

# Türkiye: Banking Sector Outlook 1Q 2024

Deniz Ergun  
Garanti BBVA Research

## Key messages

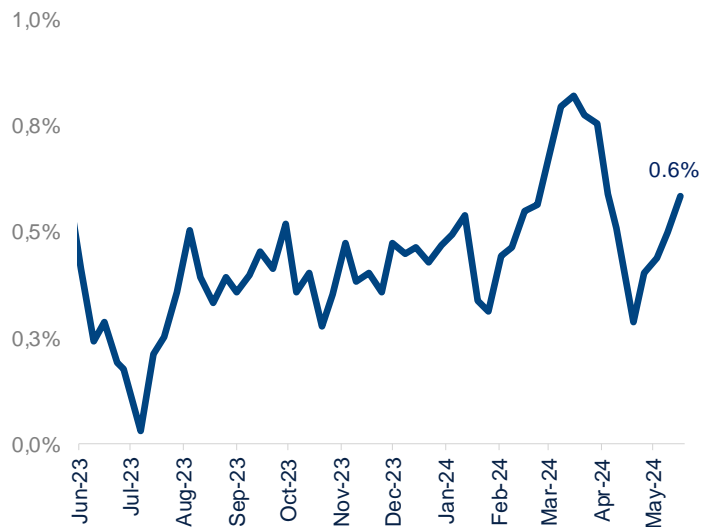
- The limited acceleration ahead of the election in March was followed by a moderation in TL credit growth thereafter. This was caused by the monthly growth rate (2%) limitations introduced for consumer credits (general purpose loans & auto loans) and TL commercial credits (excluding investment agriculture & tradesman loans) and also by the CBRT's rate hike in March by 500bps.
- FC lending most recently accelerated, mainly led by the SME lending of public banks. This was due to better spreads than in TL lending and the stability in the currency. Having in mind the improved short FX position of the real sector (\$84.7bn in Feb24 compared to \$188.2bn in Dec17), we do not see any risk yet for the banking sector. Additionally, the CBRT recently (May 23rd) introduced a monthly growth limit of 2% to limit FC credits.
- Asset quality is solid with adequate provisioning. Although being low, NPL ratios of commercial segment is concentrated in certain sectors. On retail side, a limited pick-up in NPL ratios continues, mostly for general purpose loans and consumer credit cards.
- The credit risk indicator, the share of Stage 2 and NPLs in gross loans, declined further to 9.8% in 1Q24 for peer deposit banks, according to our calculations.
- Share of FC wholesale funding has increased, led by the short-term repo funding. Banks have enough FC liquid assets to cover their ST external debt, which has also been accompanied by solid roll-over ratios.
- Profitability of the sector is under pressure due to high funding costs, which continues to be offset by fees and commission income.

01

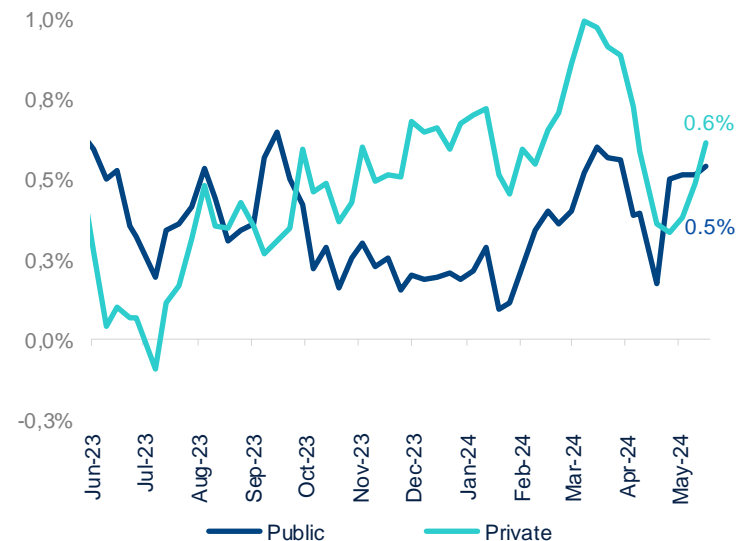
# Turkish Banking Sector: Credit Developments

In the first quarter of the year, credit growth accelerated in both public and private banks. Followed by a sharp fall the CBRT's rate hike in March, weekly growth rates have been gaining momentum again.

**TOTAL CREDIT GROWTH (FX ADJ)**  
4-WEEK AVG.

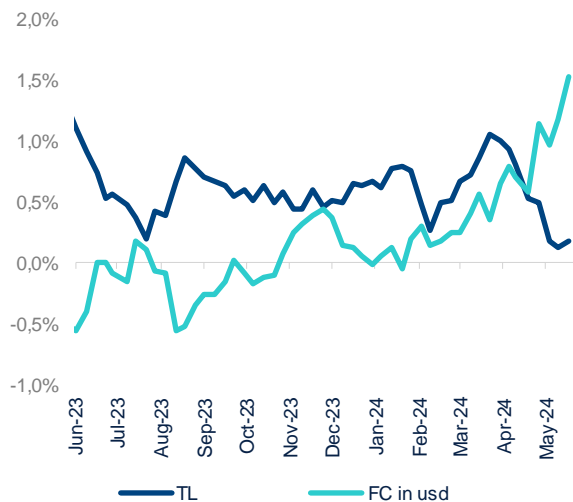


**TOTAL CREDIT GROWTH (FX ADJ)**  
4-WEEK AVG.

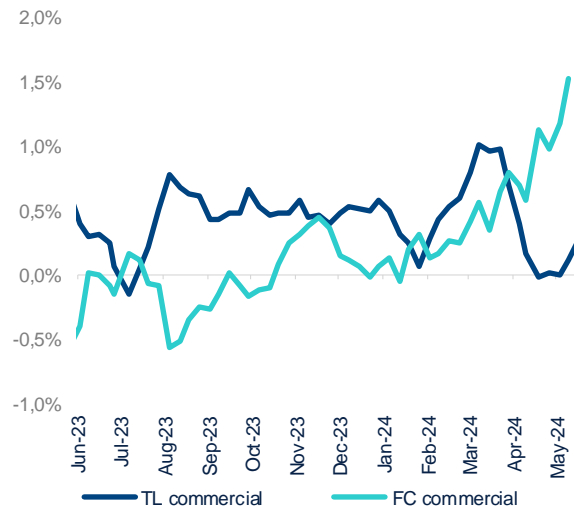


# Among subsegments of the credit composition, compared to the moderation in TL credits, FC credits accelerated sharply.

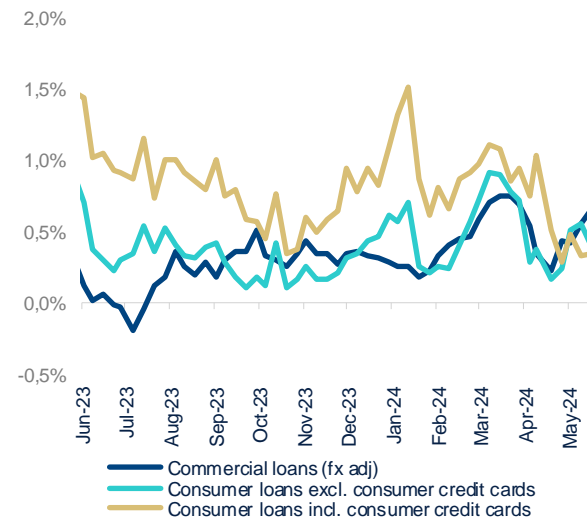
**CREDIT GROWTH COMPOSITION**  
4-WEEK AVG.



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4-WEEK AVG.



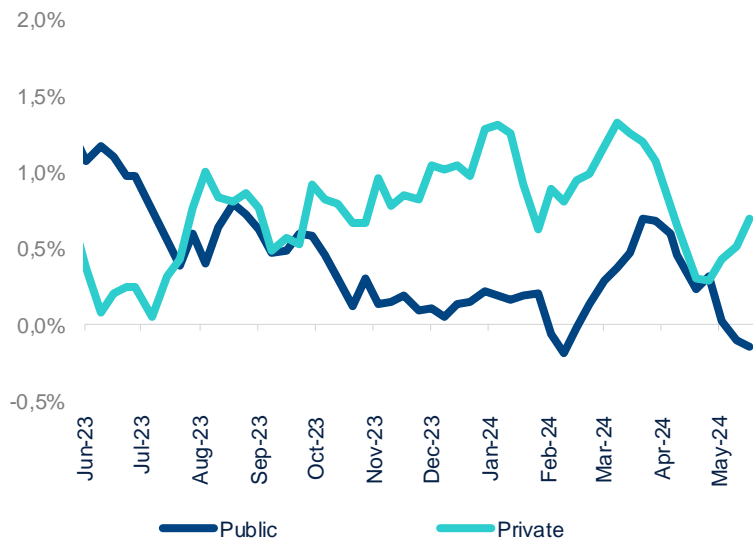
**CREDIT GROWTH COMPOSITION**  
4-WEEK AVG.



**TL credits decelerated in public banks whereas the momentum in FC credits was mostly due to public banks. However, a monthly growth limit of 2% has also been introduced for FC loans which will suppress the growth in this segment.**

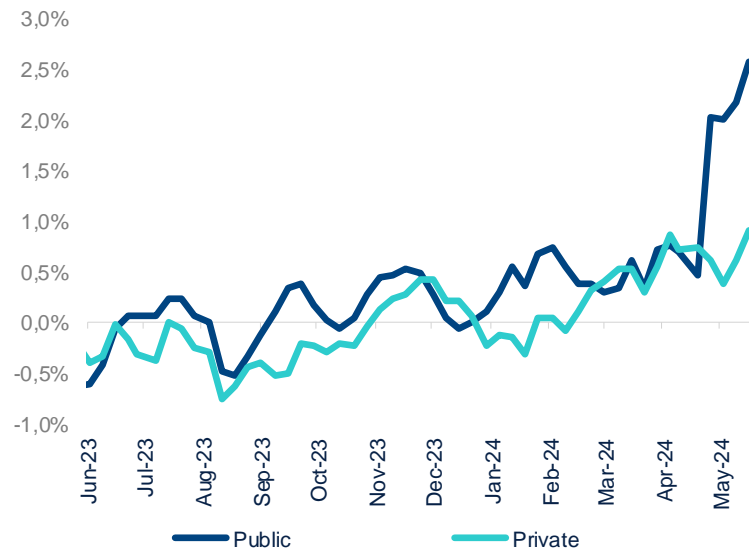
### TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

% 4WEEK AVG



### FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

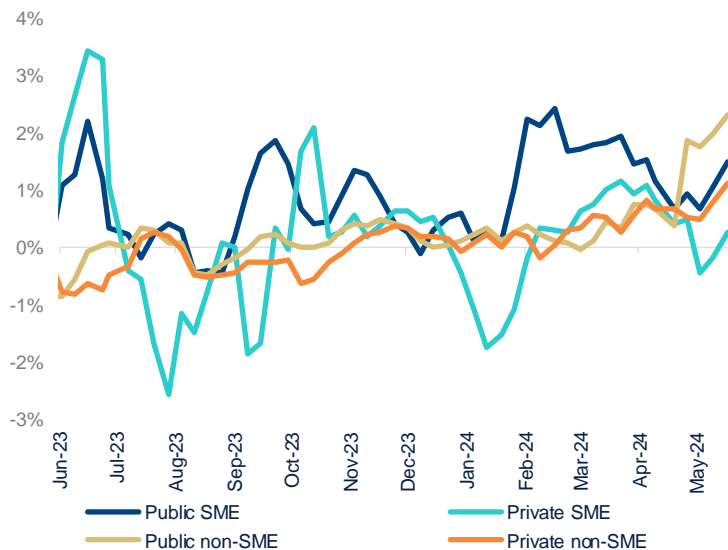
% 4WEEK AVG



**The acceleration of FC credits since Mar24 is led by SME and non-SME lending of public banks. TL commercial credits are rather boosted by private banks.**

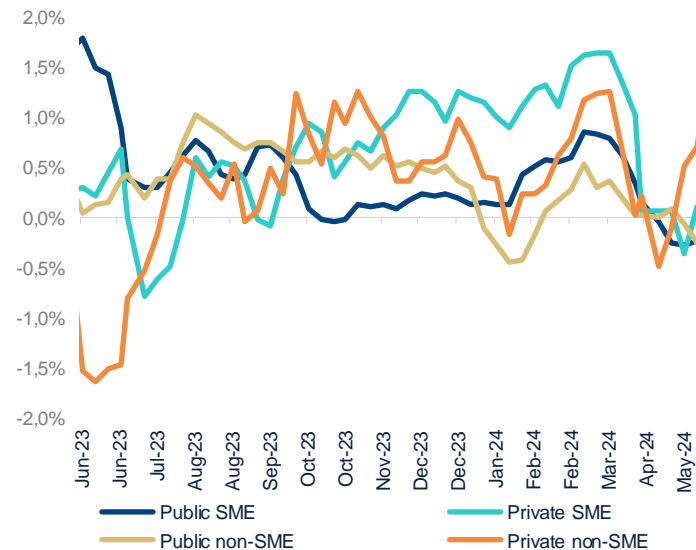
### FC COMMERCIAL CREDITS

% 4WEEK AVG



### TL COMMERCIAL CREDITS:

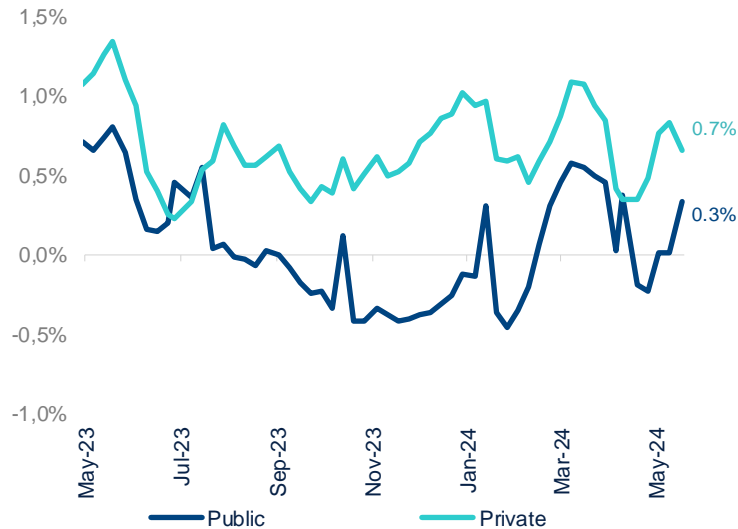
% 4WEEK Avg



Following the monthly credit gaps introduced at the start of March, consumer credits decelerated. Recently, sharp deceleration in consumer credit cards is accompanied by an increase in general purpose loans of private banks.

