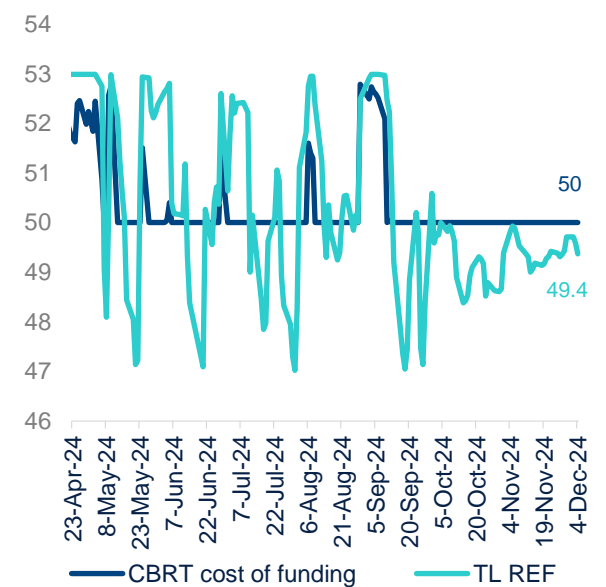
EXCESS O/N TL LIQUIDITY
(BN TL)



TL MONEY MARKET FUNDS
(BN TL)

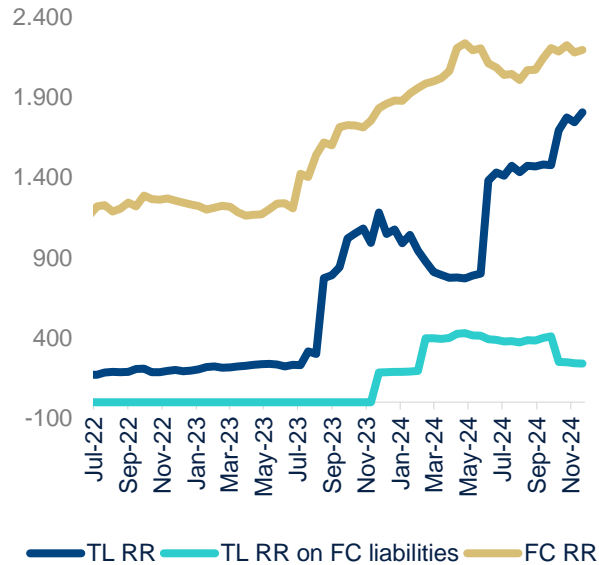


CBRT FUNDING & BIST TL REF RATE
(%)

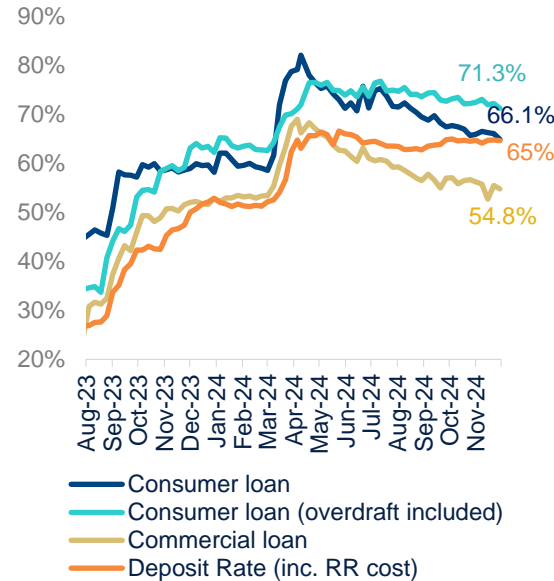


The CBRT could absorb excess TL liquidity partially so far via mostly required reserves. Deposit rules help maintain relatively stable TL deposit rates.

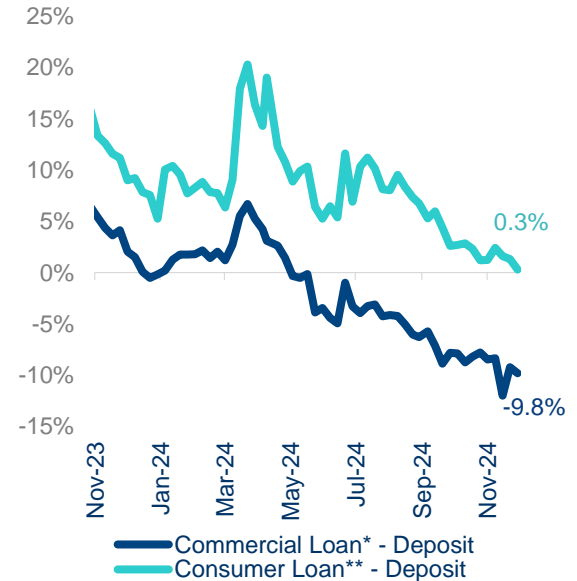
RESERVE REQUIREMENT VOLUME*
mn TL



CONSUMER & TL COMMERCIAL RATES
%, flow, sector



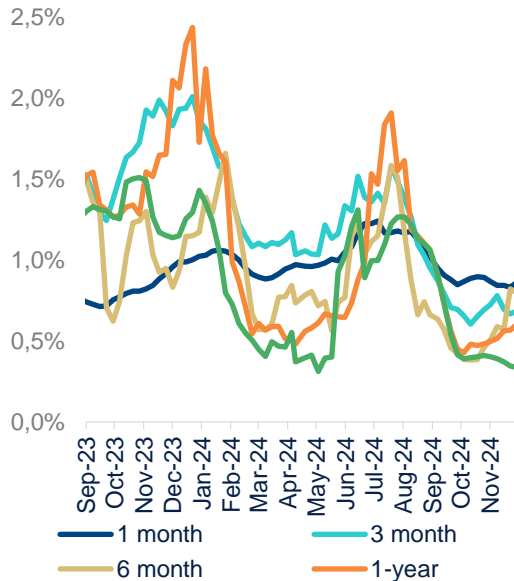
TL INTEREST RATE SPREAD
%, including RR cost



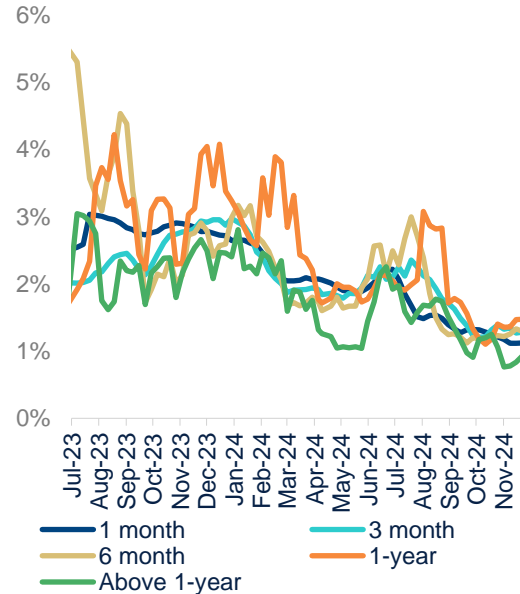
* Reserve requirement ratios for TL deposits have been increased from 15% to 17% for short-term (demand deposits and deposits with maturity up to 3 months) and lowered the TL RRR for FX deposits from 5% to 4%. In addition, the TRY deposit share target for companies has been abolished and the total target for KKM accounts' transition to TRY and renewals has been reduced from 75% to 70%.

FC interest rate spreads continue to be more favorable for the sector with low deposit rates and high credit rates especially on the USD segment.

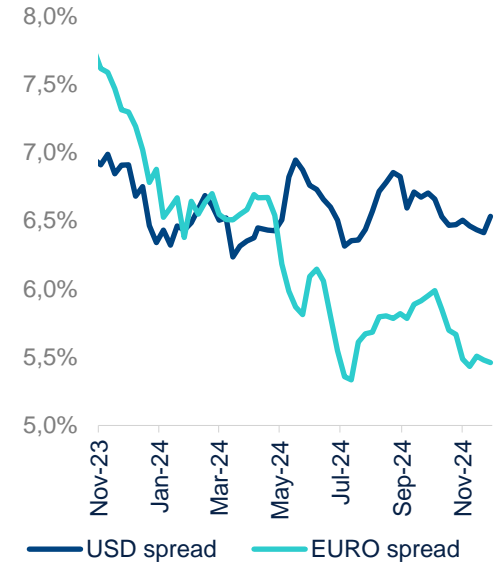
EURO DEPOSIT RATES %, 4-week avg flow, sector



