

Türkiye: Banking Sector Outlook

January 2025

Deniz Ergun
Garanti BBVA Research

Key messages



Credit



Credit growth rates in January have been rather determined by the regulatory monthly caps which are revised further between TL SME and non-SME lending. Monthly growth limits have been also revised for FC lending. Regarding consumer loans, the same limits are in place.



Credit segments



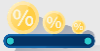
Demand for retail loans remains resistant on top of credit cards and credit deposit accounts, led by public banks. On commercial segment, following the differentiated growth limits revised by the CBRT, TL SME lending is growing whereas TL non-SME lending has slowed down.



Deposits



FX-protected scheme amount declined to \$28bn by end-Jan25 (vs \$82bn in Jan24) and is expected to come to an end soon. The dollarization ratio of residents seems to have stabilized at around 35%. The share of TL deposits excluding KKM rose to 59.4%; and the share of FX-protected deposits fell to 5% (compared to 26% in Aug23).



Profitability



Profitability and NIMs of the sector have started to improve in 4Q24, which will continue with the rate-cutting cycle of the CBRT. Deposit rates started to come down, but the fall in credit rates will happen slowly supporting the margins. We expect the ROE of deposit banks to barely improve to 30% by end 2025 from 28.4% at the end of 2024.



Asset quality



The accelerating NPL trend continues for retail loans, mainly due to consumer credit cards. We expect cost of risk (CoR) of deposit banks to rise by around 100bps to 160-180bps by end 2025.



Capital



The sector's capital buffers continue to be solid. The BRSA decreased 200% risk weight on commercial loans to 100% which improved the CAR ratio of the sector by around 100bps.

01

Turkish Banking Sector: Credit Developments

Monetary stance continues to be 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%
- Targets for KKM gradual reduction (overall KKM activity target reduced to 60% from 70%)
- At least 15% monthly conversion from KKM to TL standard deposits

Loan growth caps

- Limits on TL loan growth (2.5% for TL SME loans & 1.5% for non-SME TL commercial loans excluding export & investment loans); 2% auto loans; 2% GPL
- Limits on FX loan growth (1%)

Regulations on RR

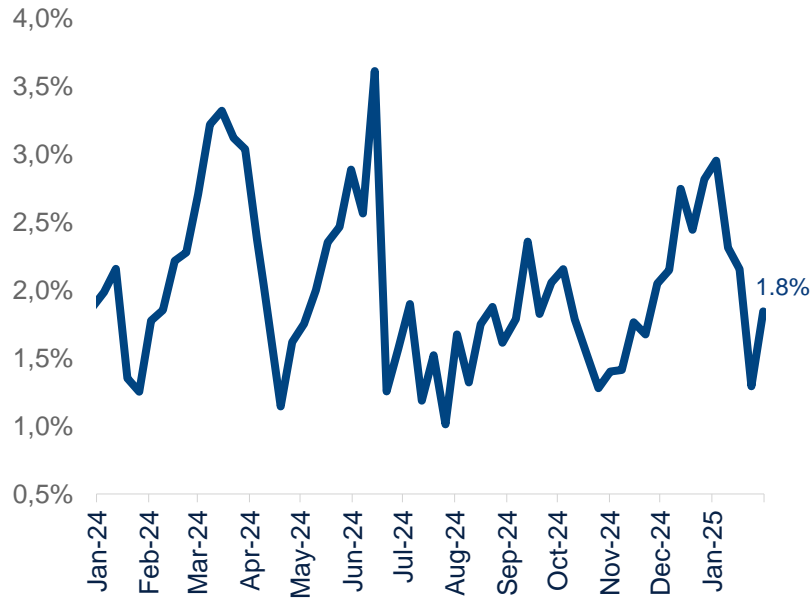
- The RR for FCPD (KKM) up to 6months is raised to 33%
- The RR for FCPD (KKM) for 1yr & longer than 1yr is raised to 22%
- The RR for TL demand deposit and deposits for 1 & 3 months is raised to 17%
- The RR for TL deposit longer than 3 months is raised to 10%
- TL RR for ST FC deposits is decreased to 4%
- The RR for FC demand deposit and up to 1m raised to 30%
- The RR for FC deposit up to 1yr raised to 26%
- The RR for FC deposit longer than 1yr raised to 20%

Regulations for Capital Adequacy Ratio

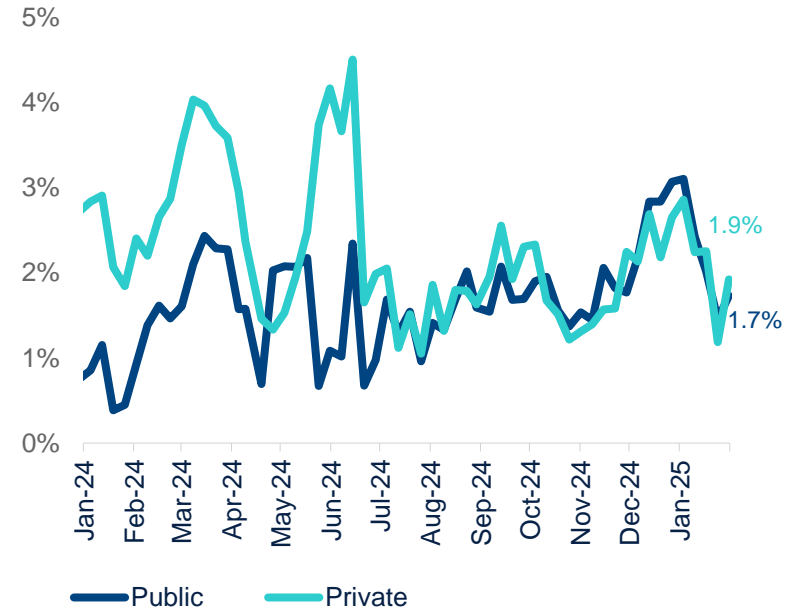
- The BRSA decreased 200% risk weight on commercial loans to 100%.
- The BRSA removed additional risk weights on retail loans in banks' CAR calculations. Now, mortgages have 35%, and other retail loans have 75% risk weighting.
- The BRSA increased the USDTRY forbearance rate used in CAR calculation from 25.8 (26.06.2023 CBRT «Buy» rate) to 32.82 (28.06.2024 CBRT «Buy» rate)

Banks adapt themselves according to the monthly limitations and the last week's strong weekly push confirm the efforts to reach the cap in certain segments.