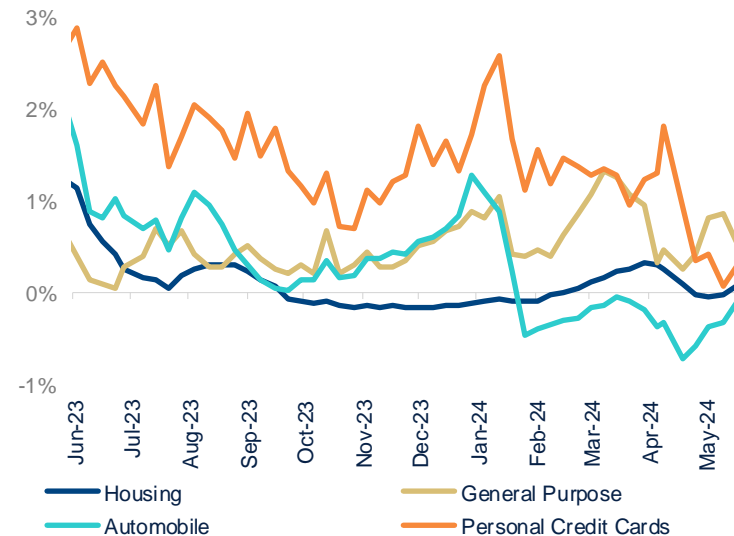
### CONSUMER CREDITS: PUBLIC AND PRIVATE BANKS

%4 WEEK AVG, EXC CREDIT CARDS



### CREDIT GROWTH: CONSUMER ON SUBSEGMENTS

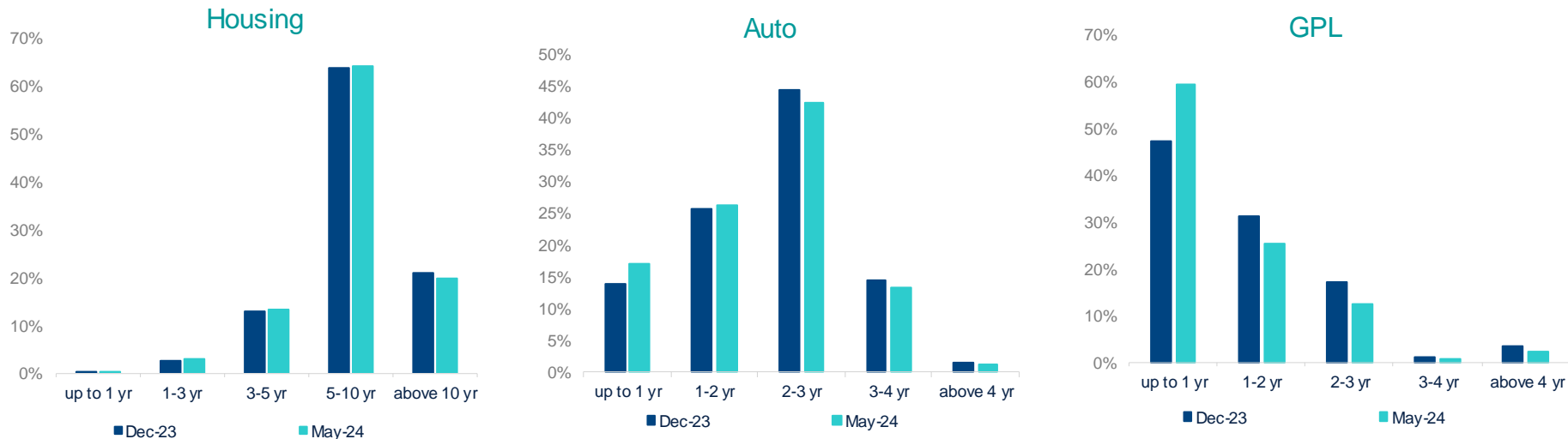
4-WEEK AVG





Following the regulations, the share of general purpose loans (GPL) concentrated on up to 1 yr maturity increased.

### CONSUMER LOANS BY ORIGINAL MATURITY, May 2024



# According to the CBRT Lending Survey, both demand and supply conditions tightened in 1Q24 and will continue so in the next quarter.

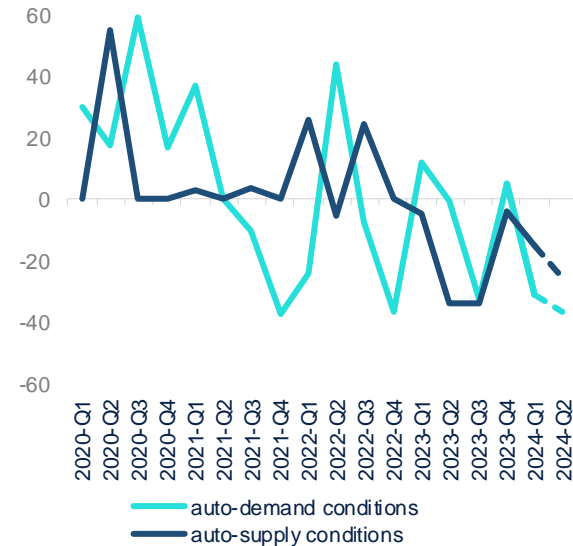
## CREDIT CONDITIONS: HOUSING

Net balance



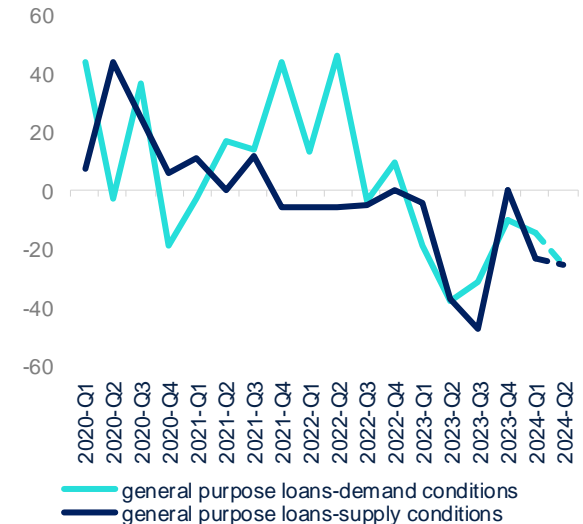
## CREDIT CONDITIONS: AUTO

Net balance



## CREDIT CONDITIONS: GPL

Net balance

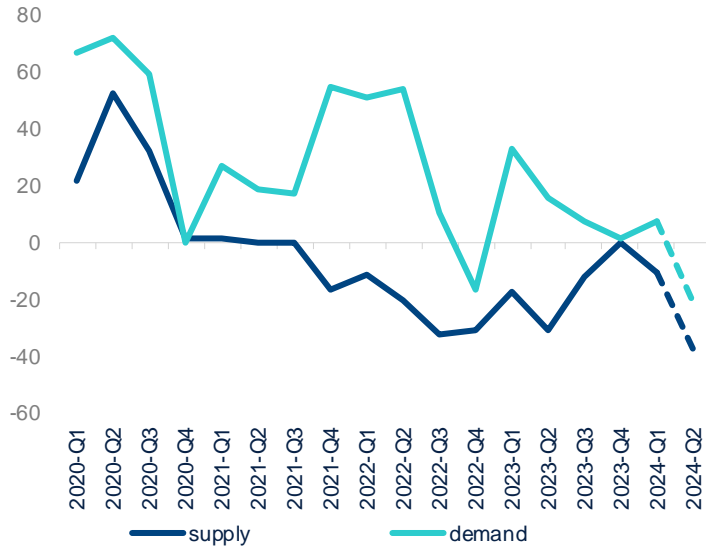


\* >0 Easing; <0 Tightening

The financing need of the real sector in 1Q24 was caused by corporate restructuring purposes. Supply conditions for commercial credits tightened in 1Q24 and will further tighten in 2Q24 in line with demand.

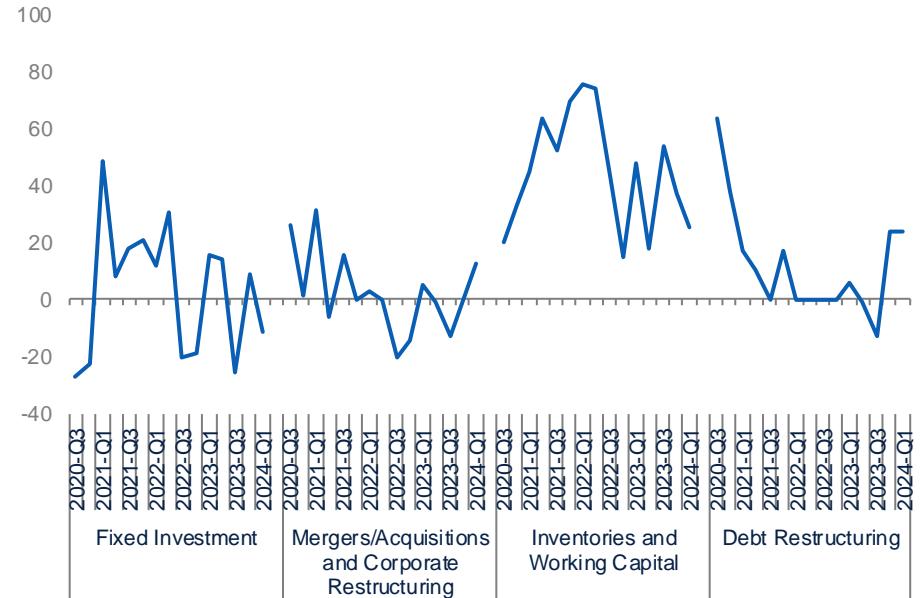
**CREDIT CONDITIONS: COMMERCIAL**

Net balance



**FINANCING NEEDS OF THE REAL SECTOR FOR DIFFERENT PURPOSES**

Positive= increase in demand, Negative=Decrease in demand



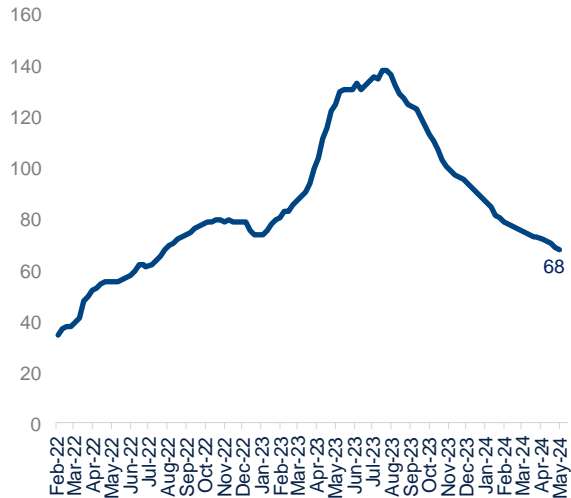
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# Turkish Banking Sector: Liquidity

**Regulations continue to incentivize banks to unwind the FX protected scheme accounts. The declining trend in the scheme continues, mainly flowing into TL time deposits. Since the local election, FX deposits declined by \$11.6bn.**