USD DEPOSIT RATES %, 4-week avg flow, sector



FC INTEREST RATE SPREAD %, 4-week avg flow, sector

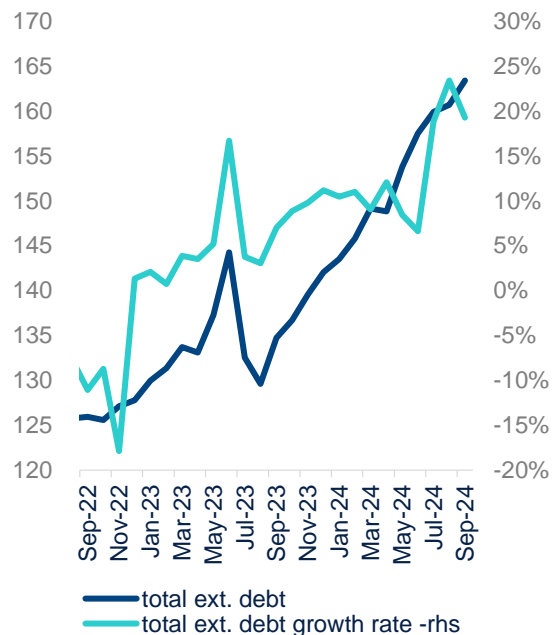


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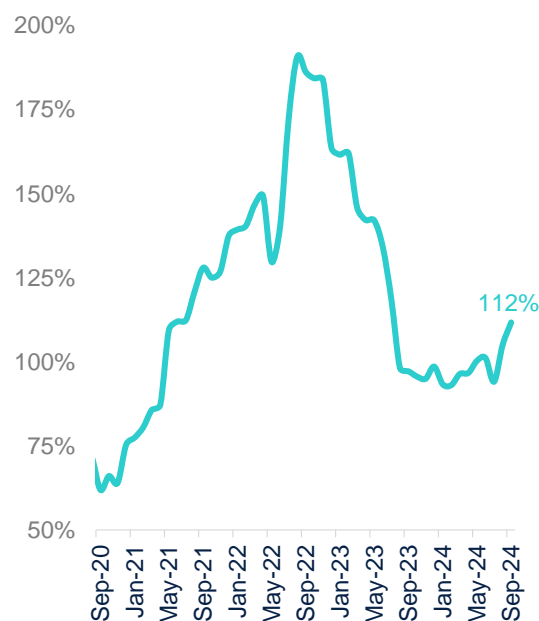
Turkish Banking Sector: External Debt & FC Liquidity

Banks' external credits continue to rise with also increasing roll-over ratios. June will be the month of the highest external debt redemptions in 2025.

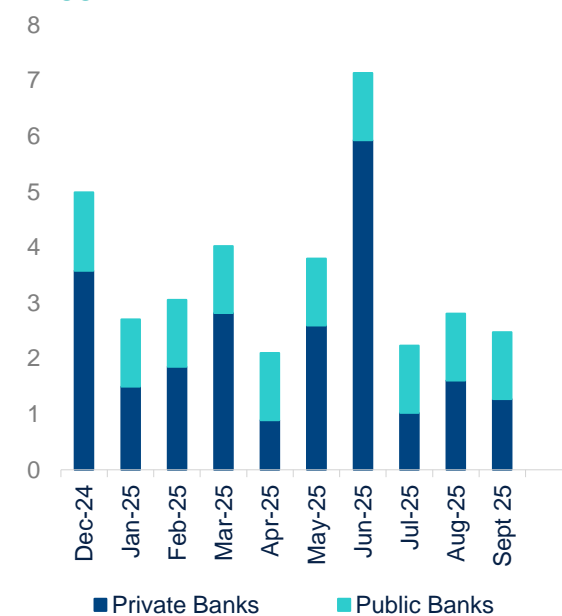
BANKS' EXTERNAL DEBT BN USD & Y/Y GROWTH



BANKS' EXTERNAL CREDITS ROLL-OVER RATIO, 12M ROLLING, %



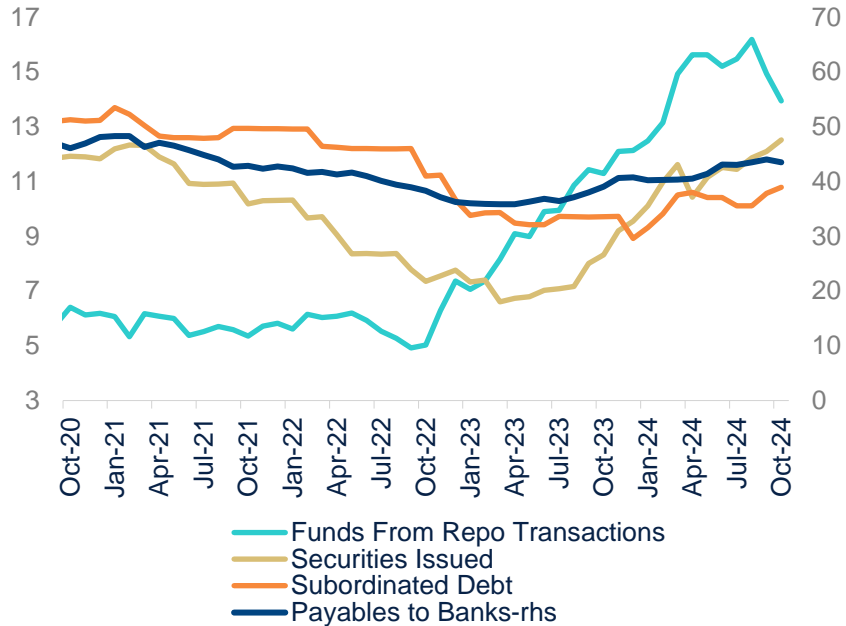
BANKS' EXTERNAL CREDIT REDEMPTIONS BN USD



FC wholesale liabilities of banks rose on top of the increase in subordinated debt and Eurobond issuances with a higher access to longer term FC funding.

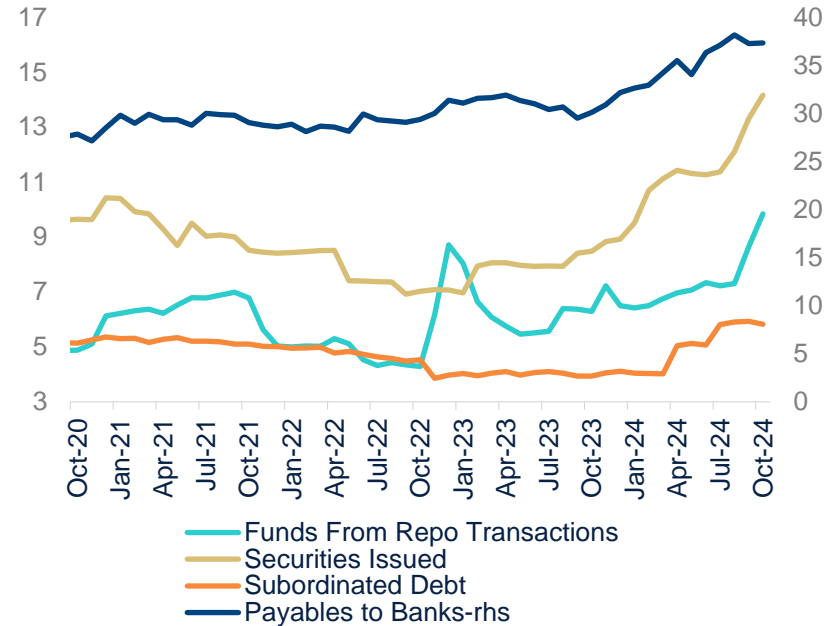
FX WHOLESALE LIABILITIES

BN USD, PRIVATE BANKS



FX WHOLESALE LIABILITIES

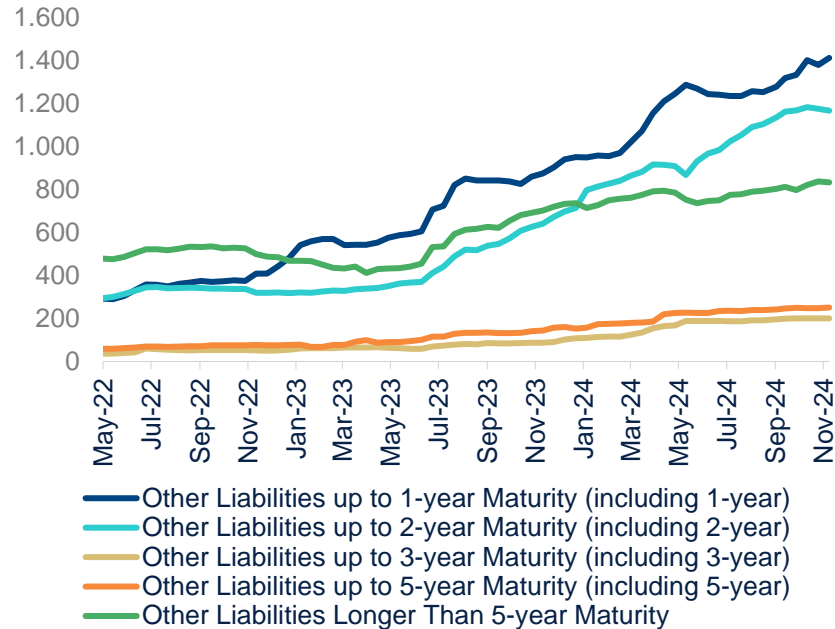
BN USD, PUBLIC BANKS



Residents' TL demand for savings led banks to increase the share of their ST funding in TL wholesale funding whereas on FC they increased their LT share