TOTAL CREDIT GROWTH (FX ADJ)
4 WEEK CUMULATIVE



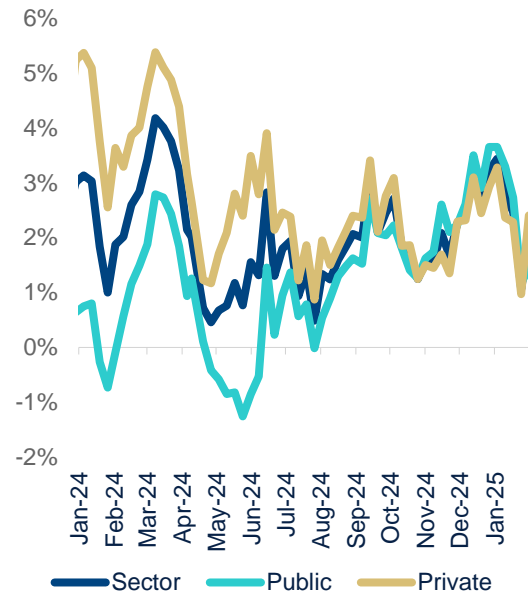
TOTAL CREDIT GROWTH (FX ADJ)
4-WEEK AVERAGE ANN.



TL credit growth decelerates on top of new regulations in early 2025, whereas the acceleration in FC credits seems to be stemming from the exceptions.

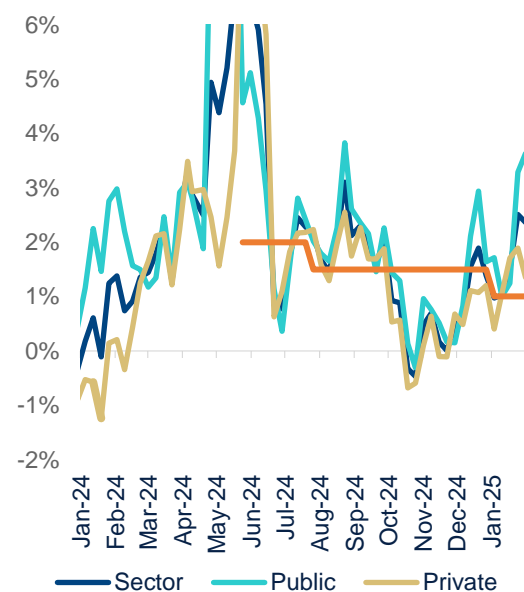
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



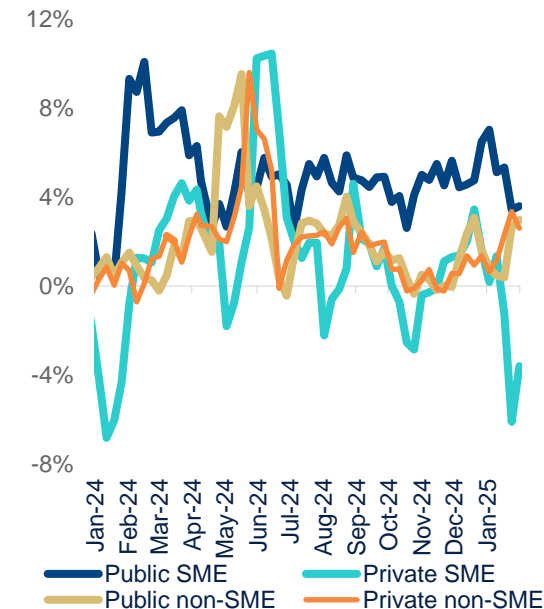
FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

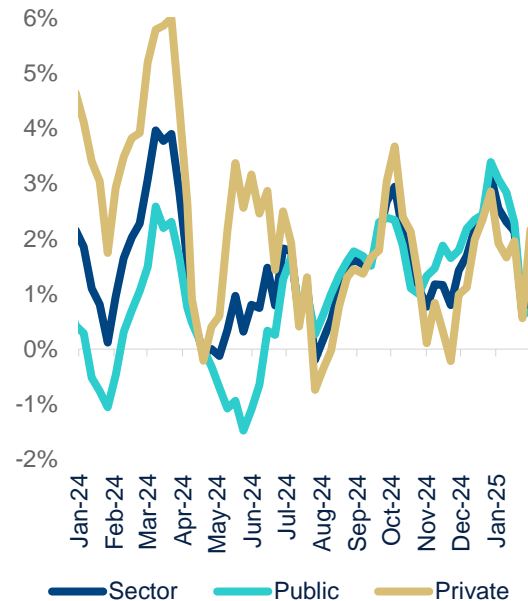
4 WEEK CUMULATIVE



Following the differentiated growth limits, TL SME lending has been supported and TL non-SME lending has slowed down.