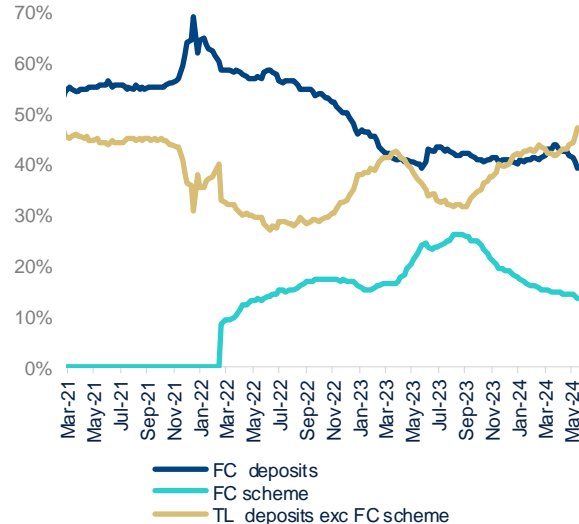
### SIZE OF FC PROTECTED SCHEME

in \$bn, adjusted by 13-week USDTRY avg



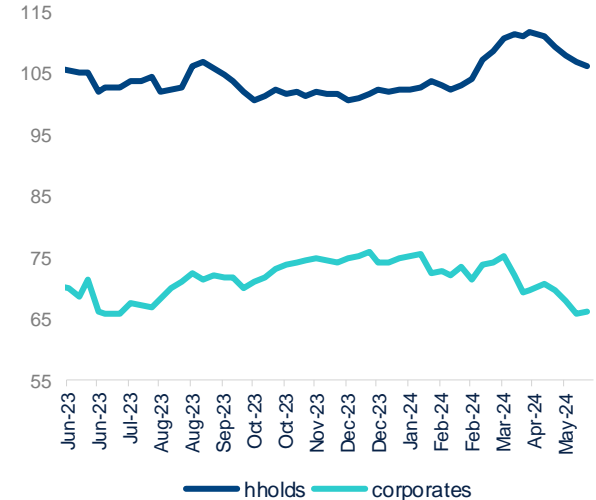
### DISTRIBUTION AMONG DEPOSITS

% share in total



### FC DEPOSITS OF RESIDENTS

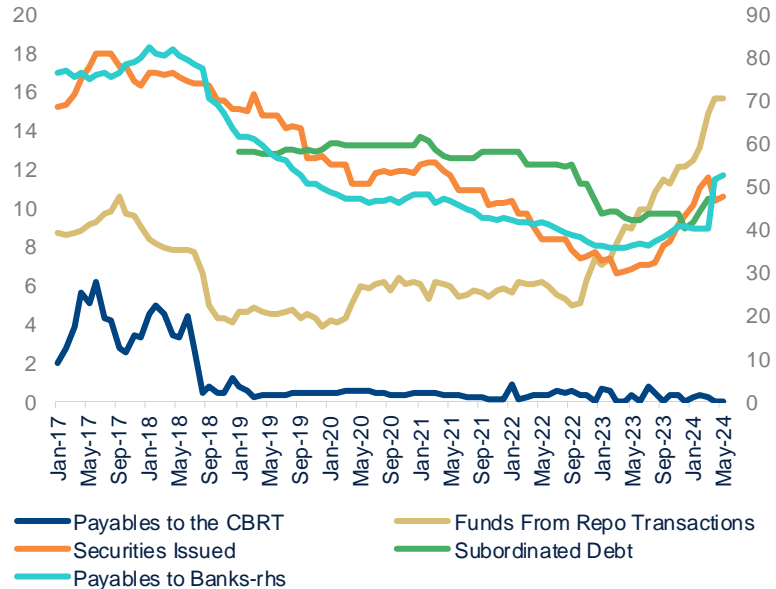
bn USD



# FX wholesale liabilities of banks have been increasing to their 2017-2018 levels.

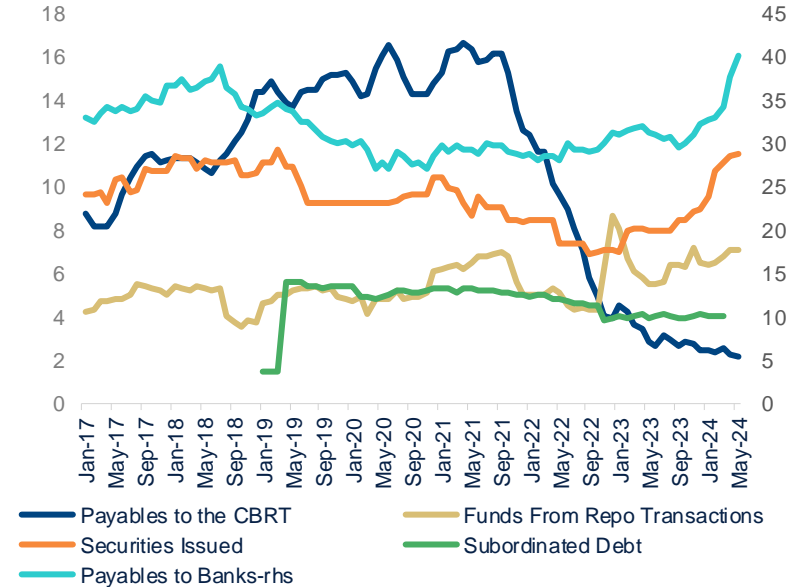
## FX WHOLESALE LIABILITIES\*

USD thousands, Private Banks



## FX WHOLESALE LIABILITIES

USD thousands, Public Banks

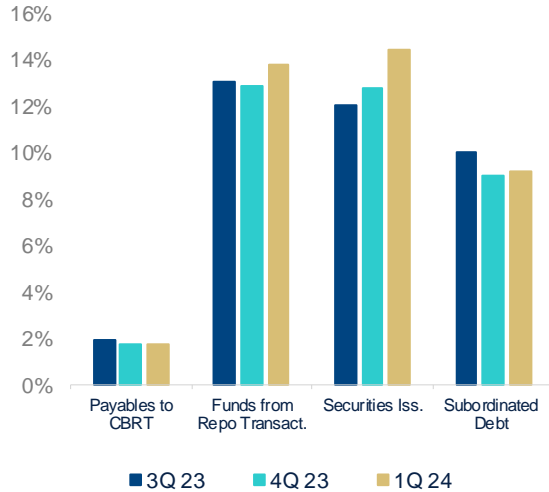


\* Weekly data for «subordinated debt» for April 2024 does not exist. Hence, monthly BRSA data is used.

**Among FX wholesale liabilities, banks increased their repo funding and bond issuances in the first quarter which are rather impacted by the changes in global interest rates and also by currency volatility.**

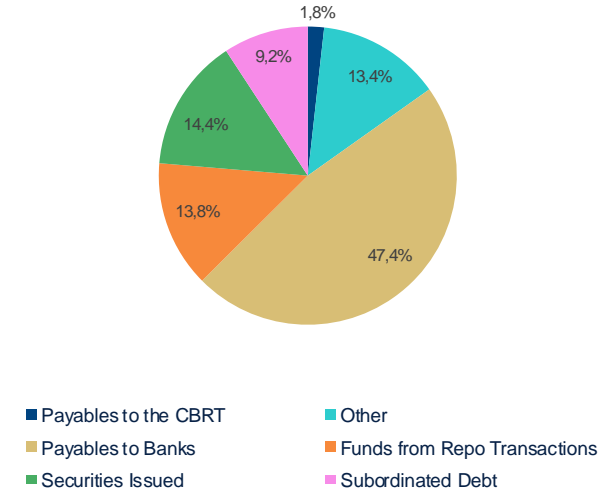
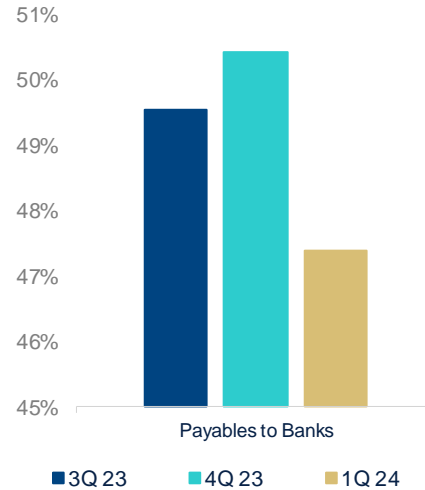
### FX WHOLESALE LIABILITIES

Sector, share in total



### FX WHOLESALE LIABILITIES

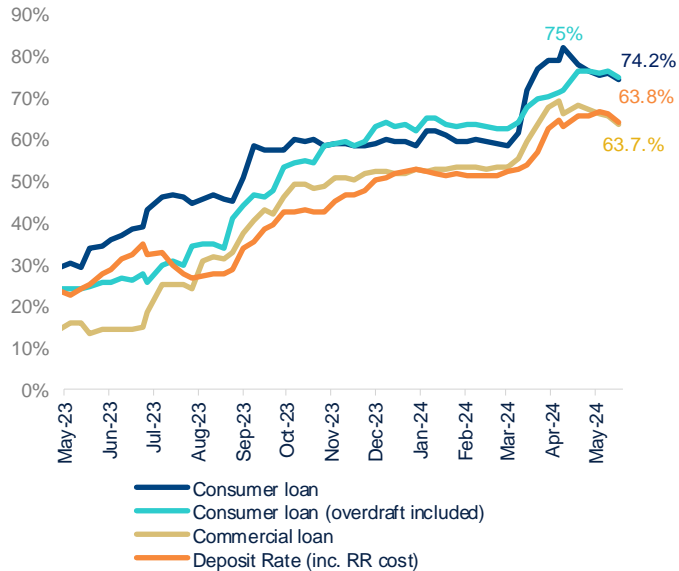
Sector 1Q24, share in total



**The recent easing in deposit rates caused by the excess TL liquidity will turn back into an upward movement in the coming weeks due to the CBRT's recent announcement\* to increase the TL reserve requirements for TL deposits.**

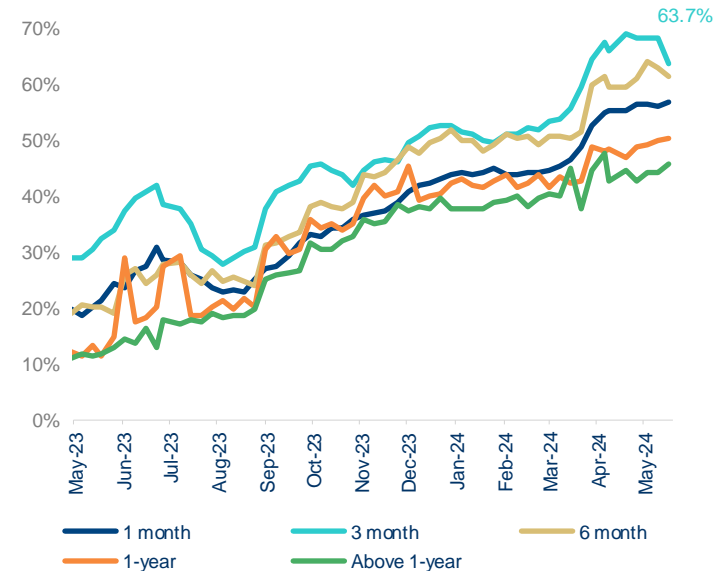
## CONSUMER & TL COMMERCIAL RATES

%, flow, sector



## TL DEPOSIT INTEREST RATES

%, flow, sector, without RR cost



Reserve requirement ratios for TL deposits have been increased from 8% to 12% for short-term and from 0% to 8% for long-term TL deposits. Also, it has been raised from 25% to 33% for short-term and from 10% to 22% for long-term FX-protected deposits

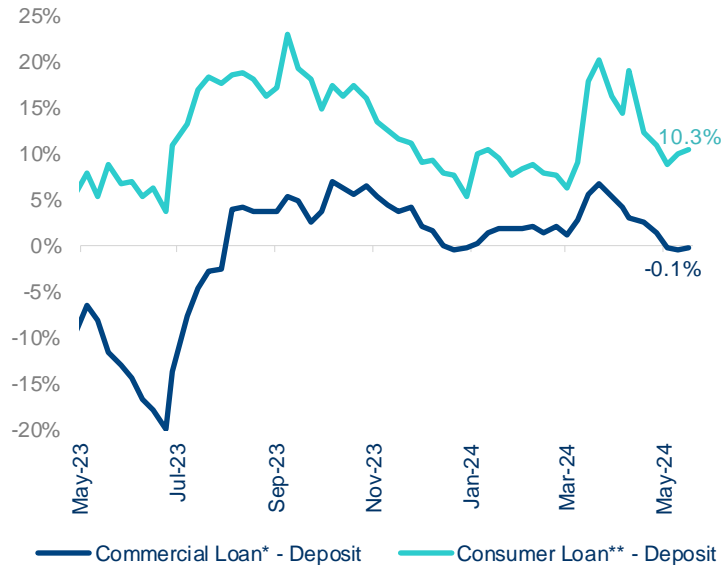
Source: CBRT & Garanti BBVA Research



**Spreads have been falling mainly on the commercial segment. They will continue to be negatively affected by the increasing reserve requirement costs. Hence, banks will most probably increase their commercial credit rates.**

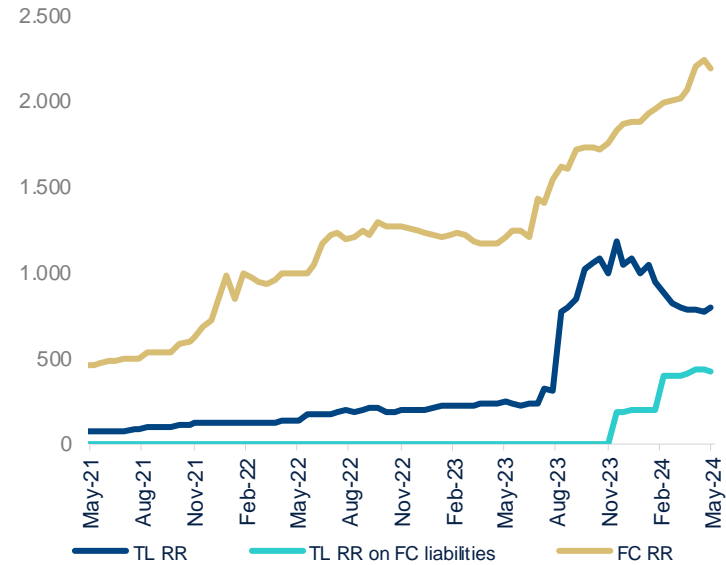
### TL INTEREST RATE SPREAD

% , including RR cost



### RESERVE REQUIREMENT VOLUME

mn TL

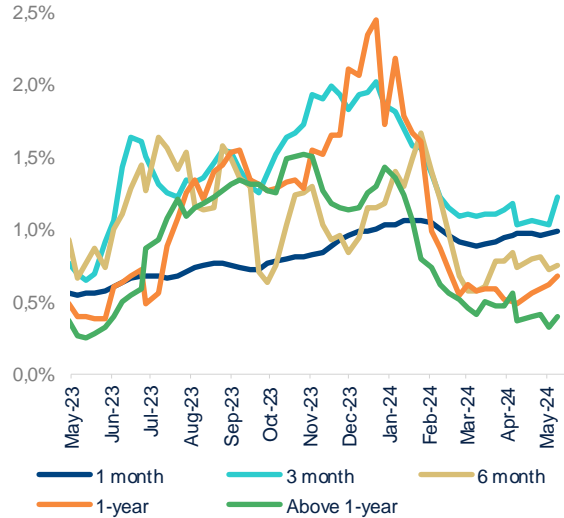


\* excludes corporate overdraft account rates and corporate credit card rates. \*\* excludes other consumer overdraft account rates.