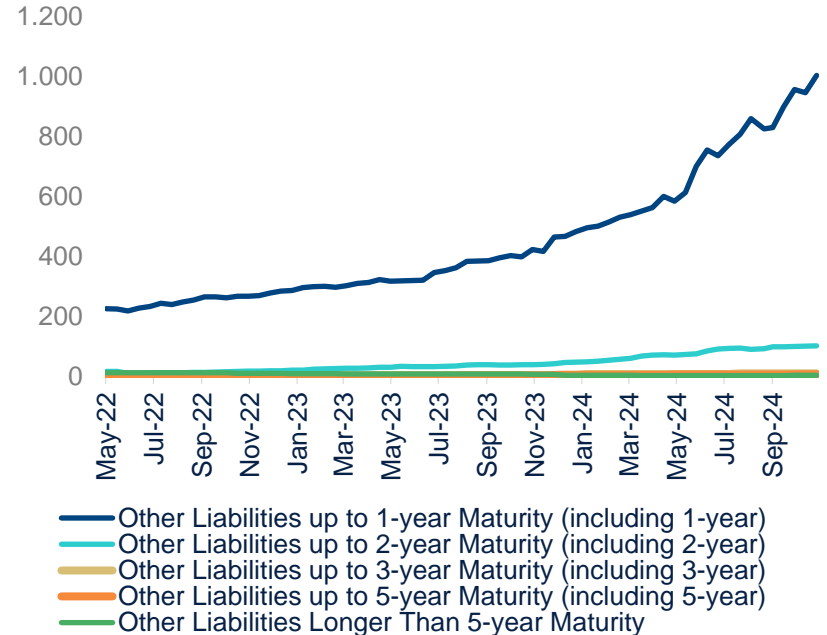
FX WHOLESALE LIABILITIES

Mn TL, subject to FC RR



TL WHOLESALE LIABILITIES

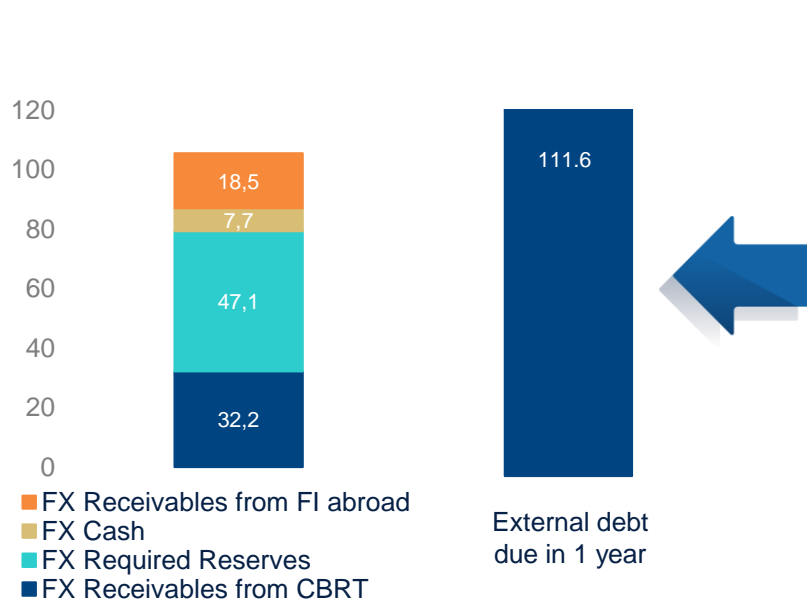
mn TL, subject to TL RR



The short-term FX external debt of the sector has increased however FX liquid assets are enough to cover the short term debt.

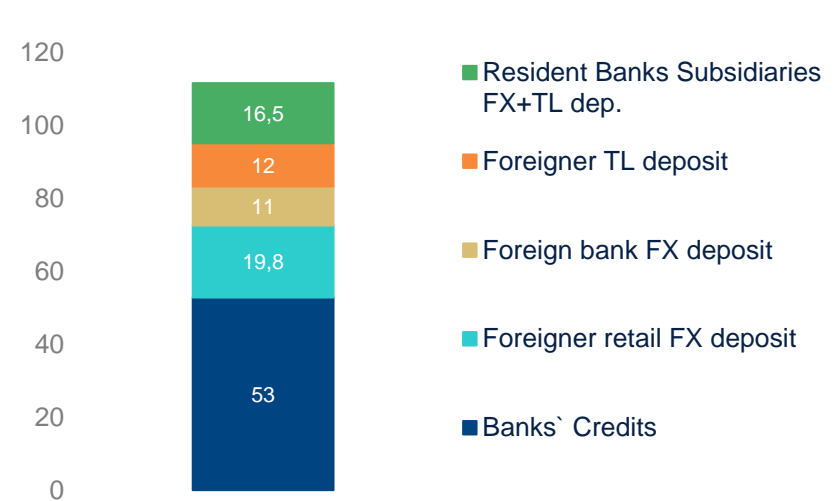
SELECTED FX LIQUID ASSETS* OF BANKS

BN USD, SEPT 2024



BANKS' EXTERNAL DEBT DUE ONE YEAR

BN USD, SEPT 2024



*Due to public data restriction, FX receivables from Financial Inst. is shown as total (free accounts and blocked accounts).

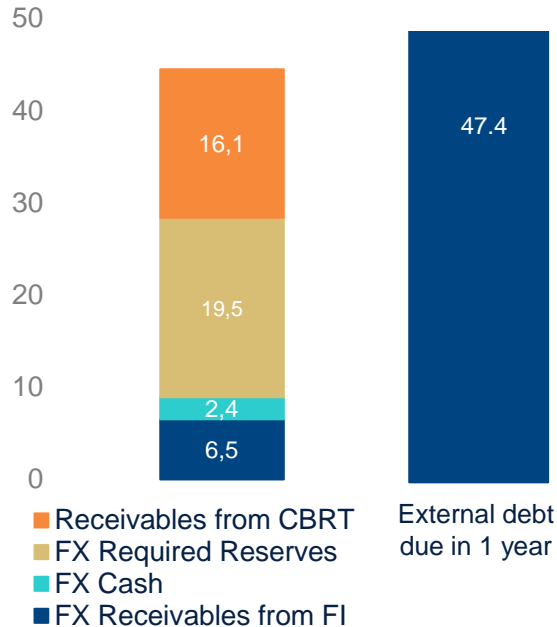
See: <http://www.tcmbblog.org/wps/wcm/connect/blog/en/main+menu/analyses/the+turkish+banking+systems+fx+liquidity+shield>

Source: CBRT, BRSA and Garanti BBVA Research.