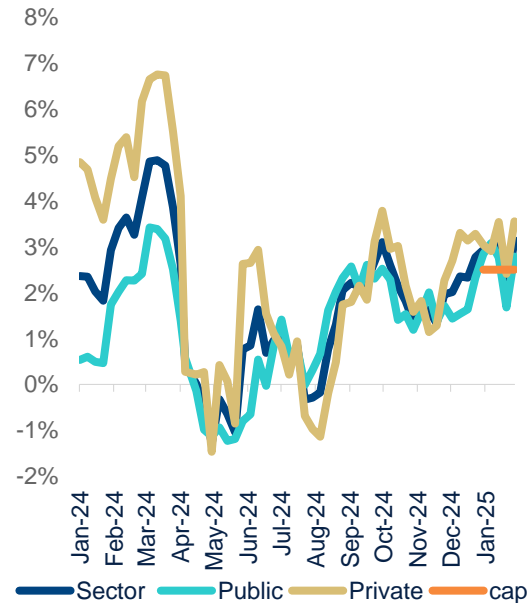
TL COMMERCIAL CREDIT GROWTH

4 WEEK CUMULATIVE, DEPOSIT BANKS



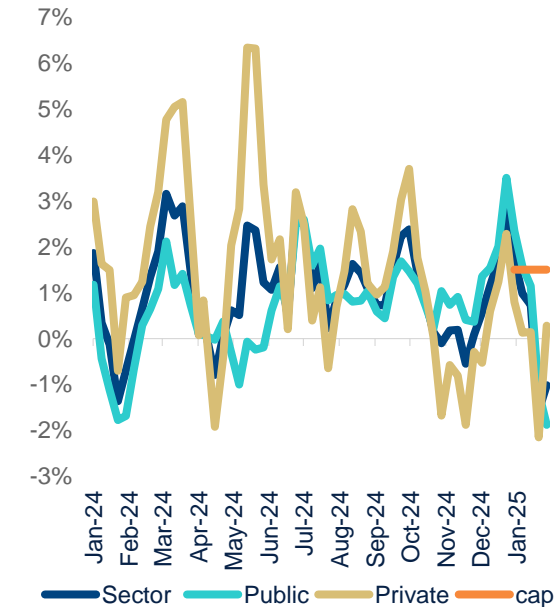
TL SME COMMERCIAL CREDITS GROWTH

4 WEEK CUMULATIVE



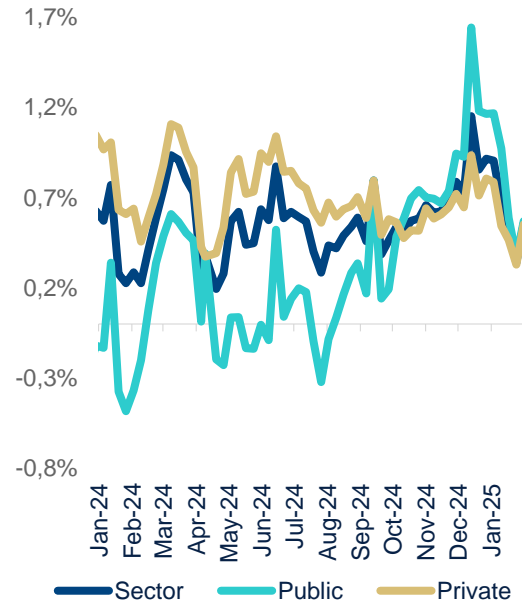
TL NON-SME COMMERCIAL CREDITS GROWTH

4 WEEK CUMULATIVE

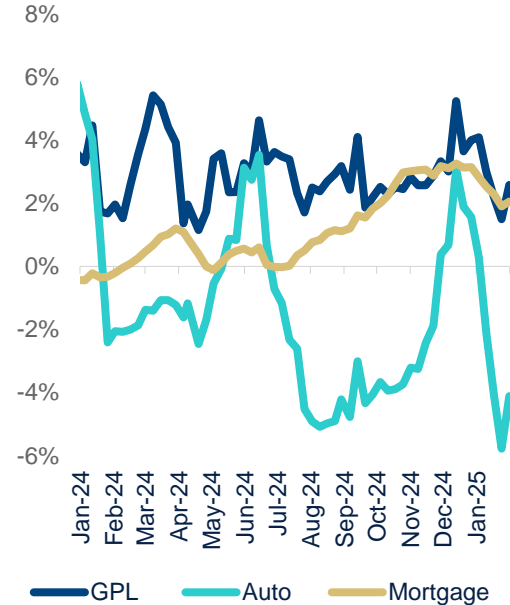


Retail lending decelerates compared to 4Q24, however momentum in GPL credits is still alive mainly led by overdraft loans (KMH).

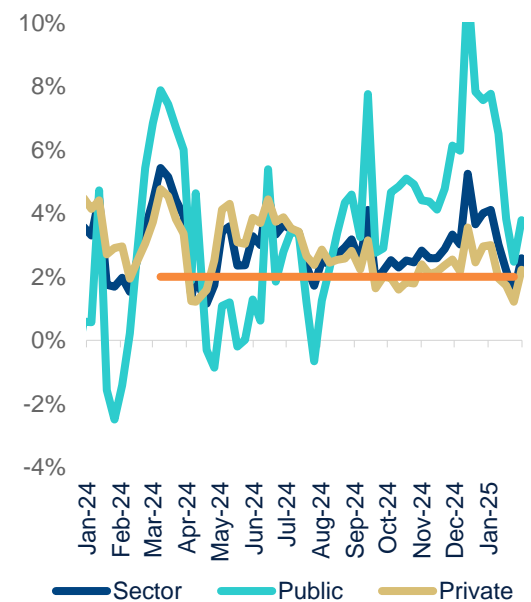
CONSUMER* CREDIT GROWTH
4 WEEK CUMULATIVE, DEPOSIT BANKS



CONSUMER* CREDIT GROWTH
4 WEEK CUMULATIVE, DEPOSIT BANKS



GENERAL PURPOSE LOANS
4 WEEK CUMULATIVE, DEPOSIT BANKS



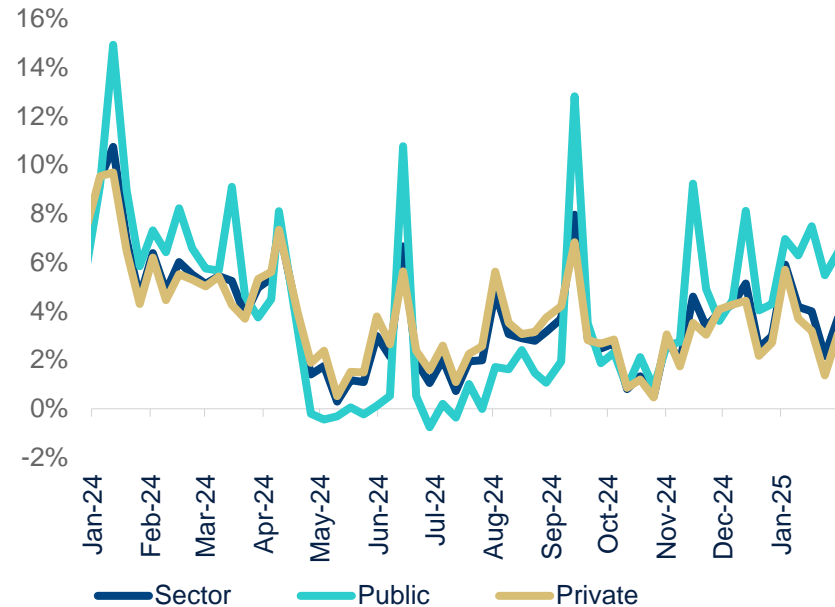
* housing, auto, general purpose loans (GPL).

Source: BRSA and Garanti BBVA Research.

Credit card spending moderates but remains above monthly inflation trend. Overdraft loans growth of public banks decelerates to only a limited extent.