# USD credit spreads were favorable, supporting the supply side effect of the increase in FC loans.

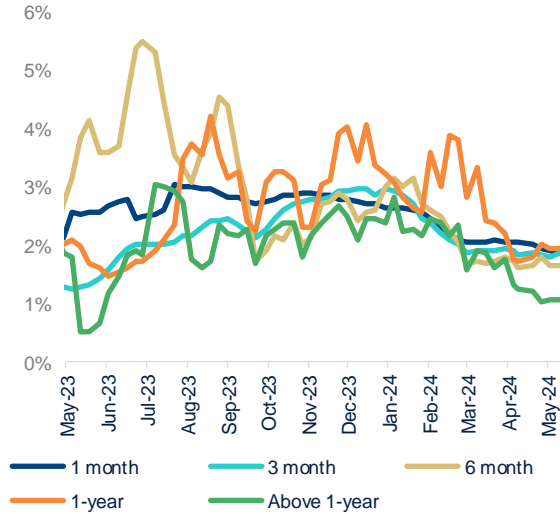
## EURO DEPOSIT RATES

%, 4-week avg flow, sector



## USD DEPOSIT RATES

%, 4-week avg flow, sector



## FC INTEREST RATE SPREAD

%, 4-week avg flow, sector

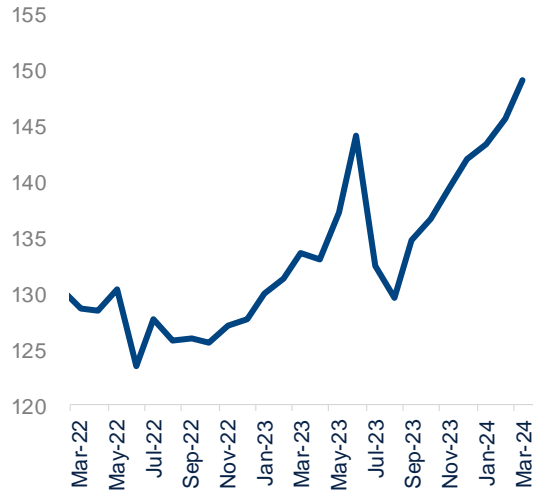


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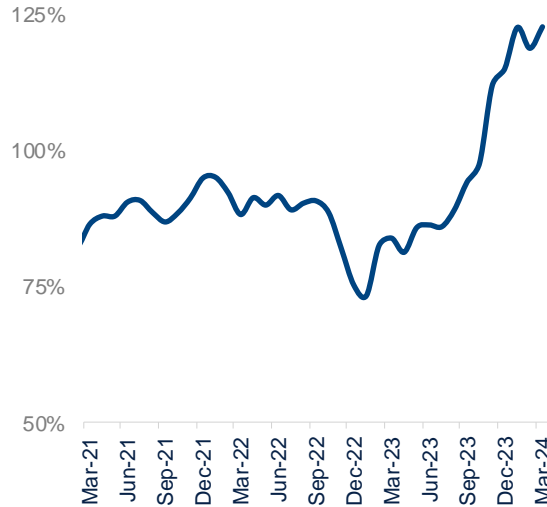
# Turkish Banking Sector: External Debt & FC Liquidity

# Banks' external credits continue to increase but with solid roll-over ratios. Highest FC debt redemptions will be in June and Nov'24.

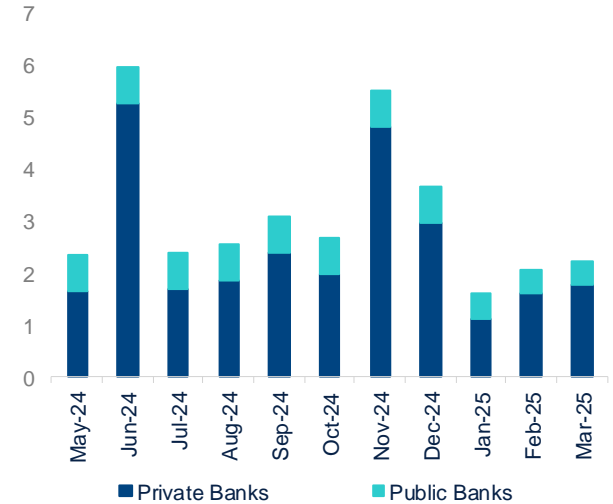
**BANKS' TOTAL EXTERNAL DEBT**  
BN USD



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



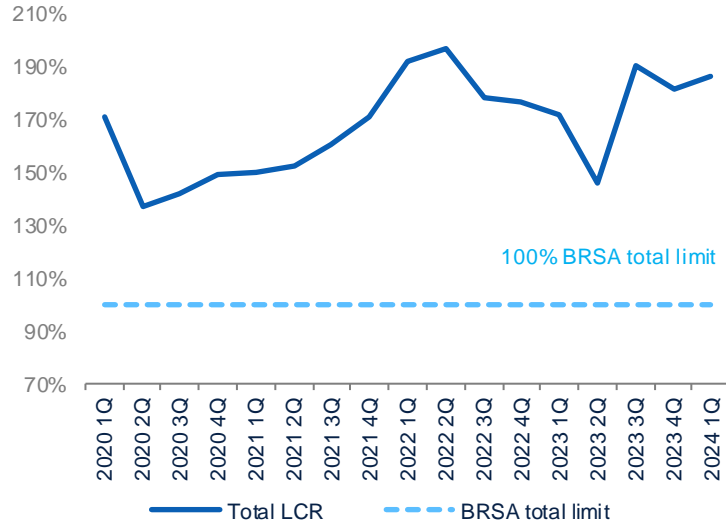
**BANKS' EXTERNAL CREDIT REDEMPTIONS**  
BN USD



## Liquid assets of banks are at solid levels.

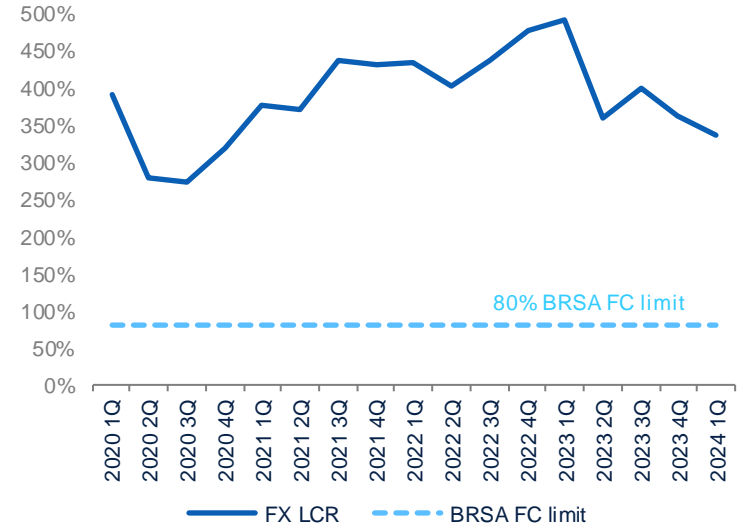
### TOTAL LIQUIDITY COVERAGE RATIO\*

%



### FC LIQUIDITY COVERAGE RATIO

%

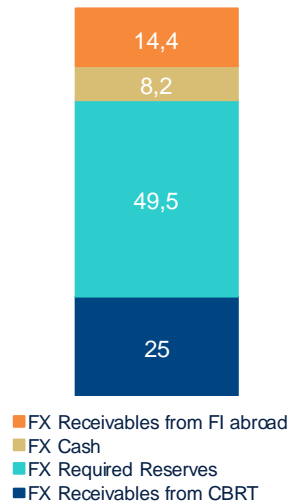


\* Liquidity coverage ratios (LCR) are calculated weekly and are indicators of banks' ability to meet short-term potential net cash outflows with their existing stock of high-quality liquid assets.

# Foreigners' FX deposits in the banking sector make up USD 30bn by 1Q24. Given the significantly above 100% credit roll-over rates most recently, banks are comfortable on compensating their ST FX needs.

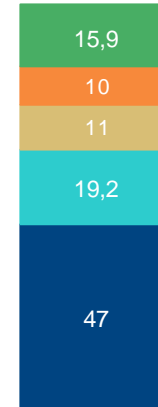
## SELECTED FX LIQUID ASSETS\* OF BANKS

bn USD, Mar24



## BANKS' EXTERNAL DEBT DUE ONE YEAR

bn USD, Mar24



- Resident Banks Subsidiaries FX+TL dep.
- Foreigner TL deposit
- Foreign bank FX deposit
- Foreigner retail FX deposit
- Banks' Credits

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

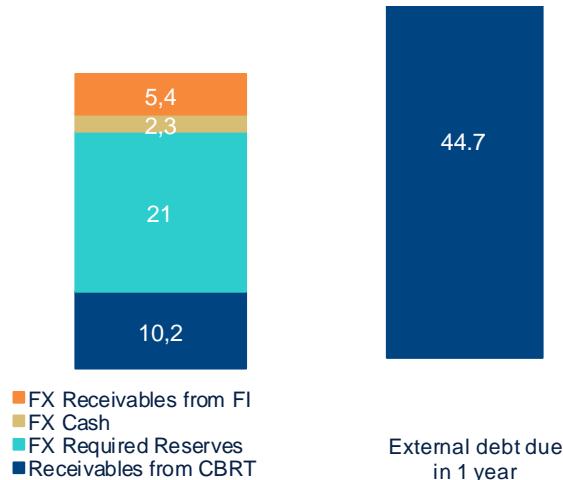
See: <http://www.tcmbblog.org/wps/wcm/connect/blog/en/main+menu/analyses/the+turkish+banking+systems+fx+liquidity+shield>

Source: CBRT, BRSA and Garanti BBVA Research

# Public banks FX liquid assets are lower compared to private banks.

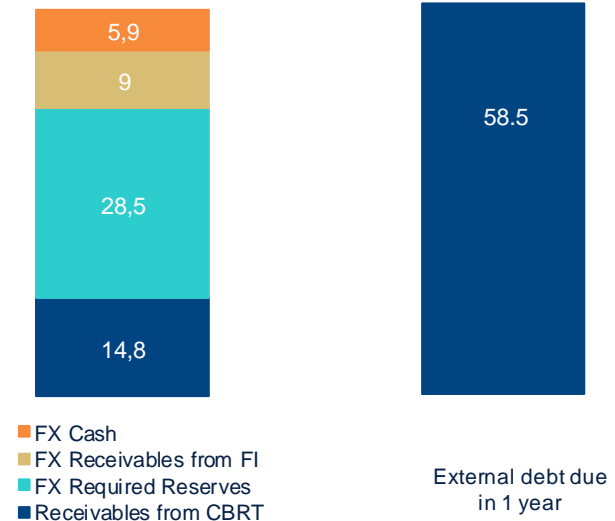
## FX LIQUID ASSETS\* OF PUBLIC BANKS

bn USD, May24



## FX LIQUID ASSETS\* OF PRIVATE BANKS

bn USD, May24 6



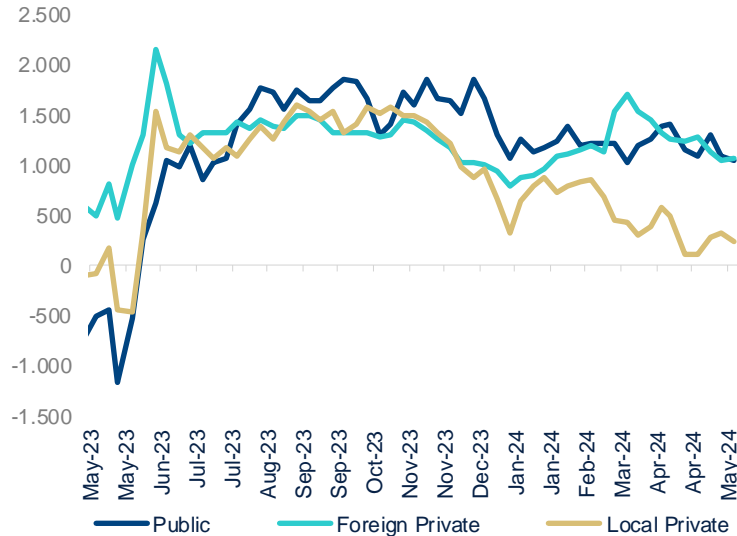
Ext. debt refers to the latest data of March'24.