FX liquidity buffers are higher in private banks

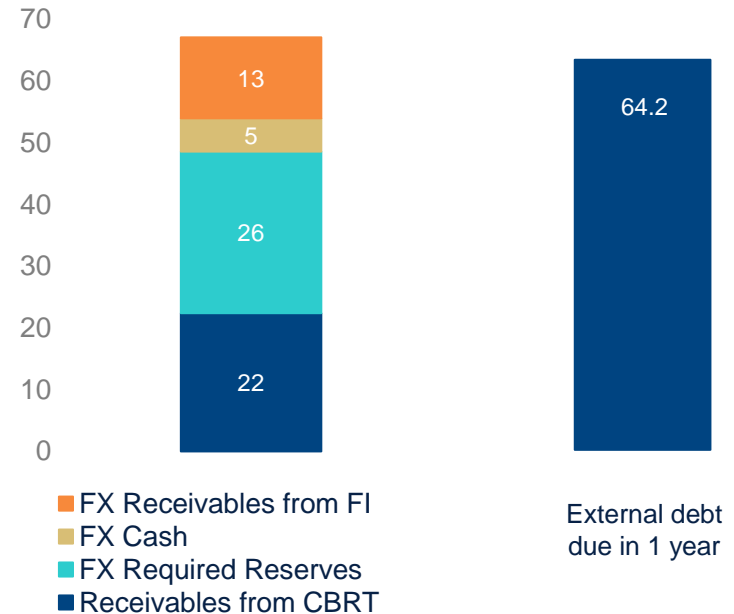
FX LIQUID ASSETS* OF PUBLIC BANKS

BN USD, SEPT 24



FX LIQUID ASSETS* OF PRIVATE BANKS

BN USD, SEPT 24



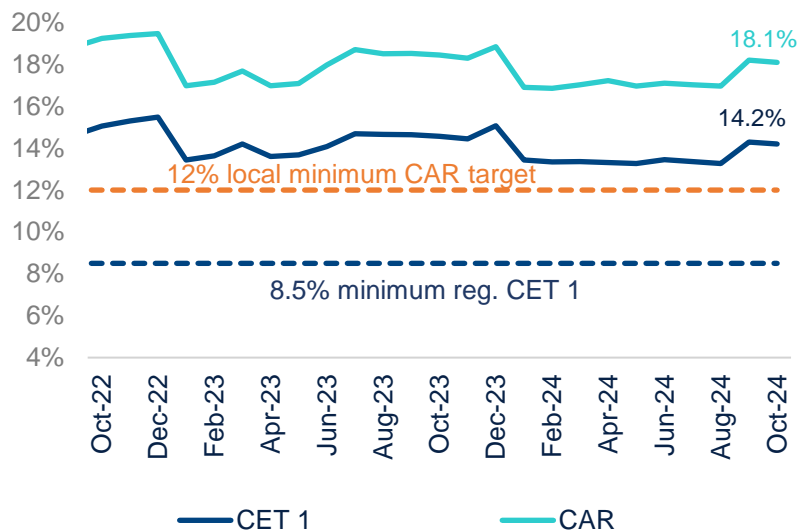
*Due to public data restriction, FX receivables from financial institutions is shown as total (free accounts and blocked accounts). All data refer to Sep24..
Source: CBRT, BRSA and Garanti BBVA Research.

04

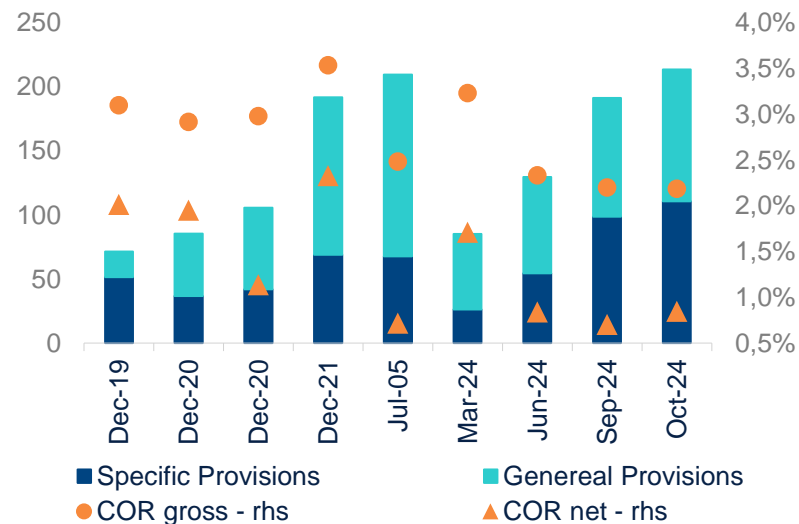
Turkish Banking Sector: Solvency and Capital Adequacy

The BRSA's reversal of high risk weight regulations* had around 90bps positive impact on the September ratios. Net CoR rose slightly in October.

CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO* %



COST OF RISK (COR)** LOAN LOSS PROVISIONS / AVERAGE NET LOANS



In September 2024, BRSA decreased the risk weights for consumer loans and personal credit cards from 150% to 75% and for second housing loans from 150% to 35% to be in line with Basel regulations. Additionally, the BRSA's forbearance on exchange rate & MiM differences in CAR calculation remains implemented which supports the ratios by 200bps as well.

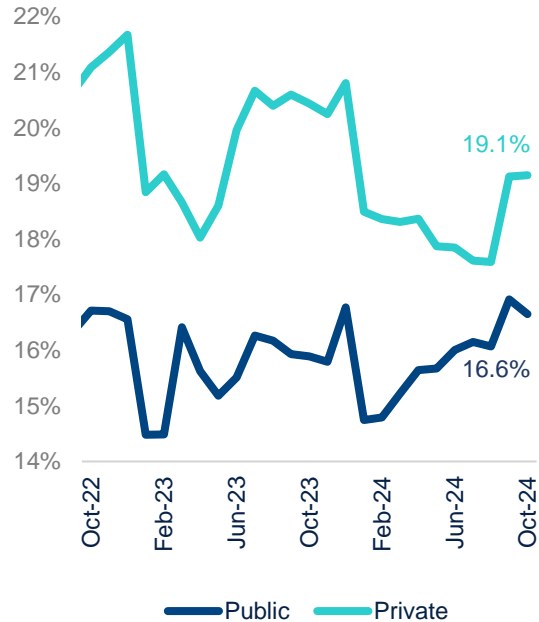
* Common Equity Tier 1.

** Deposit banks, net cost of risk refers to the loan loss provisions excluding foreign currency effects and expected loss reversals.

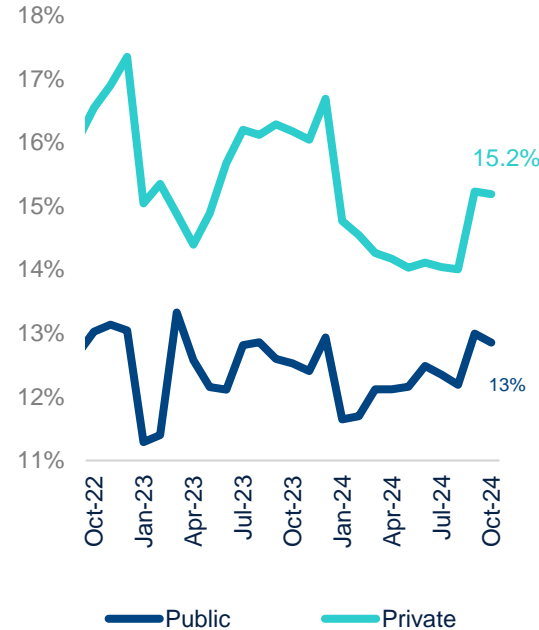
Source: BRSA and Garanti BBVA Research.

Increase in regulatory capital is being also supported by the increase in subordinated debt issuances whose share in regulatory capital rose to 18%.

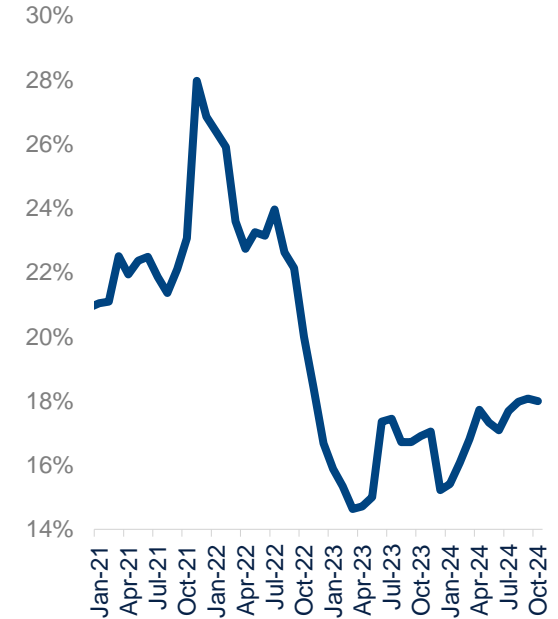
CAPITAL ADEQUACY RATIO: PUBLIC AND PRIVATE BANKS %



CET 1* RATIO BY PUBLIC AND PRIVATE BANKS %



SUBORDINATED DEBT SHARE TO CAPITAL %



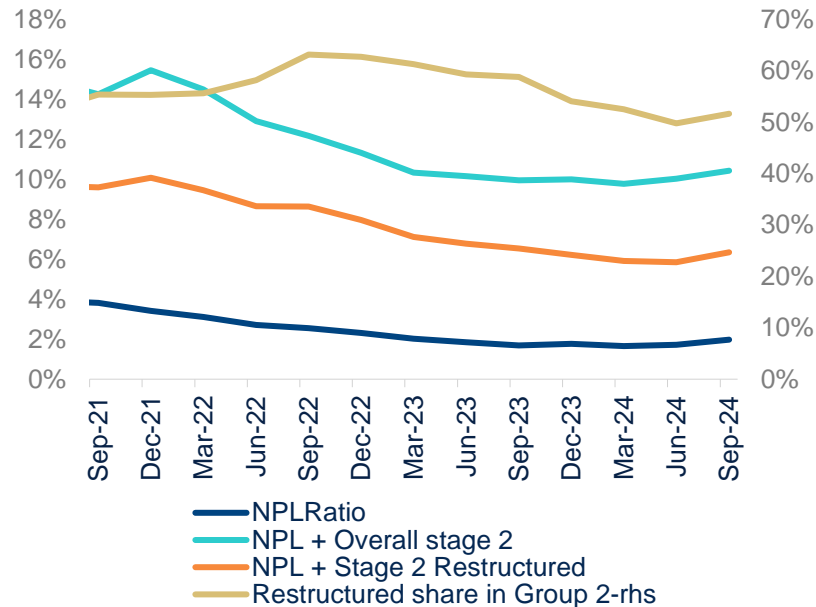
* Common Equity Tier 1.
Source: BRSA and Garanti BBVA Research.