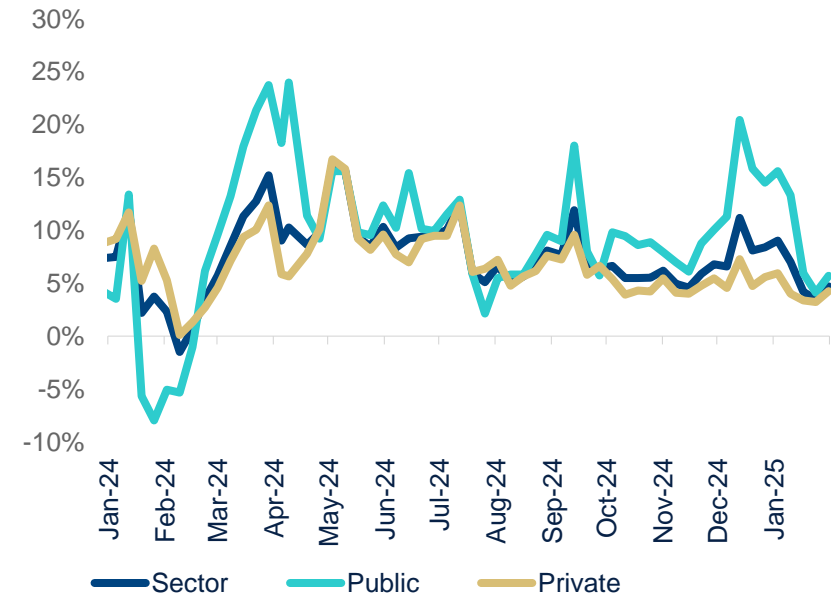
RETAIL CREDIT CARDS SPENDING

4 WEEK CUMULATIVE, DEPOSIT BANKS



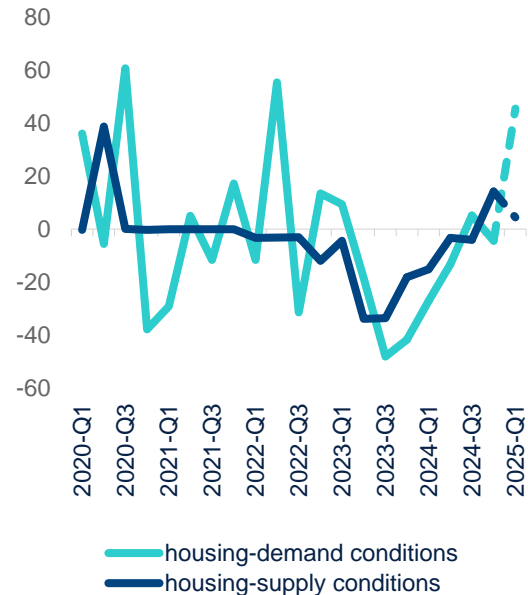
CREDIT DEPOSIT ACCOUNT (KMH)

4 WEEK CUMULATIVE, DEPOSIT BANKS

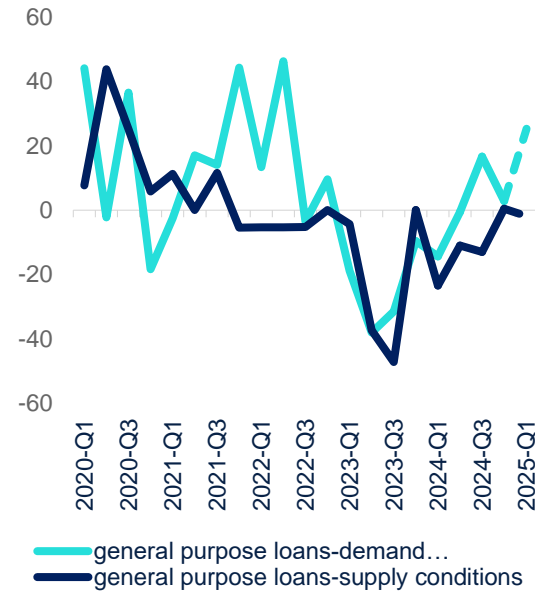


Demand for housing and GPL credits are expected to continue in 1Q25 whereas supply conditions will rather be tight for these segments.

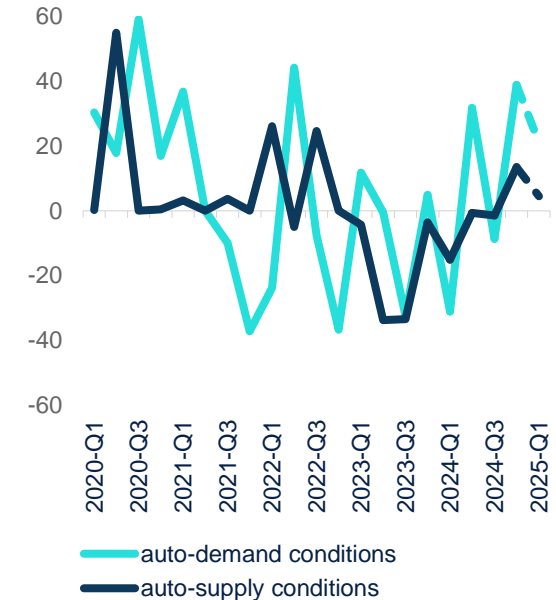
CREDIT CONDITIONS: HOUSING NET BALANCE



CREDIT CONDITIONS: GPL NET BALANCE



CREDIT CONDITIONS: AUTO NET BALANCE

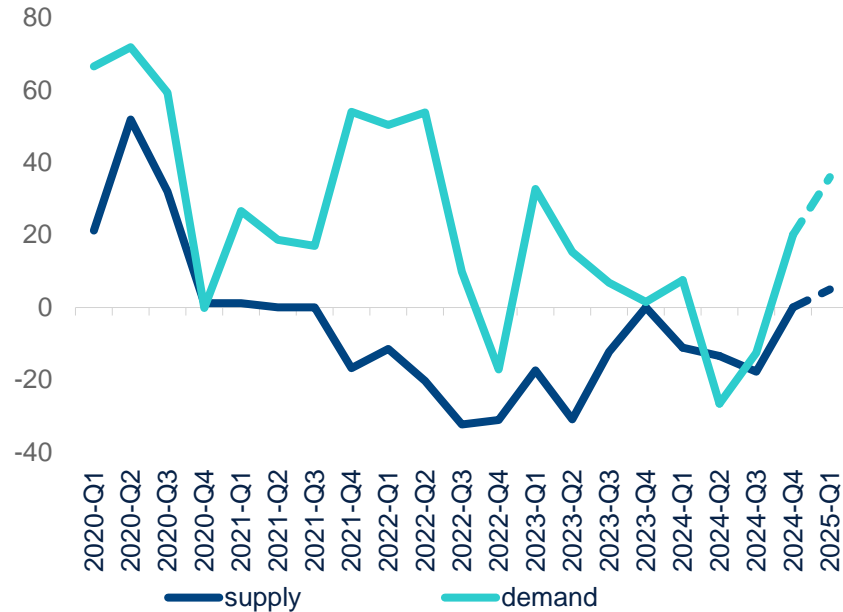


>0 Easing; <0 Tightening.

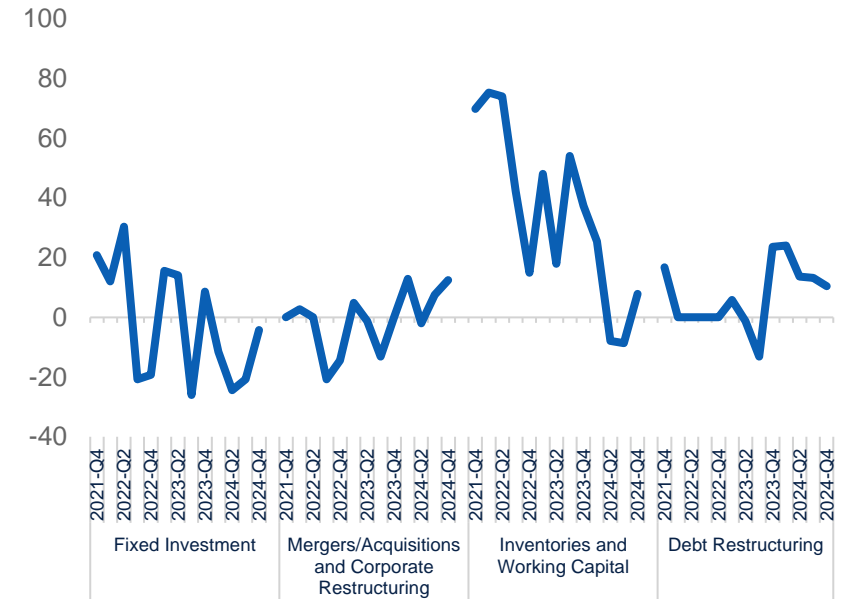
Source: CBRT Bank Lending Survey 4Q24, dotted lines show the expected values for 1Q 2025.