Source: CBRT, BRSA and Garanti BBVA Research

**The CBRT reduced its bilateral swaps with local banks in order to sterilize TL liquidity, led by its heavy FC purchases from the market since April. Banks on-balance sheet FX position has been declining, accordingly.**

### FX NET GENERAL POSITION OF BANKS

level, mn USD



### CBRT SWAPS WITH LOCAL BANKS

level, mn USD



\*The regulatory limit for the FXNGP/capital ratio, which was formerly 20%, was decreased to 5% with an amendment that took effect on 9 January 2023, but raised to 10% on 9 March 2023.

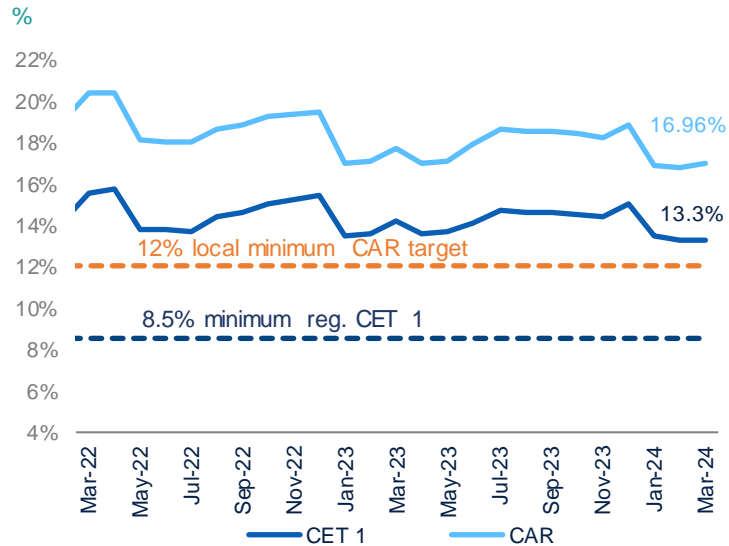


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# Turkish Banking Sector: Solvency and Capital Adequacy

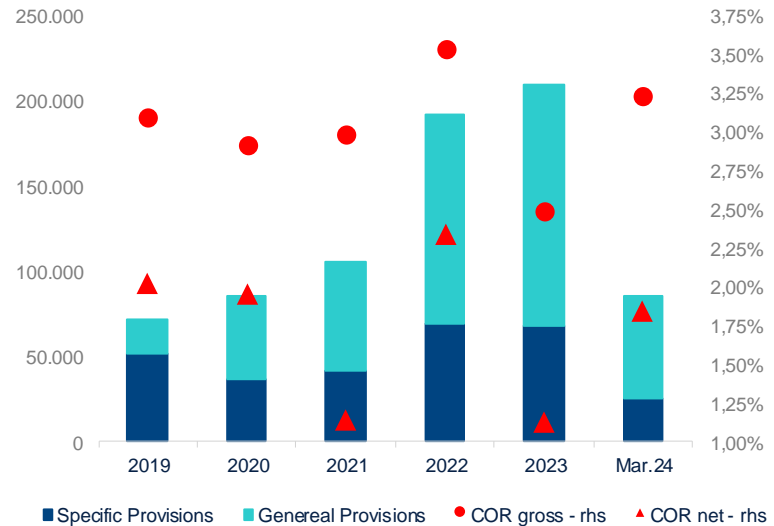
# Capital ratios of the sector are solid with CET 1 ratio being at 13% and CAR ratio at 17%. The BRSA's forbearance measures regarding CAR calculations remain implemented (1pp positive impact on CAR).

## CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO\*



## COST OF RISK (COR)\*\*

LOAN LOSS PROVISIONS / AVERAGE NET LOANS



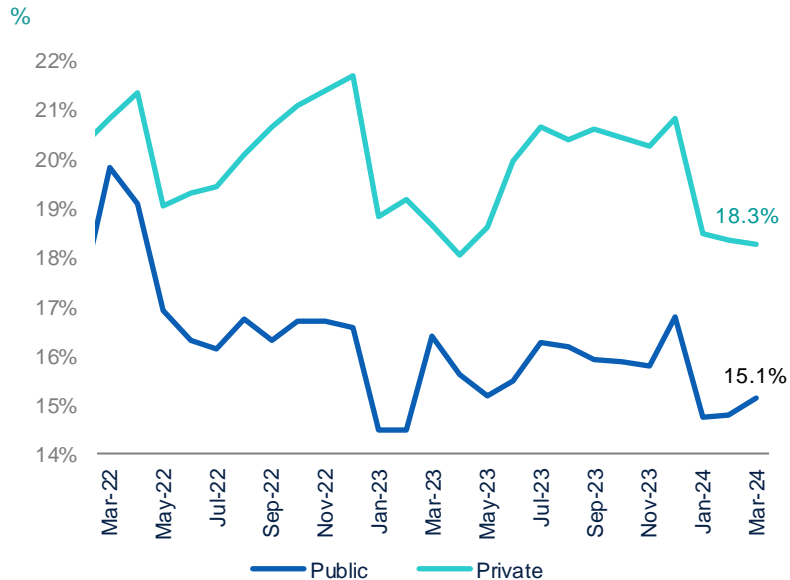
On 31 July 2023, BRSA raised the risk weights for general-purpose loans, personal credit cards and vehicle loans. On August 2023, BRSA decided to increase the risk weight for housing loans to owners of at least one house from 35% to 150%. Due to higher risk weights applied to retail and commercial loans in recent years, items subject to a risk weight of 150% and 200% have increased.

\* Common Equity Tier 1

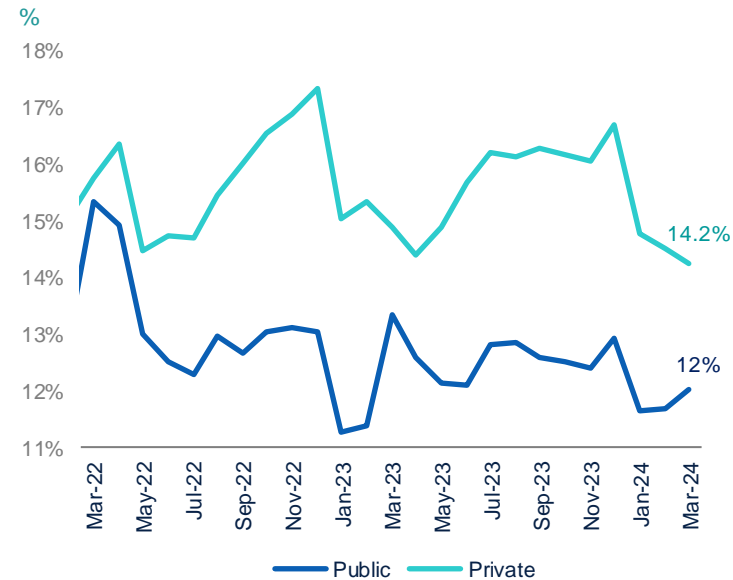
\*\* Deposit banks, net cost of risk refers to the loan loss provisions excluding foreign currency effects and expected loss reversals

**Increase in risk weighted assets due to a rise in operational risk in banks (mostly seasonal due to its once in a year calculation in every January) caused a decrease in capital ratios in 1Q24. The dividend payments made in this period also reduced the equity levels as well.**

**CAPITAL ADEQUACY RATIO: PUBLIC AND PRIVATE BANKS**



**CET 1\* RATIO BY PUBLIC AND PRIVATE BANKS**



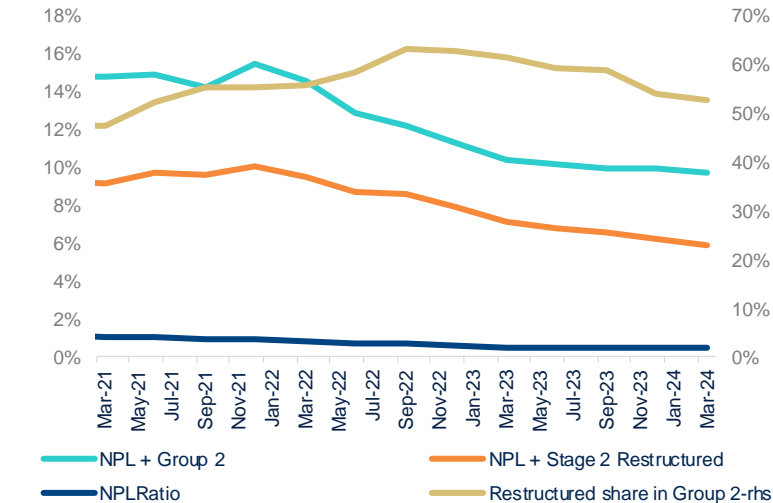
\* Common Equity Tier 1

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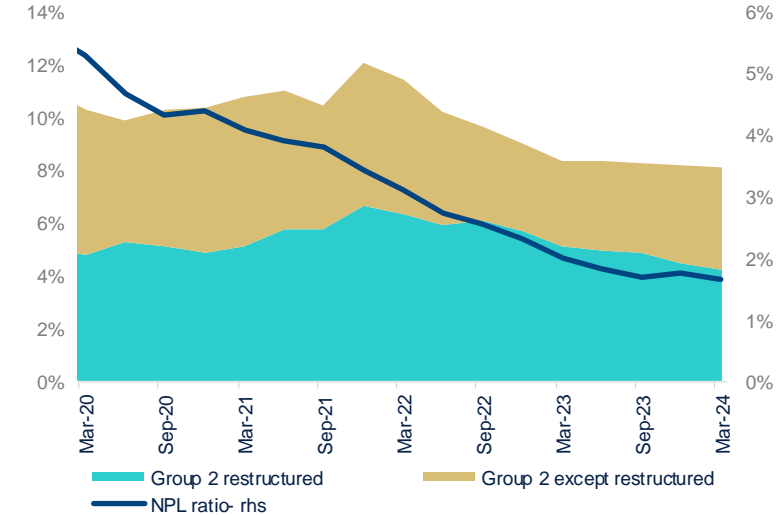
# Turkish Banking Sector: Asset Quality

The share of restructured loans to gross loans in peer deposit banks fell to 4.2% in Mar24 from 5.1% in Mar23. The share of the sum of Stage 2 and NPLs\* declined to 9.8% from 10.4% in the same period.

### ASSET QUALITY OUTLOOK: PEER DEPOSIT BANKS\*\*



### SHARE OF STAGE 2 LOANS & RESTRUCTURED LOANS



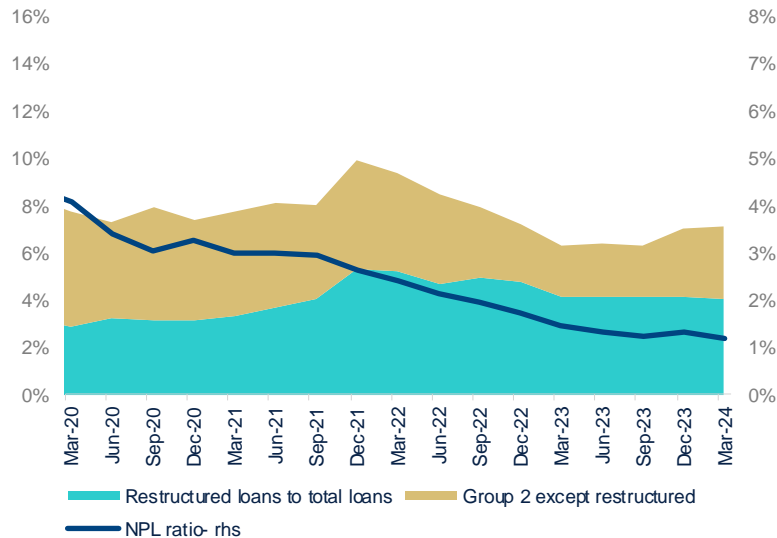
\* According to the definition of the CBRT Financial Stability Report, the share of the sum of Stage 2 and NPLs in gross loans is taken into account as total credit risk. Of restructured loans, 91% are monitored under Stage 2; 8% are monitored under NPL and a limited portion under the Stage 1 group (CBRT Financial Stability Report Nov23).