05

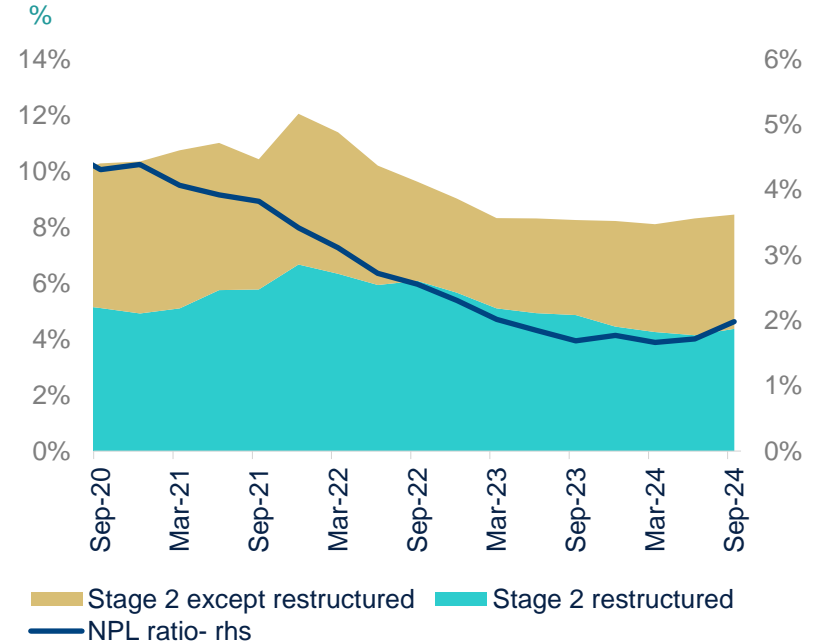
Turkish Banking Sector: Asset Quality

The share of restructured loans in gross loans in peer deposit banks rose to 4.4%. The share of the sum of Stage 2 and NPLs* was 10.4% in 3Q24.

ASSET QUALITY OUTLOOK: PEER DEPOSIT BANKS**



SHARE OF STAGE 2 LOANS & RESTRUCTURED LOANS IN TOTAL GROSS LOANS

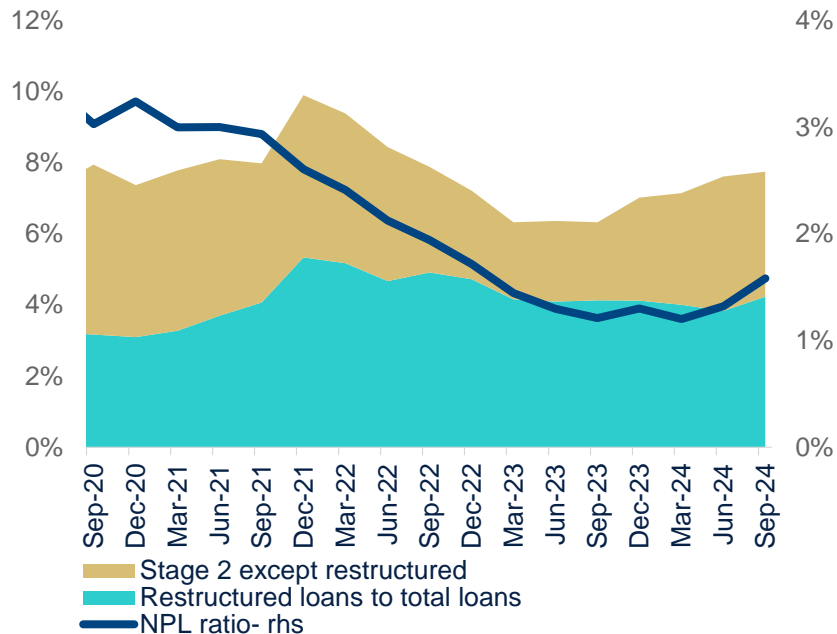


* According to the definition of the CBRT Financial Stability Report, the share of the sum of Stage 2 and NPLs in gross loans is taken into account as total credit risk. Of restructured loans, 93% are monitored under Stage 2, 5% are monitored under NPL and a limited portion under the Stage 1 group (CBRT Financial Stability Report Nov24).

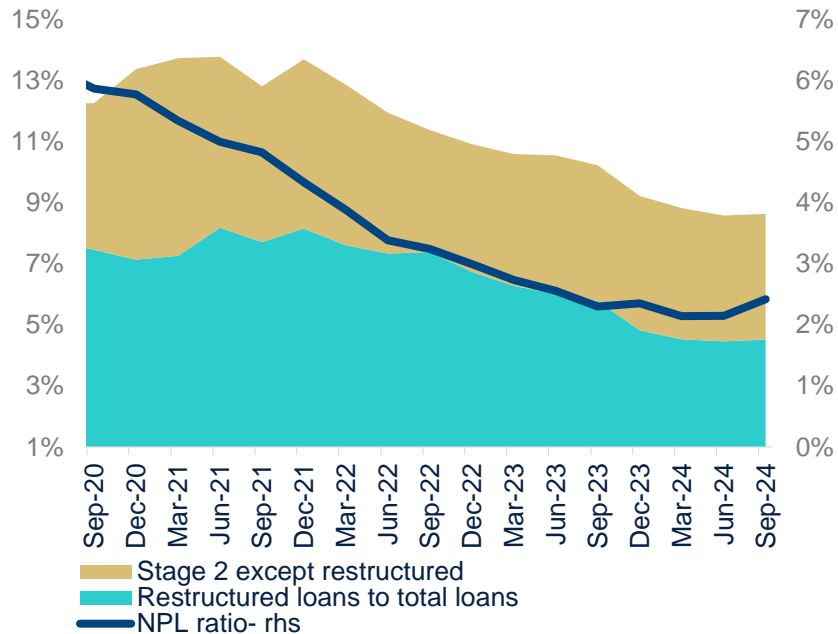
** All indicators are proportioned to gross loans. Data includes 7 top peer deposit banks as 4 private and 3 public banks.

Share of restructured loans rose in public banks. The ratio of Stage 2 and NPLs to gross loans rose to 11.6% in private and to 9.3% in public.

RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS: PUBLIC DEPOSIT BANKS



RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS: PRIVATE DEPOSIT BANKS

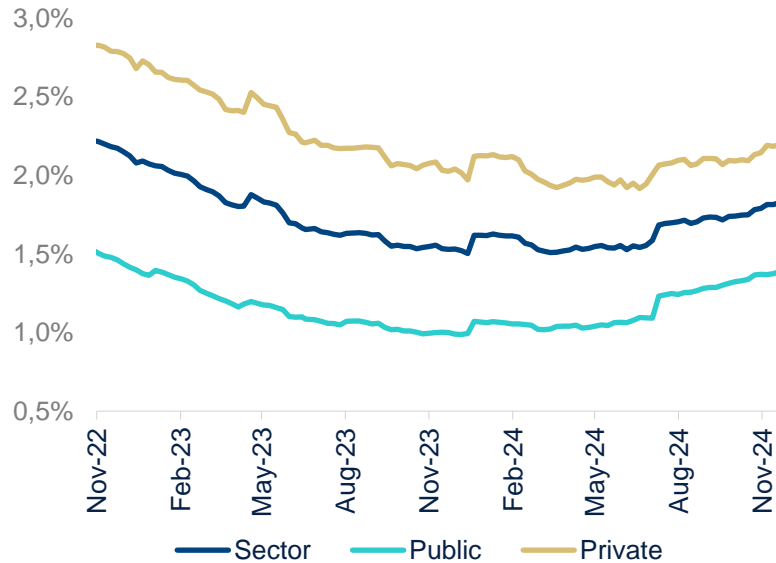


Source: KAP (Public Disclosure Platform), Garanti BBVA Research.