Demand for commercial credits is expected to gain more momentum in 1Q25. Commercial credits are mostly used for corporate restructuring purposes.

CREDIT CONDITIONS: COMMERCIAL NET BALANCE



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



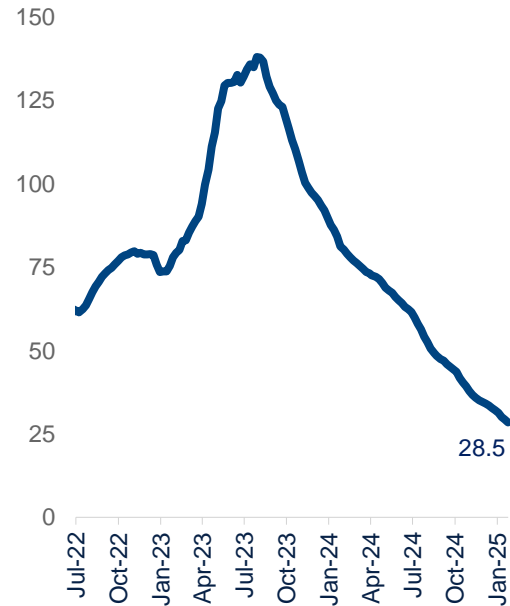
Source: CBRT Bank Lending Survey 4Q24, dotted lines show the expected values for 1Q 2025.

02

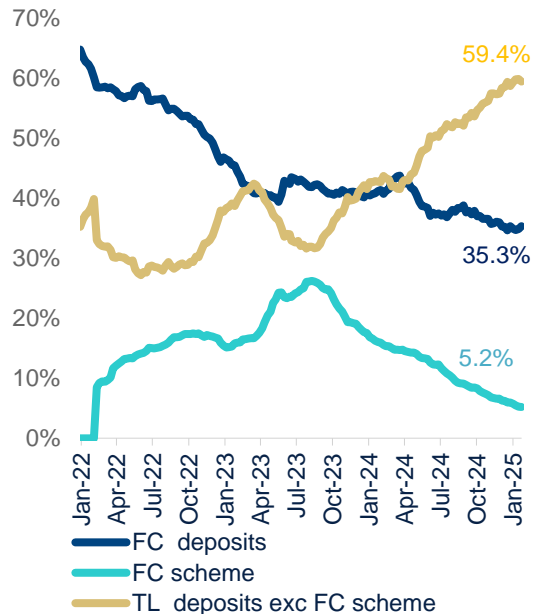
Turkish Banking Sector: Liquidity

New rules of the CBRT will accelerate the exit from KKM, most probably ending them in 1H25. De-dollarization tendency of residents has recently stabilized.

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

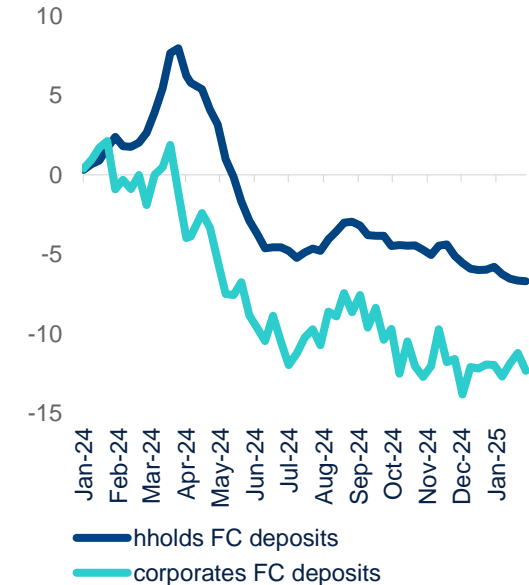


DISTRIBUTION AMONG DEPOSITS
% SHARE IN TOTAL



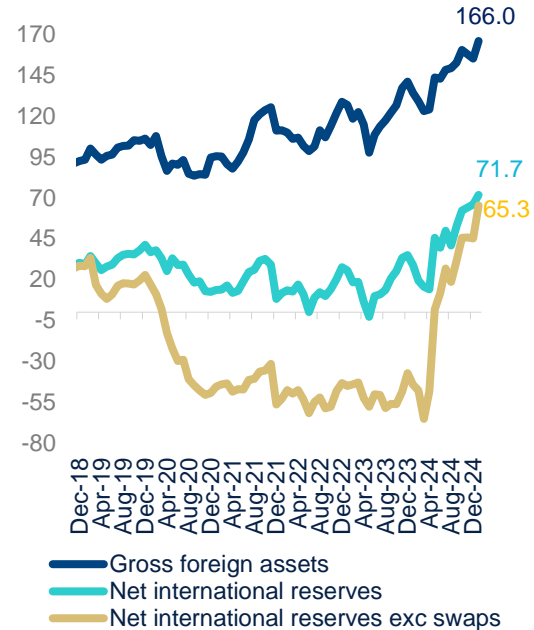
CHANGE IN FC DEPOSITS OF RESIDENTS

bn USD, adj from price effects, cumulative as of 2024

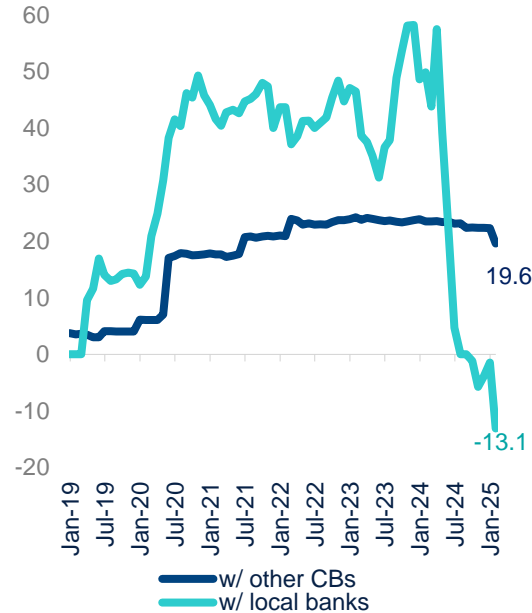


The CBRT enjoys from the increasing TL flow but with a cost as excess TL liquidity (around 750bnTL) and continuing downward pressure on TL repo rates.