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

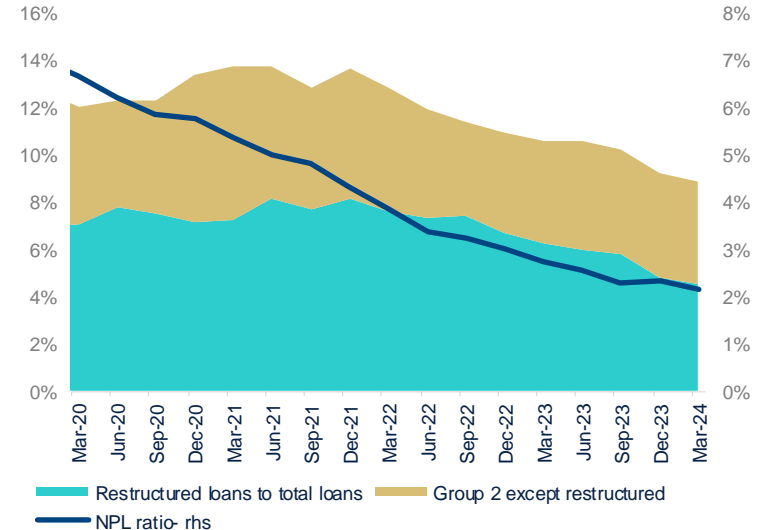
Source: KAP (Public Disclosure Platform), Garanti BBVA Research

The share of the sum of Stage 2 and NPLs declined further to 11.3% in Mar24 from 13.6% in Mar23 for private peers. It rose however to 8.4% from 7.8% for public peers with an increase in their group 2 loans.

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



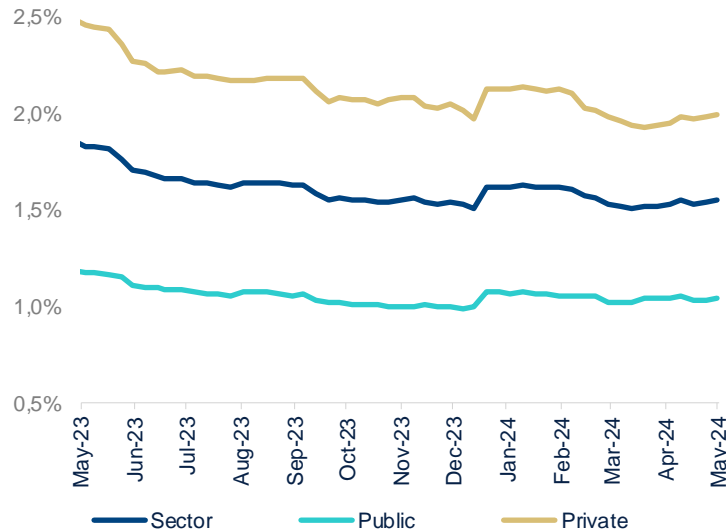
RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS:  
PRIVATE DEPOSIT BANKS



## Although still being at historically low levels, the NPL ratio in consumer segment has started to move upwards.

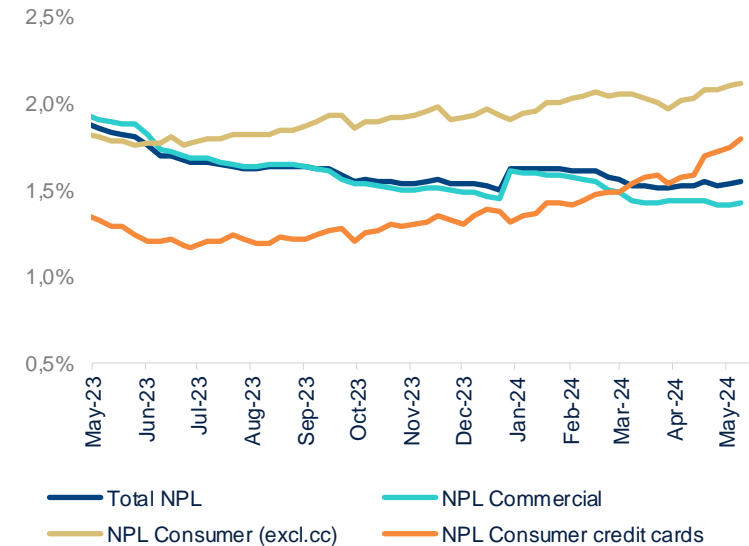
### NPL RATIO BY SECTORS

%



### NPL IN SUB-SEGMENTS

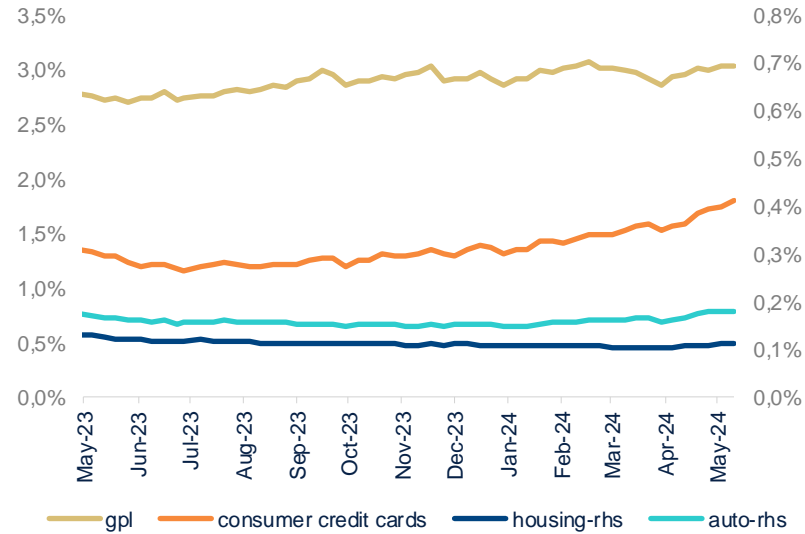
%



# NPL ratios of general purpose loans and credit cards continue to increase. NPL ratios in commercial credits are stable.

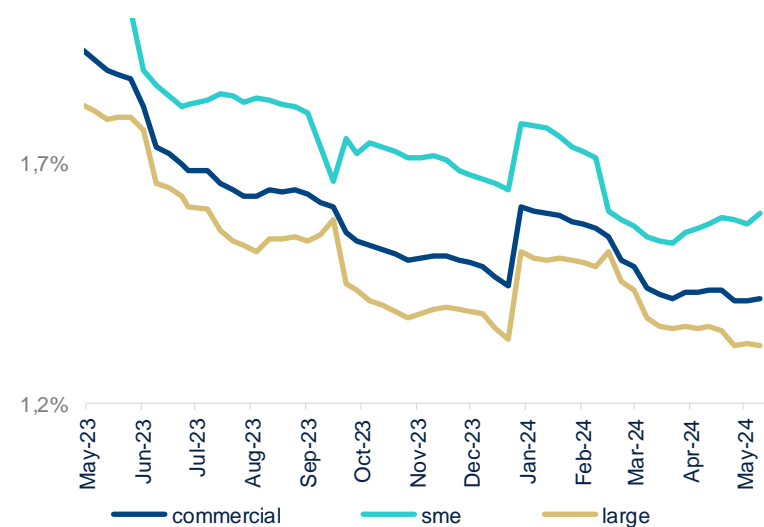
## NPL IN CONSUMER LOANS

%



## NPL IN COMMERCIAL LOANS SUBSEGMENTS

%

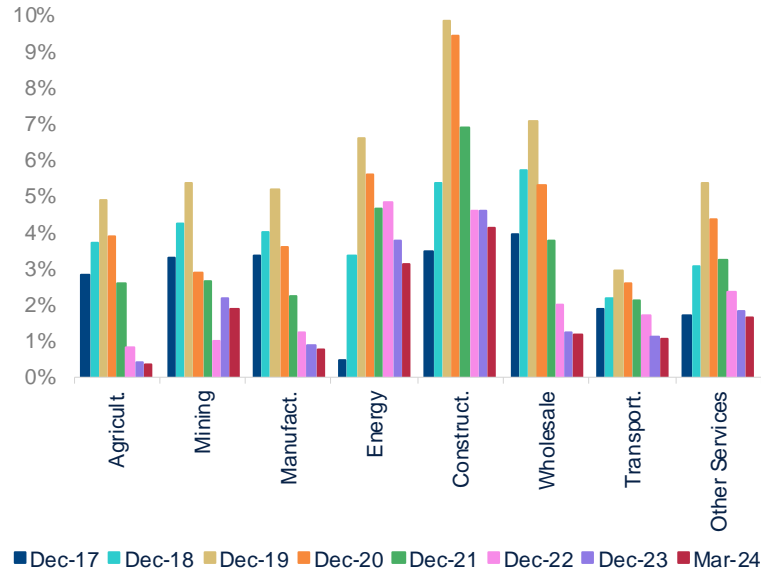




## Among sectors, construction continues to lead in terms of NPL ratio.

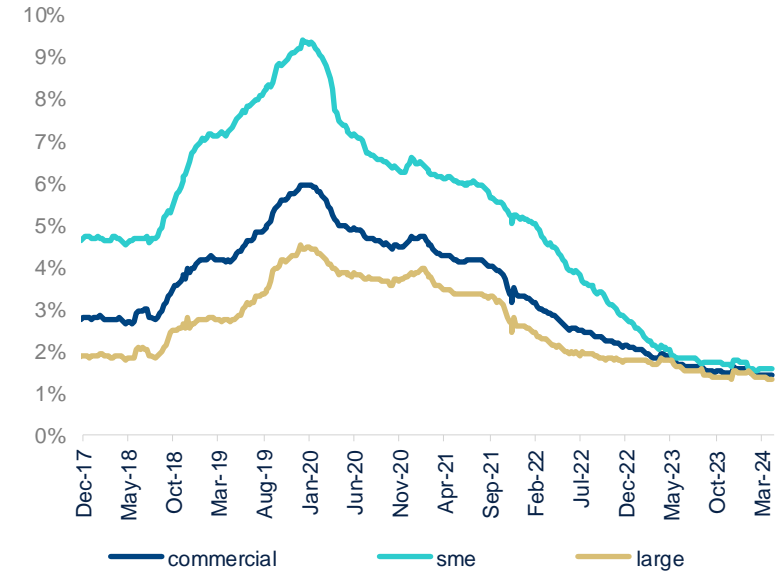
### SECTORIAL NPL

%



### NPL IN COMMERCIAL LOANS SUBSEGMENTS

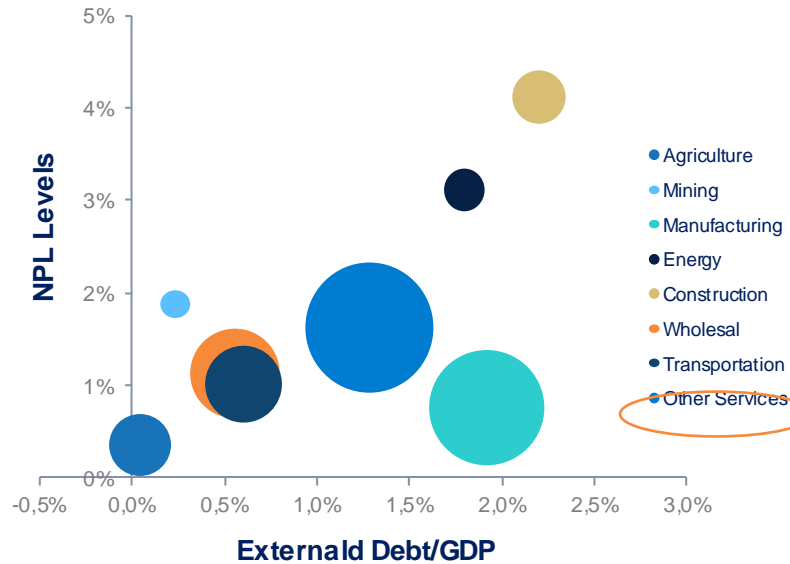
%



# Let by its higher external debt exposure, construction sector has a historically higher NPL ratio.

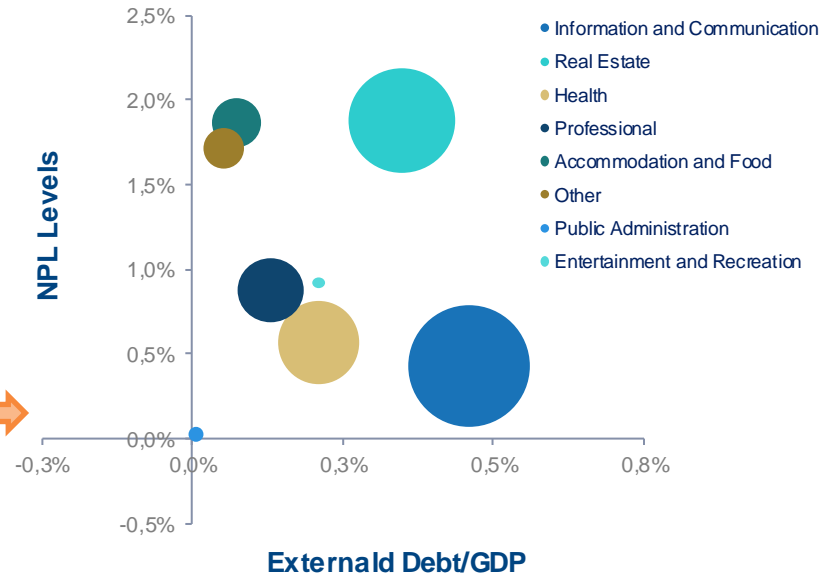
## NPL RATIO

%, bubble size refers to the sectorial share in GDP



## NPL RATIO

%, bubble size refers to the share in non-financial external debt



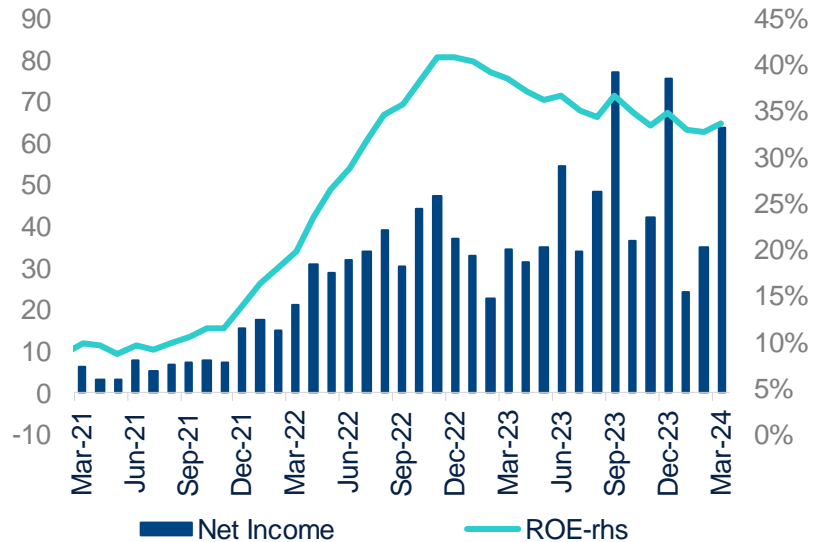
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## Turkish Banking Sector: Profitability