As of November, the NPL ratio of the sector rose to 1.8% with the deterioration becoming more visible in the retail segment

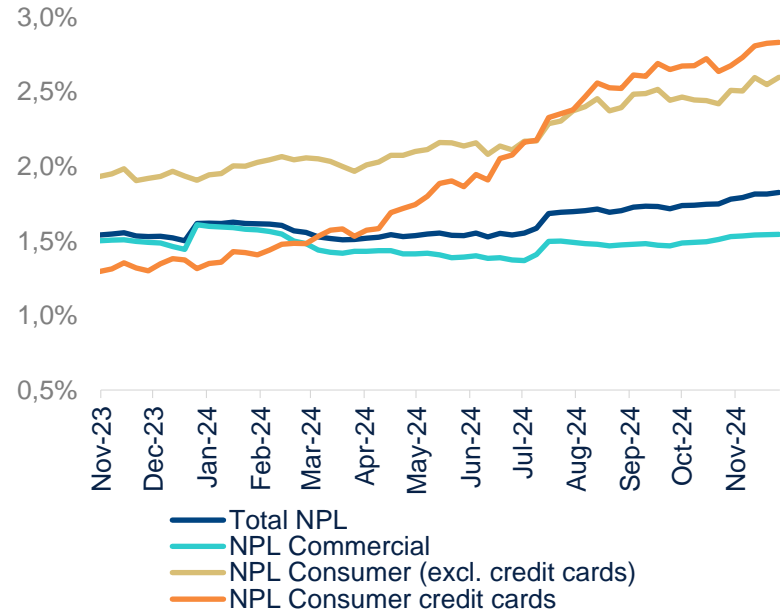
NPL RATIO

%



NPL IN SUB-SEGMENTS

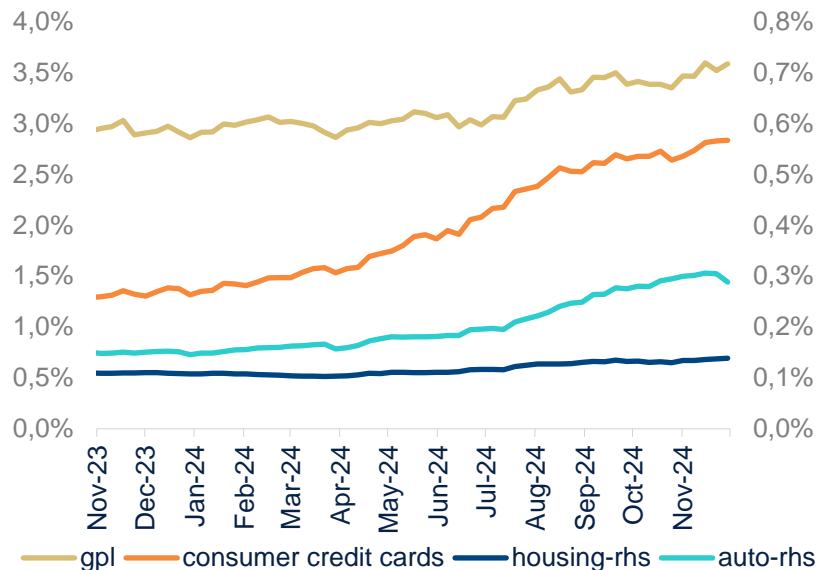
%



NPL ratio for consumer credit cards rose to 2.8% and for consumer credits to 2.7%. The ratio for commercial credits hovers at around 1.7%.

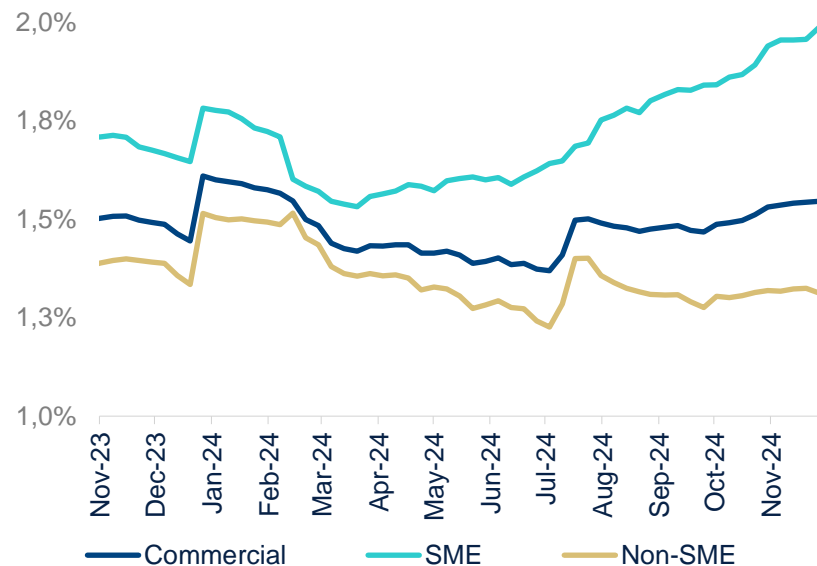
NPL IN CONSUMER LOANS

%



NPL IN COMMERCIAL LOANS SUBSEGMENTS

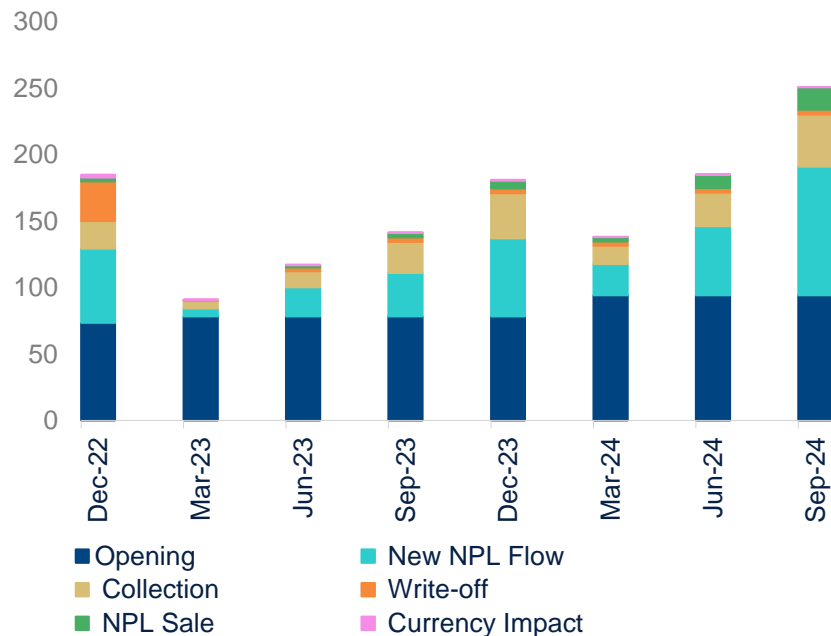
%



Increase in new NPL formation continued in 3Q24 in the sector.

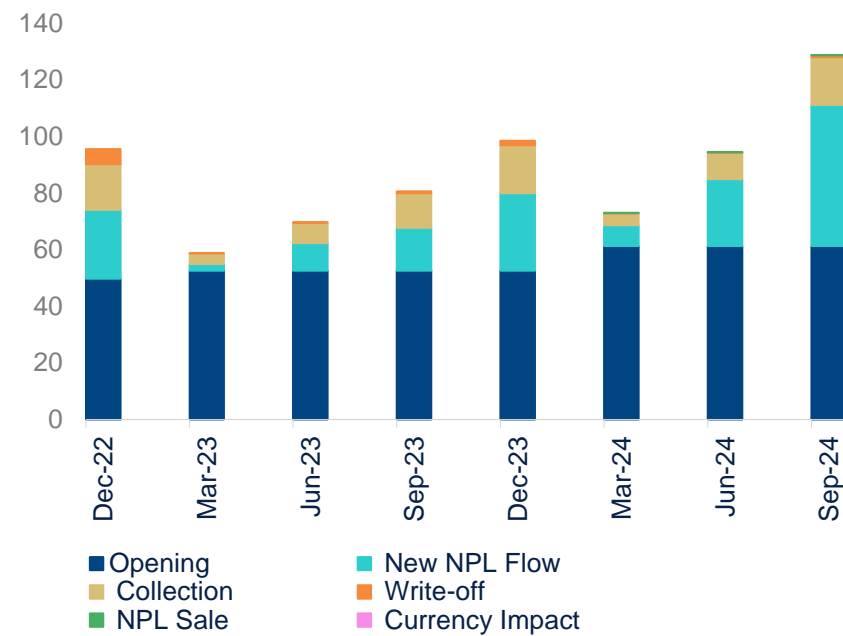
NPL MOVEMENTS PEER PRIVATE BANKS*

BN TL



NPL MOVEMENTS PEER PUBLIC BANKS*

%



* Data includes 7 top peer deposit banks as 4 private and 3 public banks.

Source: KAP (Public Disclosure Platform), Garanti BBVA Research.