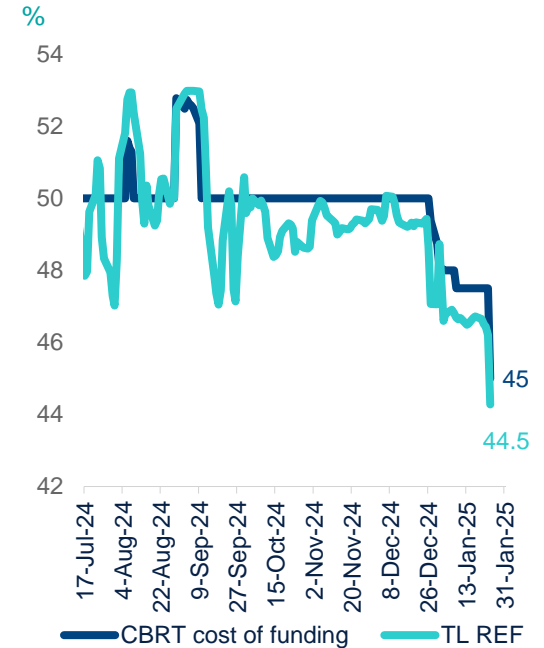
CBRT INTERNATIONAL RESERVES
US\$BN as of Jan 31st



CBRT SWAP POSITION
US\$BN as of Jan 31st

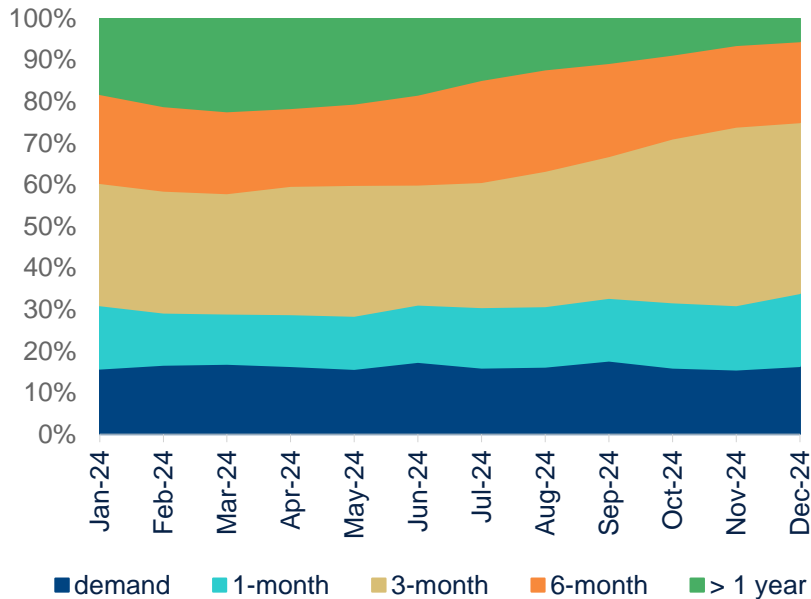


CBRT FUNDING & BIST TL REF RATE
%

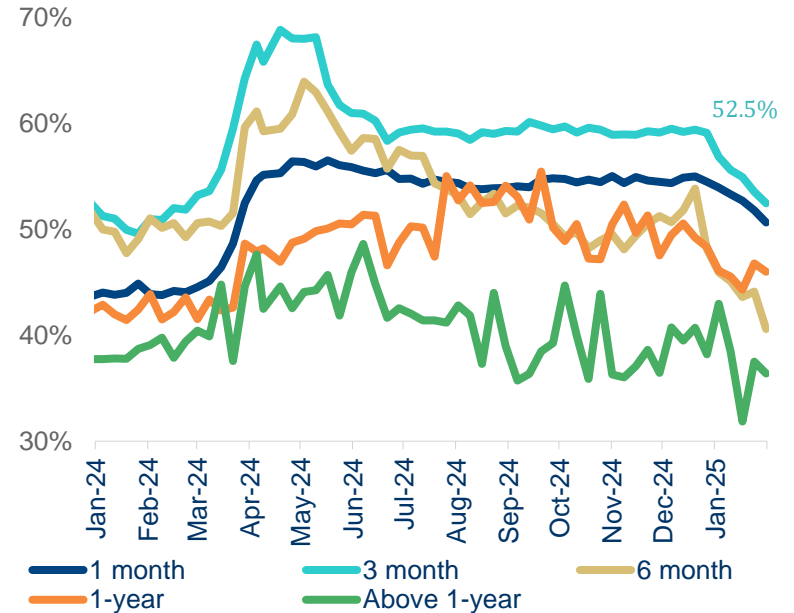


Deposit growth accelerated in up to 1-month bracket whereas above 1year fell significantly in 4Q24 on top of KKM based commercial credits being matured.

DISTRIBUTION AMONG DEPOSITS
% SHARE IN TOTAL



TL DEPOSIT INTEREST RATES
%, FLOW, SECTOR, WITHOUT RR COST

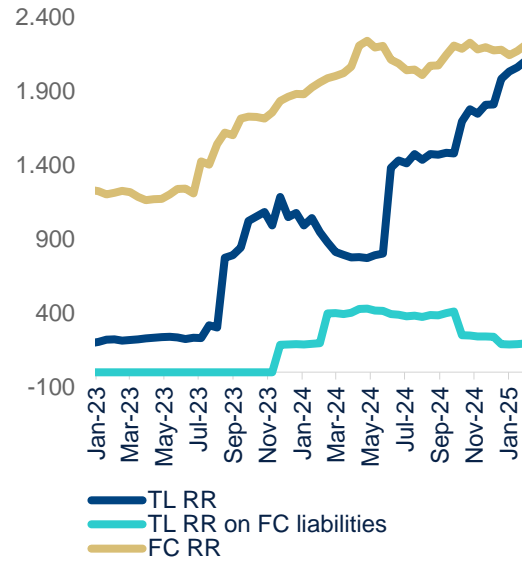


Source: BRSA and Garanti BBVA Research.

The CBRT keeps using mostly RR to absorb excess TL liquidity. Deposit rates decline but the fall in credit rates is rather slowly, partly led by the growth caps.