## Deposit banks' net income in 1Q'24 increased by 36% on a YoY basis.

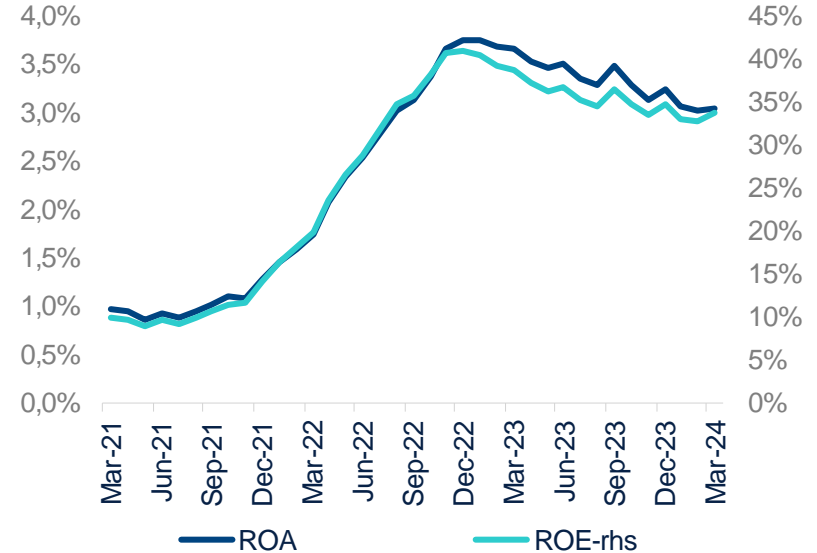
### NET INCOME & RETURN ON EQUITY (ROE)

bn TL monthly, % 12M cumulative



### RETURN ON ASSETS (ROA) & RETURN ON EQUITY (ROE)

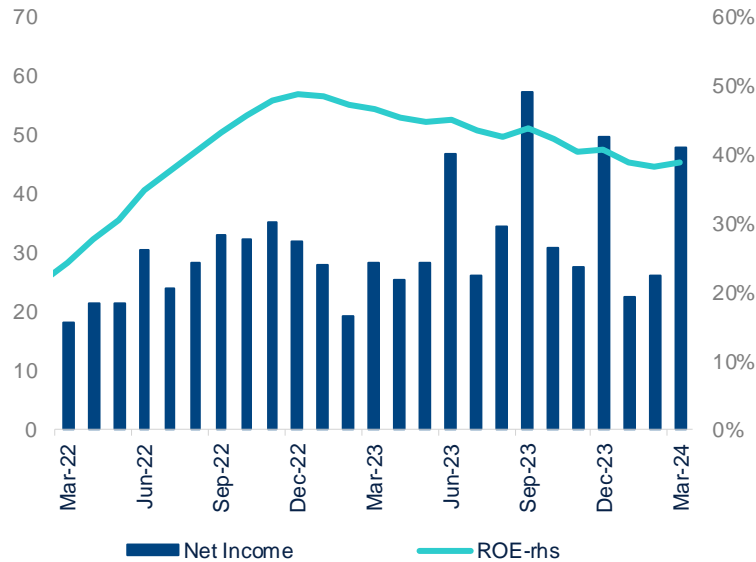
12M cumulative, %



# Increase in public banks' net income in 1Q24 was higher compared to private banks on annual basis.

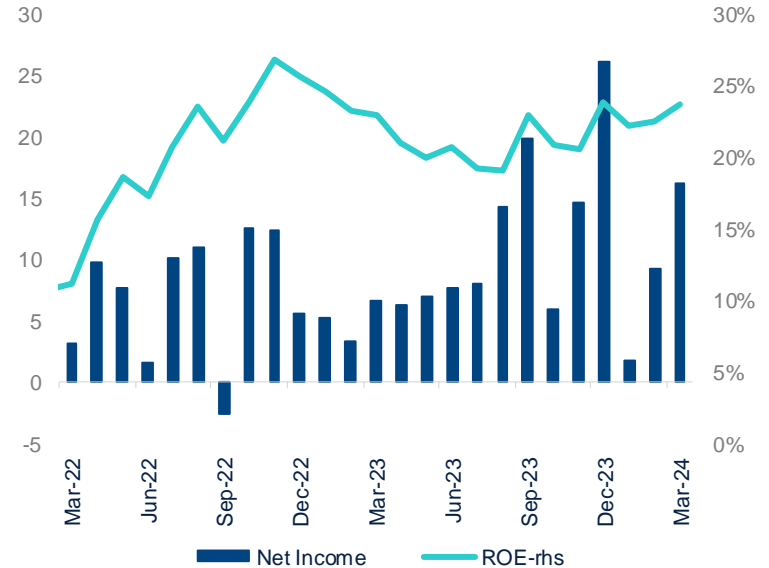
## PRIVATE DEPOSIT BANKS: NET INCOME & ROE

bn TL monthly, % 12M cumulative



## PUBLIC DEPOSIT BANKS: NET INCOME & ROE

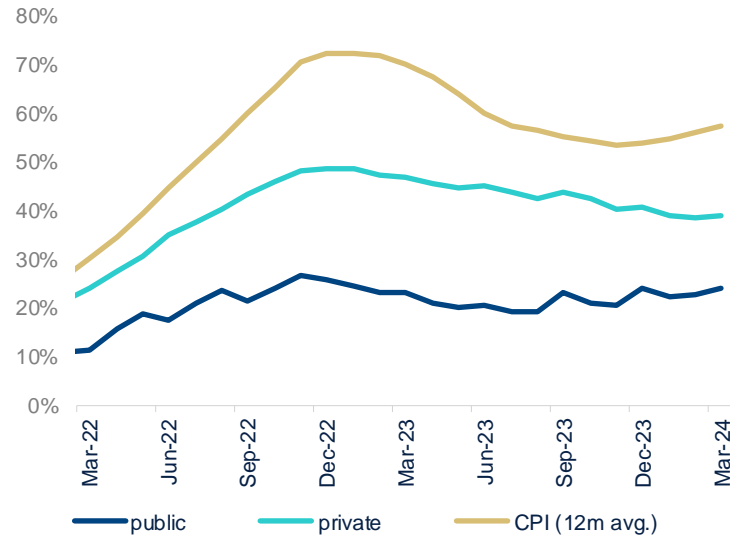
bn TL monthly, % 12M cumulative



# ROE levels continue to remain below the CPI level for both public and private banks.

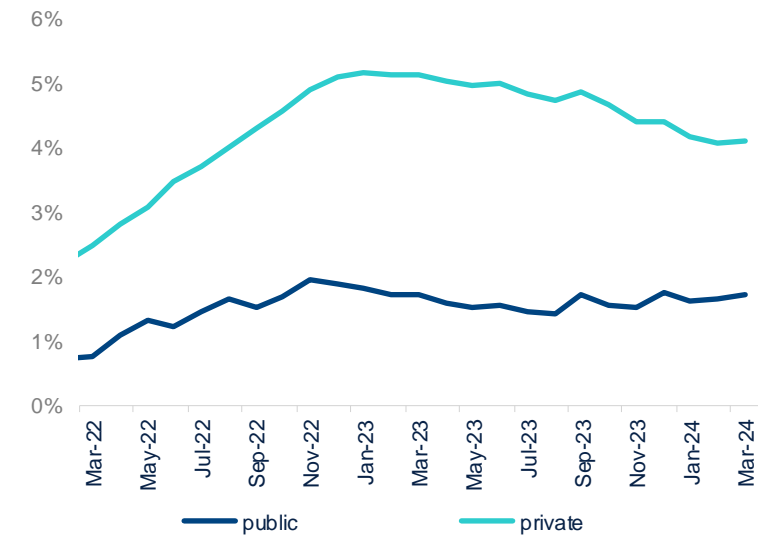
## RETURN ON EQUITY (ROE)

12M cumulative, %



## RETURN ON ASSETS (ROA)

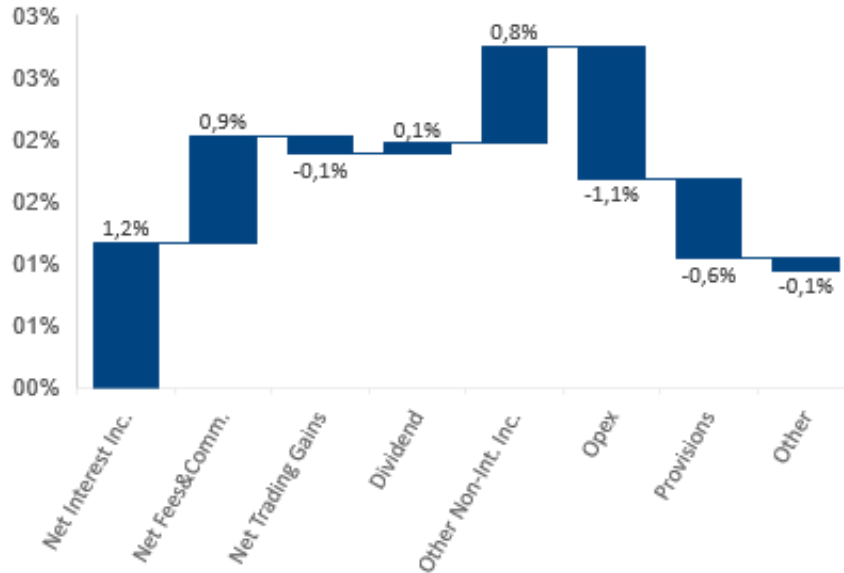
12M cumulative, %



# Profits from fees & commissions continued to support profitability in 1Q24. Trading gains' contribution was negative this quarter compared to 4Q23.