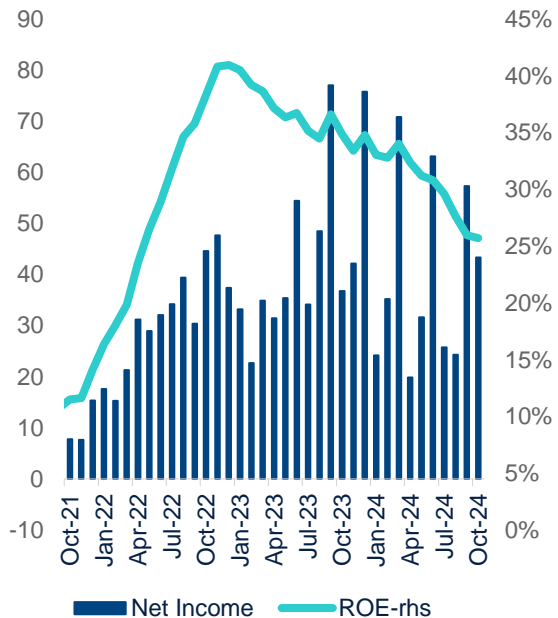
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Turkish Banking Sector: Profitability

The decline in deposit banks' net income continued in Oct24 with an annual contraction of 3%. ROE and ROA ratios fell to 25.7% and 2.2%, respectively.

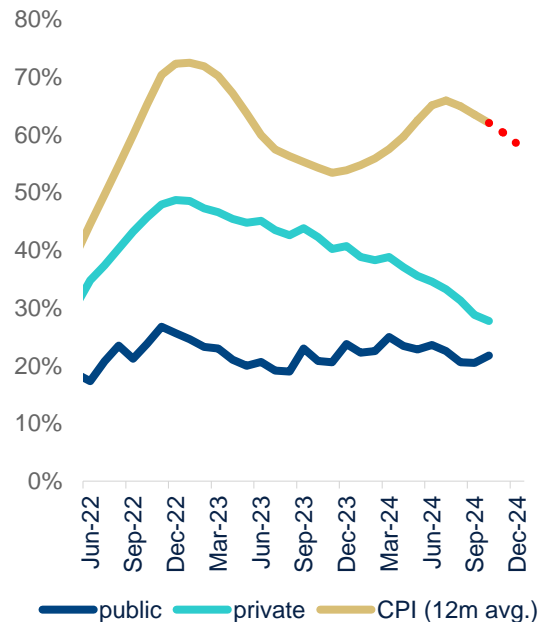
NET INCOME & RETURN ON EQUITY (ROE)

BN TL MONTHLY, % 12M CUMULATIVE



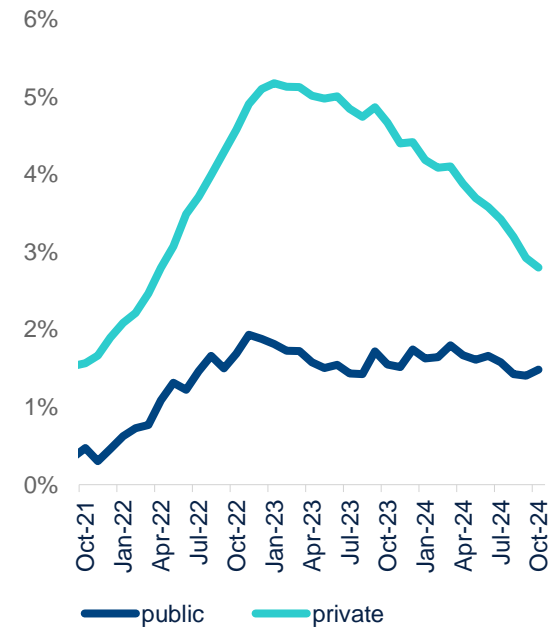
RETURN ON ASSETS (ROE)

%12M CUMULATIVE



RETURN ON ASSETS (ROA)

%12M CUMULATIVE

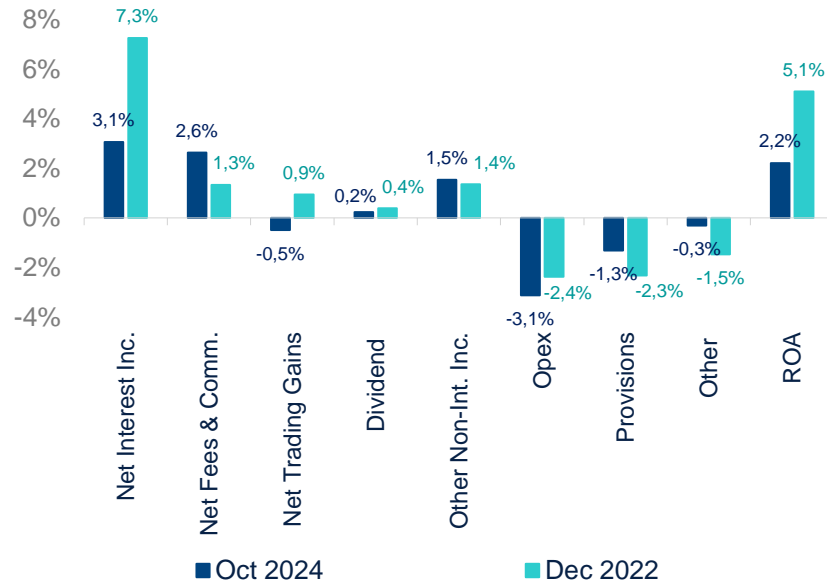


Source: CBRT, BRSA and Garanti BBVA Research.

Net interest margins of the sector remains under pressure. Overall profitability still supported by net fees & commission and other non-interest income

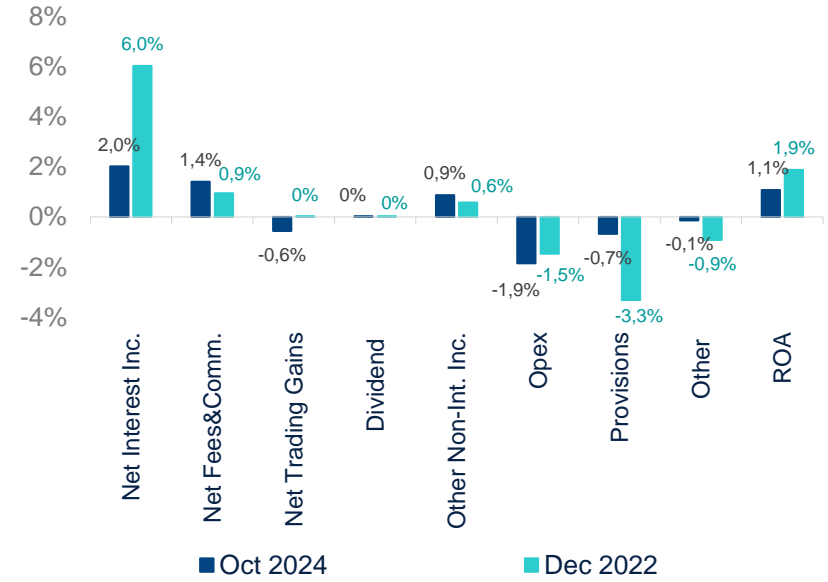
ROA COMPONENTS PRIVATE BANKS

12M CUMULATIVE AS OF OCT 2024 VS DEC 2022



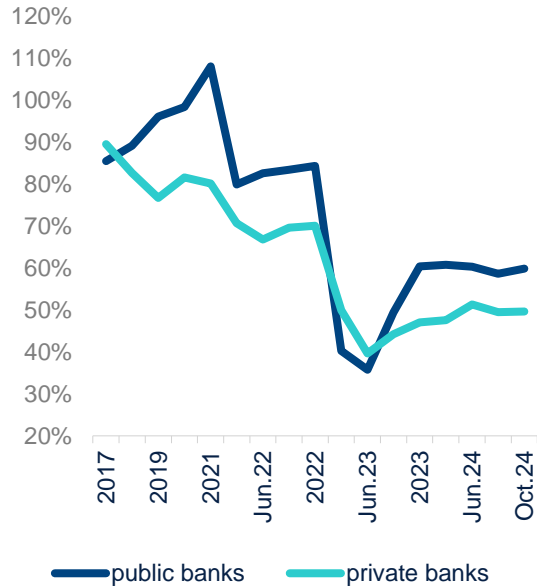
ROA COMPONENTS PUBLIC BANKS

12M CUMULATIVE AS OF OCT 2024 VS DEC 2022

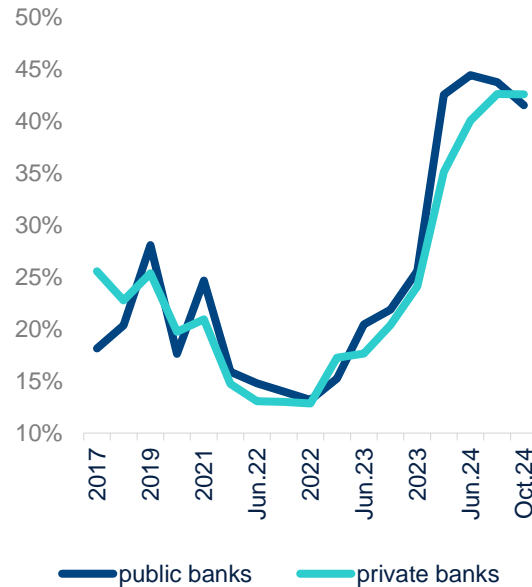


Trading & FX gains normalized in the sector, fees and commissions contribution increased albeit slower than previous months.