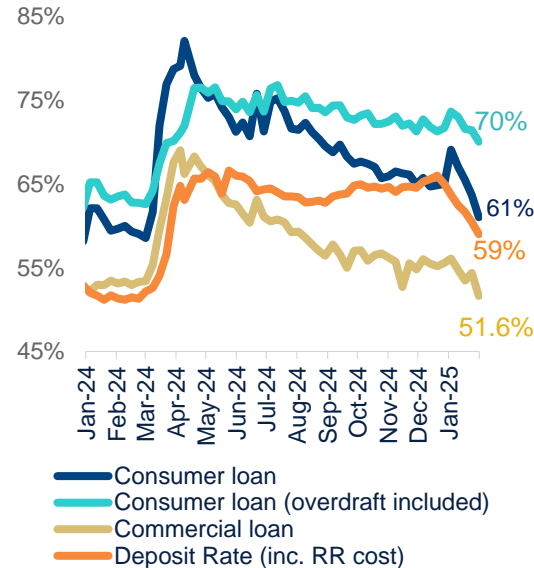
RESERVE REQUIREMENT VOLUME*

mn TL



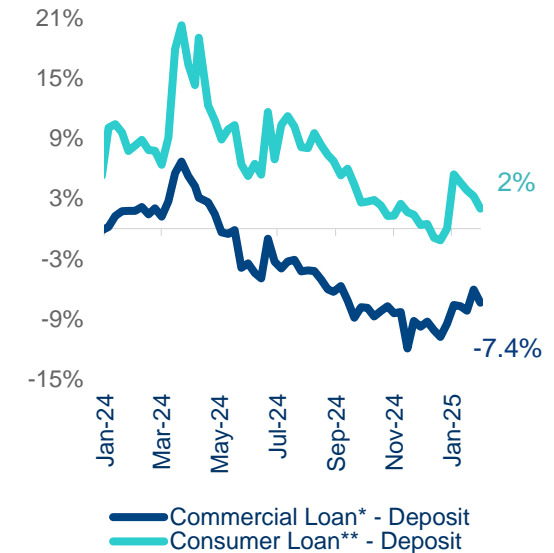
CONSUMER & TL COMMERCIAL RATES

%, flow, sector



TL INTEREST RATE SPREAD

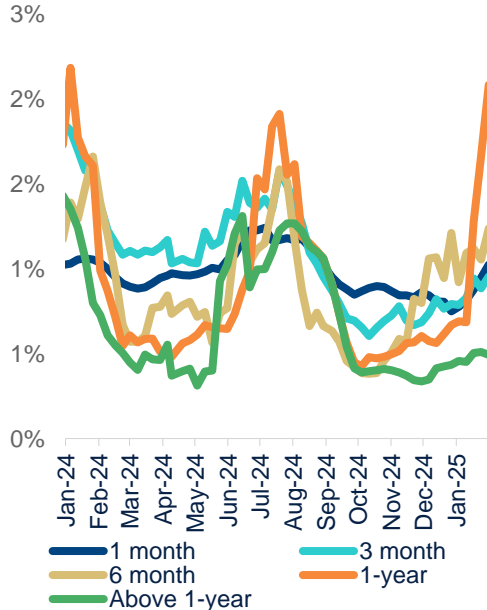
%, including RR cost



FC deposit rates have been moving upwards since Dec24 due to FC liquidity needs of the sector. USD spreads continue to be more favorable for the sector.