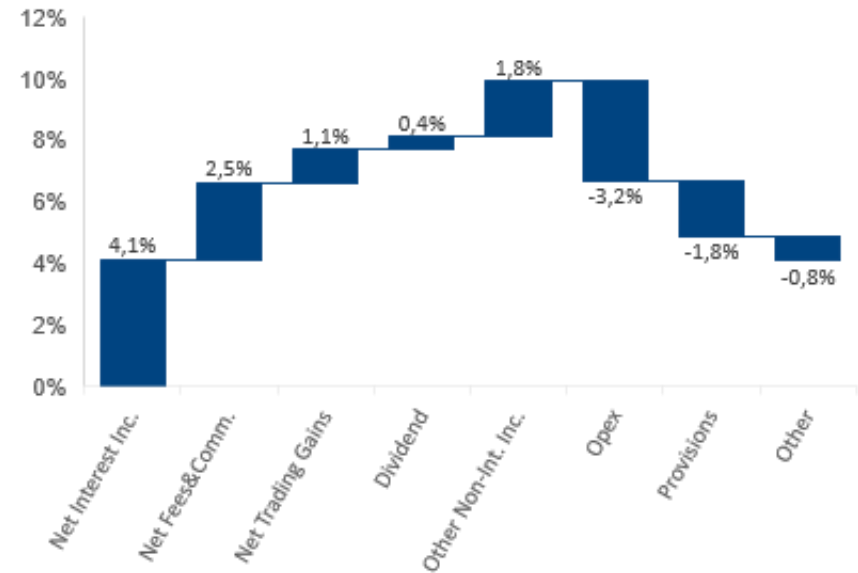
## COMPONENTS ON RETURN ON ASSETS, 1Q24

Private deposit banks, %



## COMPONENTS ON RETURN ON ASSETS, 12M CUMULATIVE

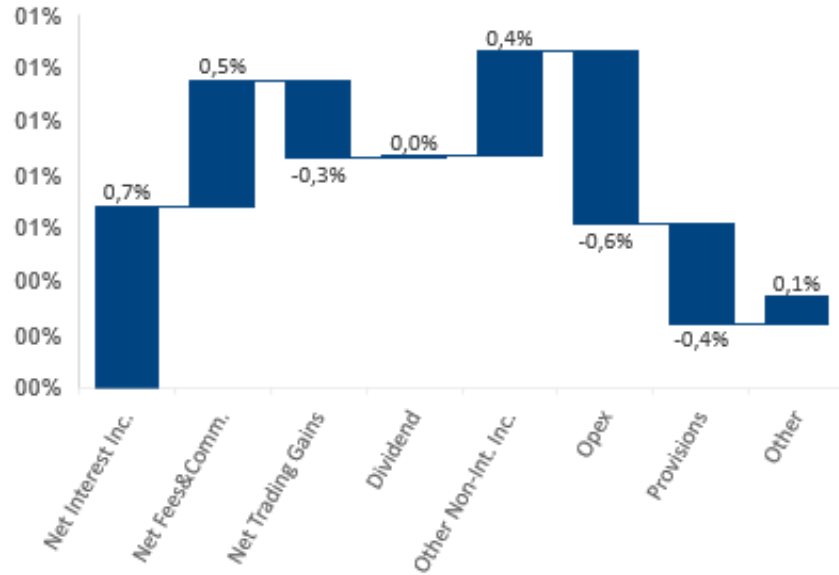
Private deposit banks, %



## Profits from fees & commissions continued to support profitability in 1Q24. Trading gains' contribution was negative this quarter compared to 4Q23.

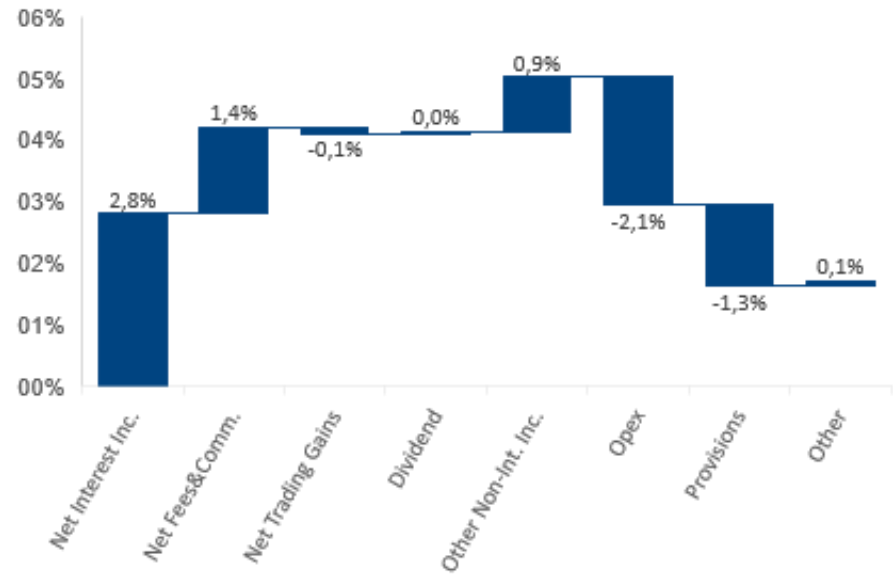
### COMPONENTS ON RETURN ON ASSETS, 1Q24

Public deposit banks, %



### COMPONENTS ON RETURN ON ASSETS, 12M CUMULATIVE

Public deposit banks, %

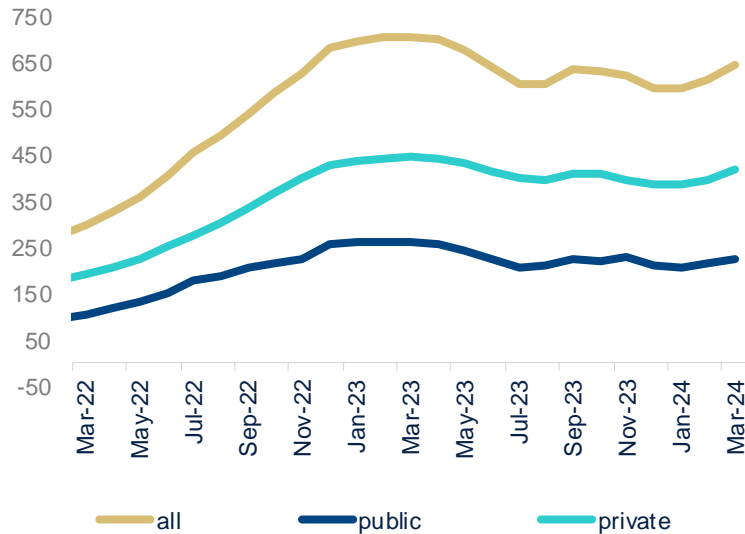




# The components of Net Interest Income reveals the narrowing loan-deposit spreads due to the impact of higher funding costs.

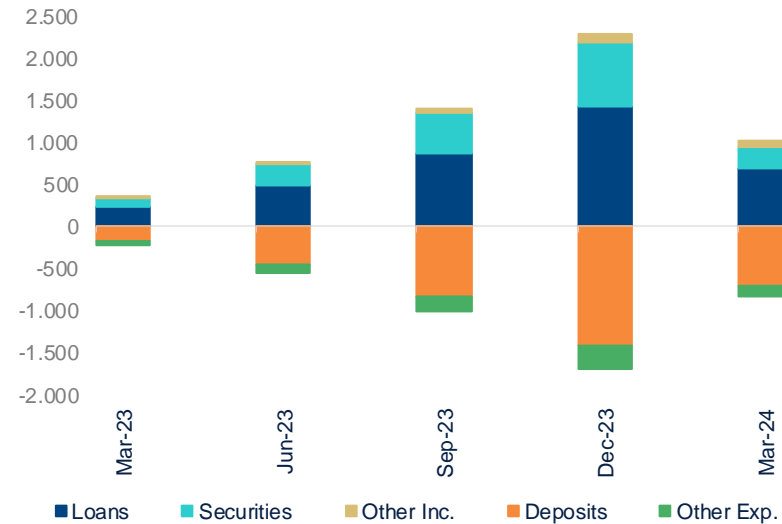
## NET INTEREST INCOME

12M cumulative, bn TL



## COMPONENTS OF NET INTEREST INCOME

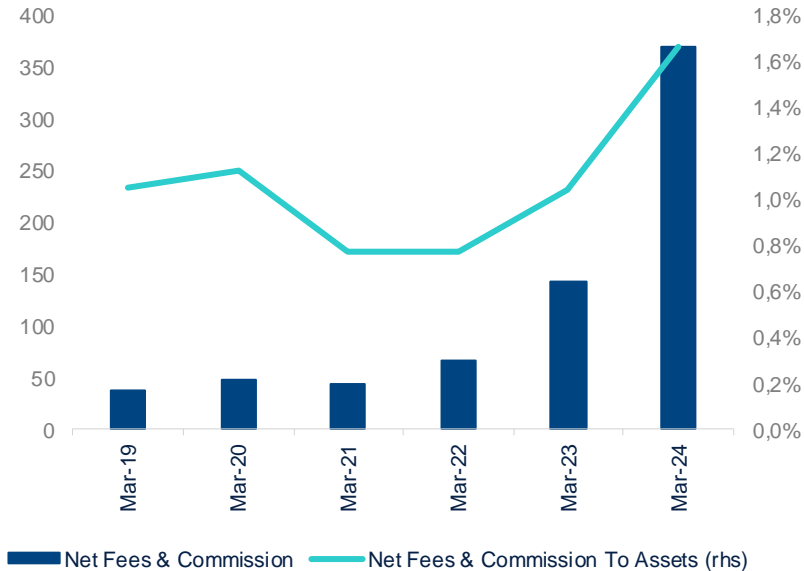
12M cumulative, bn TL



# The ratio of net fees & commissions and banking services revenues continued to support profitability alongside funding cost pressures.

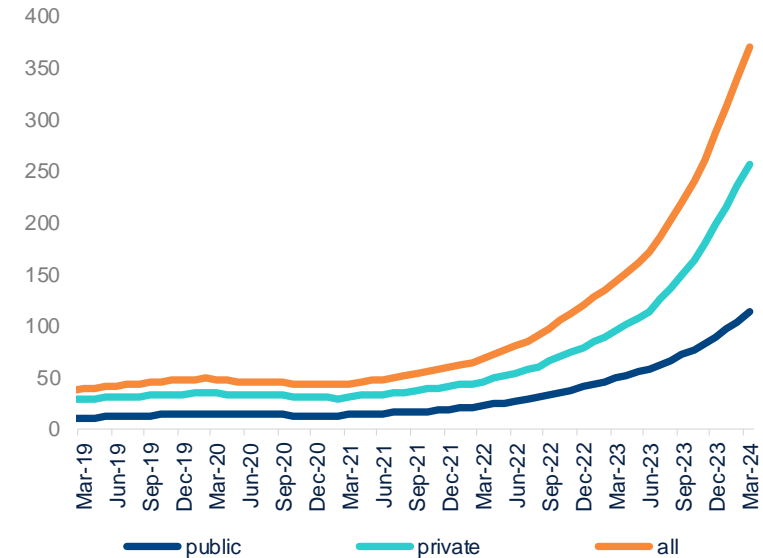
## NET FEES & COMM & SERVICES INCOME

12M cumulative, bn TL, %



## NET FEES & COMM & SERVICES INCOME

12M cumulative, bn TL

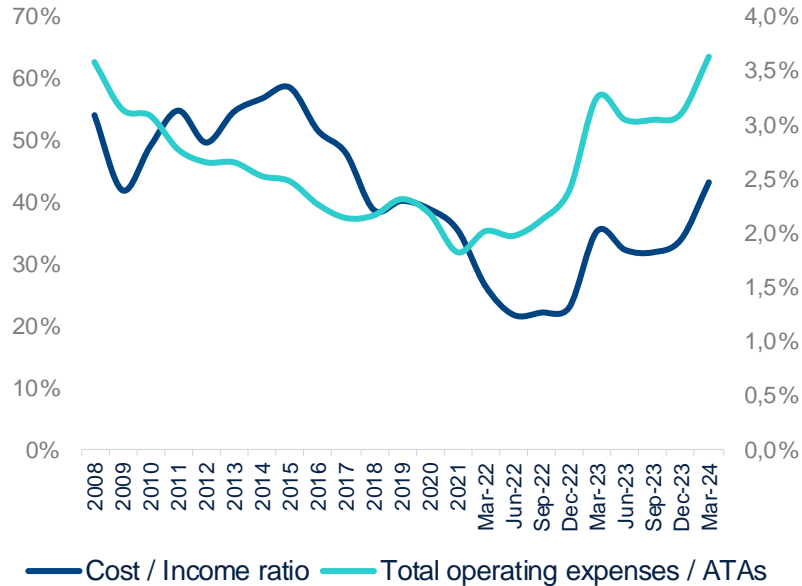


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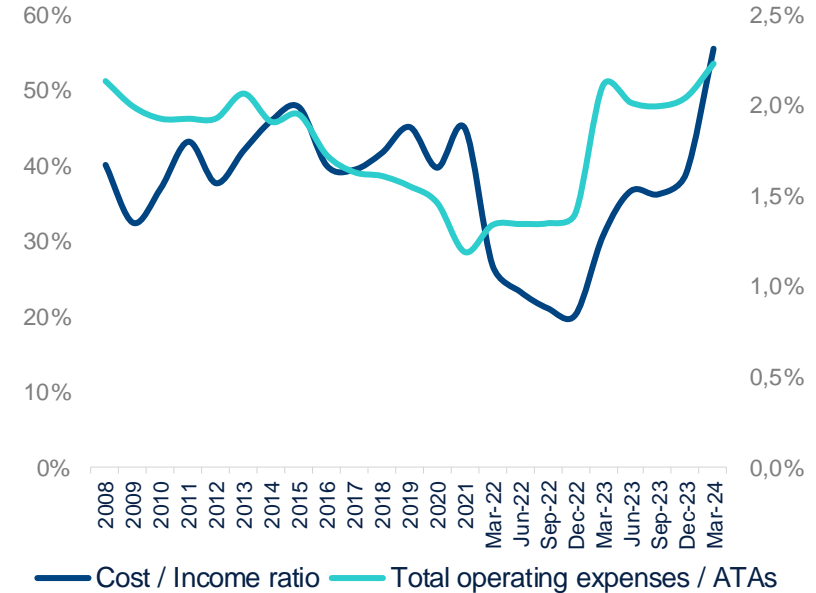
# Turkish Banking Sector: Efficiency

**Cost to income ratio is around 40% for private banks whereas it is 55% for public banks indicating an increasing cost pressure in the sector.**

**COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS PRIVATE BANKS**



**COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS PUBLIC BANKS**



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# Türkiye: Banking Sector Outlook

## 1Q 2024

Deniz Ergun  
Garanti BBVA Research