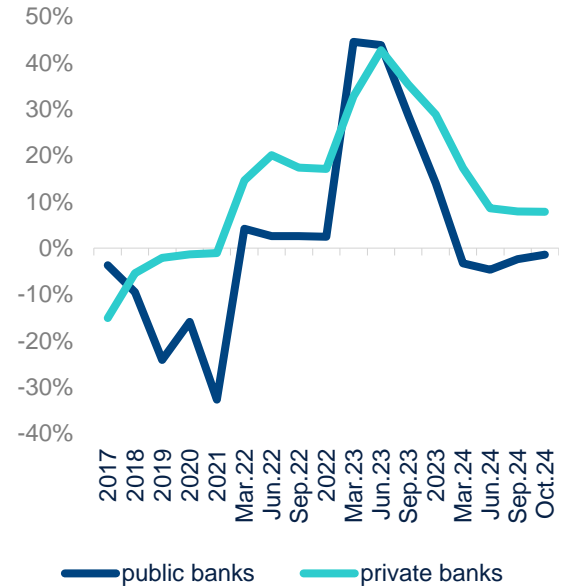
NET INTEREST REVENUE / TOTAL REVENUE, %



FEES & COMMISSION REVENUE / TOTAL REVENUE, %



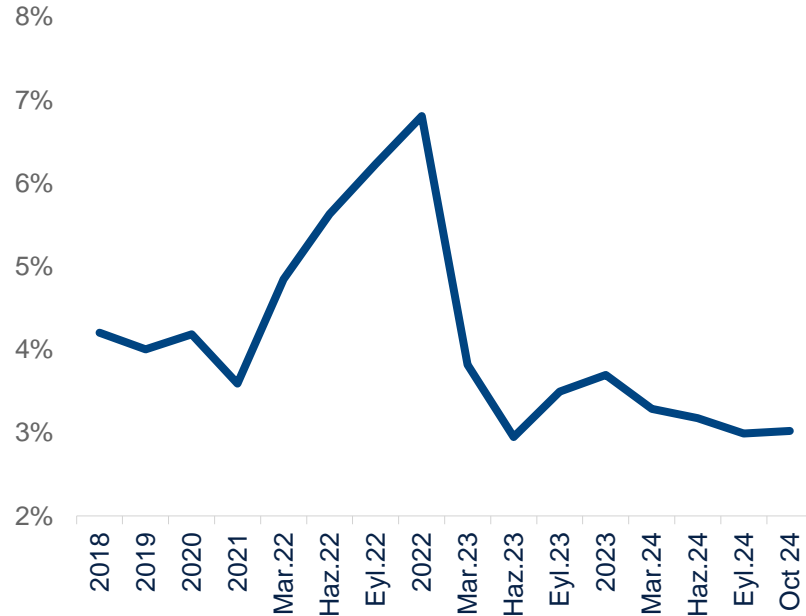
TRADING & FX GAINS / TOTAL REVENUE %



The weakening in NIM continued in Oct24. The components reveal the negative contribution of loan-deposit spread

NET INTEREST INCOME

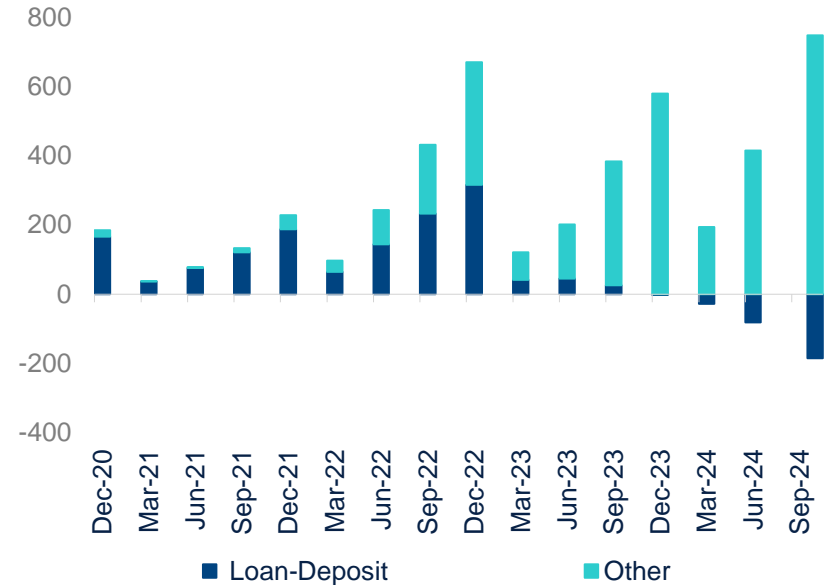
Ann. %



Source: CBRT, BRSA and Garanti BBVA Research.

COMPONENTS OF NET INTEREST INCOME*

bn TL



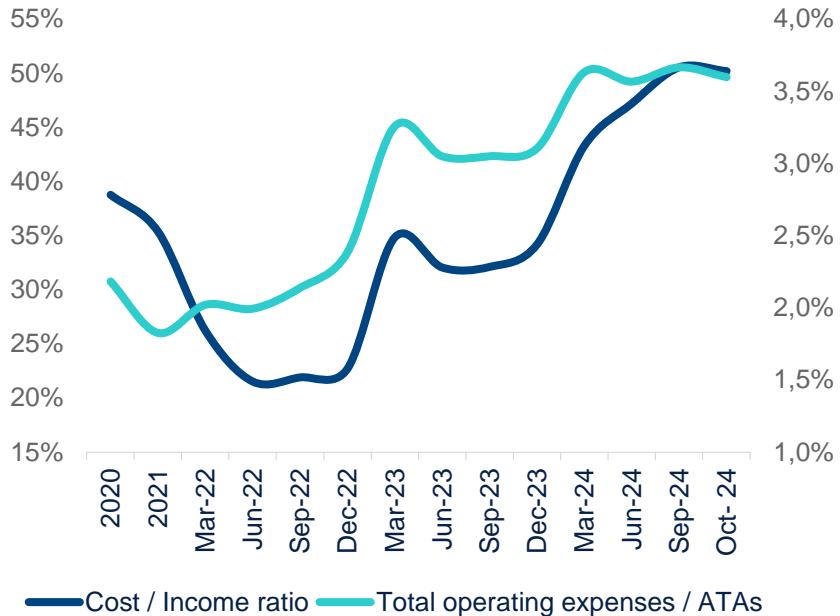
* Other Income refers to interest income coming from money market transactions, securities and repo transactions. Other Expenditures refers to interest expense coming from money market transactions, securities and repo transactions. Other refers to their sum

07

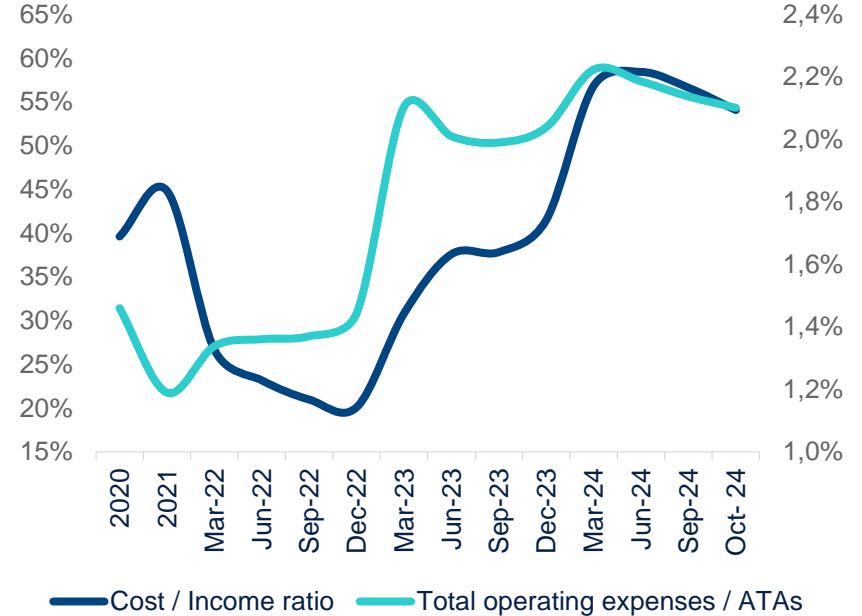
Turkish Banking Sector: Efficiency

Cost to income ratios converge in public and private banks

COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS (rhs) - PRIVATE BANKS



COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS (rhs) -PUBLIC BANKS



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Türkiye: Banking Sector Outlook

4Q 2024

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