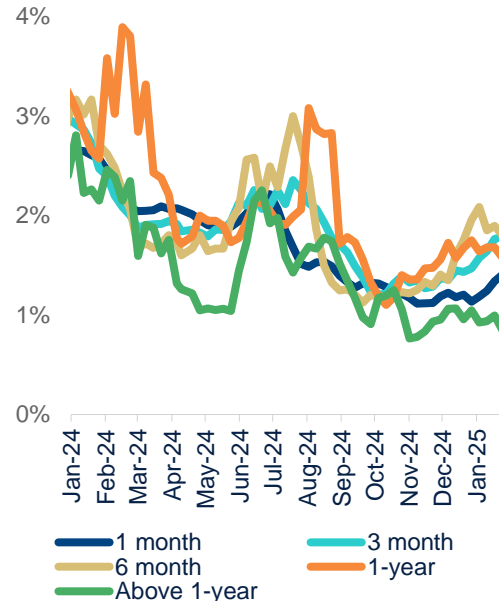
EURO DEPOSIT RATES

%, 4-week avg flow, sector



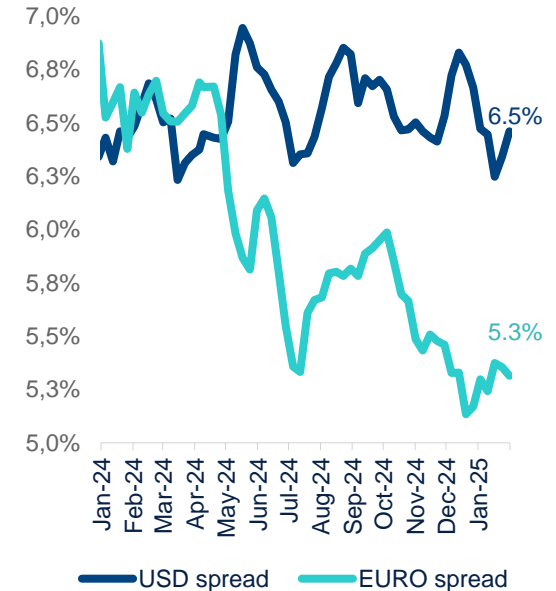
USD DEPOSIT RATES

%, 4-week avg flow, sector



FC INTEREST RATE SPREAD

%, 4-week avg flow, sector

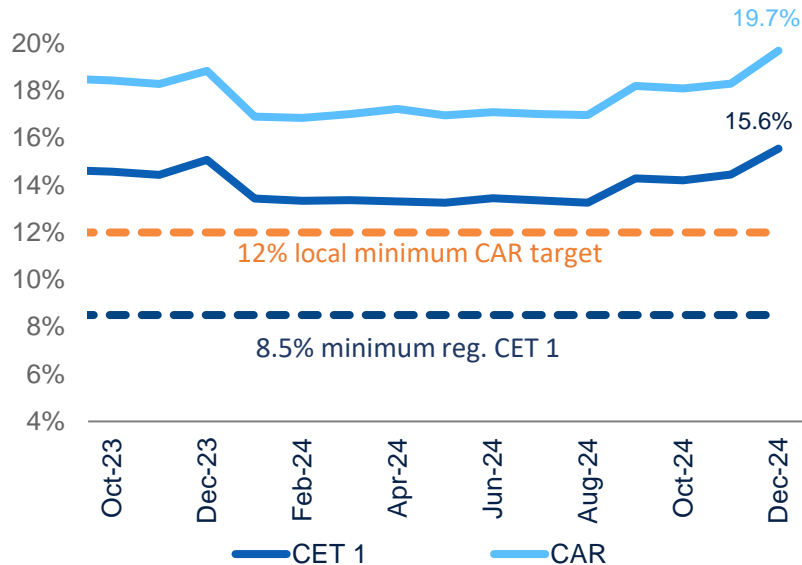


04

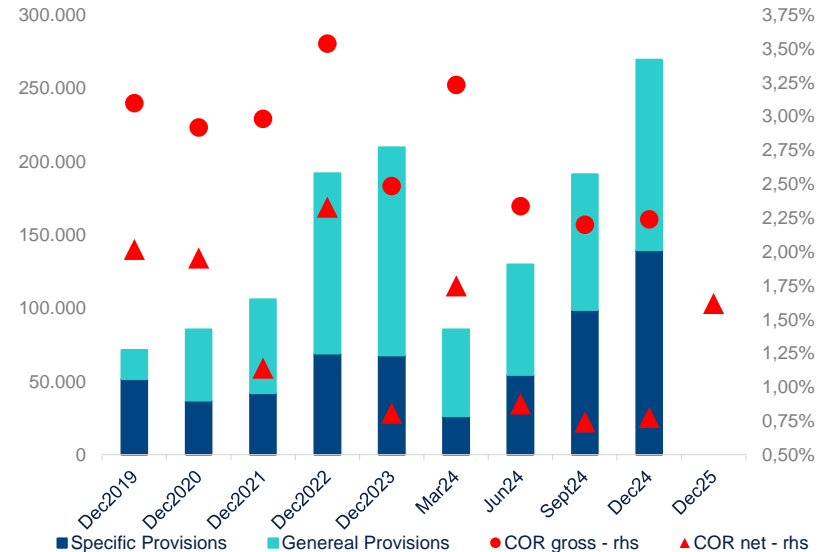
Turkish Banking Sector: Solvency and Capital Adequacy

The BRSA decreased 200% risk weight on commercial loans to 100% which improved the CAR ratio of the sector by around 100bps.

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



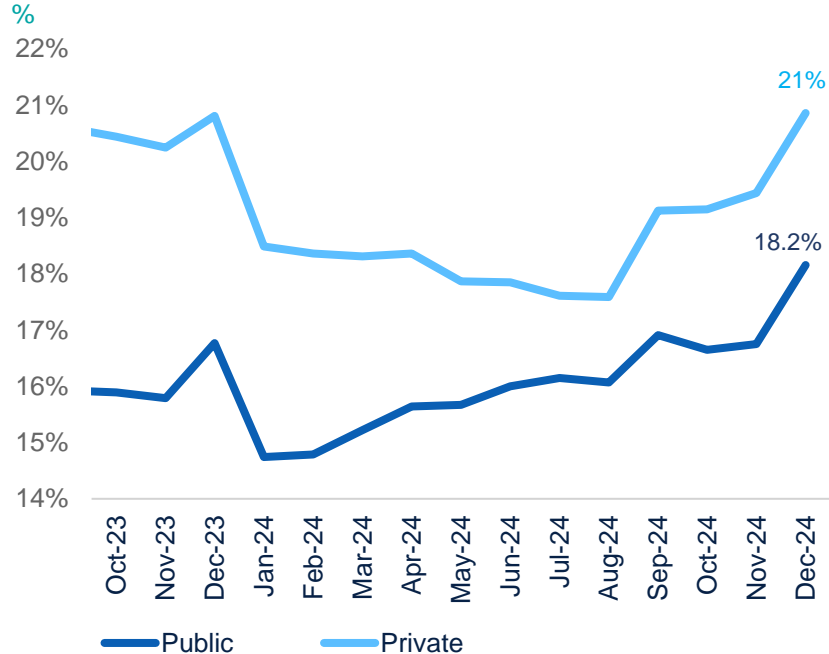
COST OF RISK (COR)* DEPOSIT BANKS
LOAN LOSS PROVISIONS / AVERAGE NET LOANS



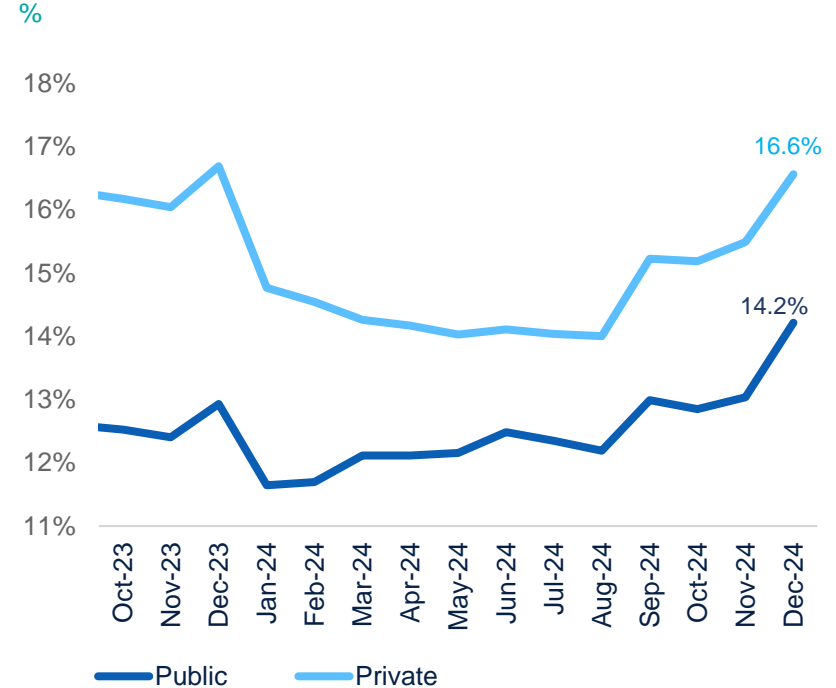
* Common Equity Tier 1.
Source: BRSA and Garanti BBVA Research.

The improvement in capital ratios was also the result of the decrease in risk-weighted assets, caused by the deceleration in credit growth rates.

CAPITAL ADEQUACY RATIO: PUBLIC AND PRIVATE BANKS



CET 1* RATIO BY PUBLIC AND PRIVATE BANKS

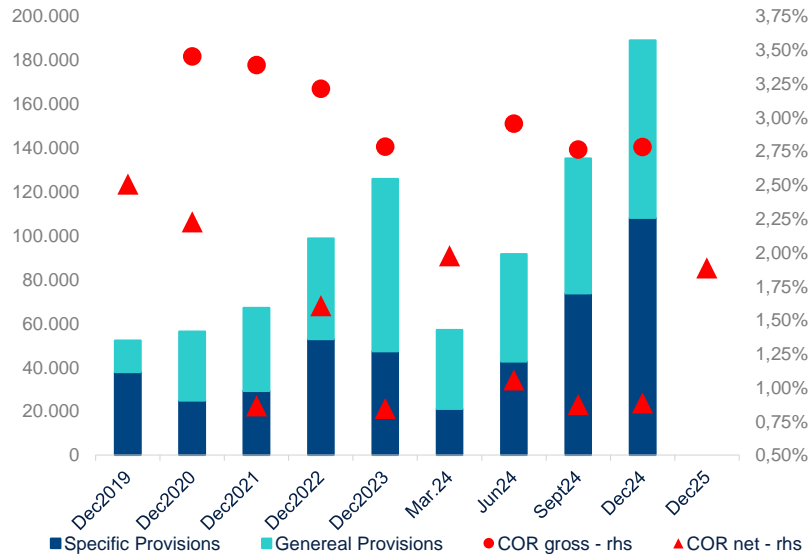


* Common Equity Tier 1.

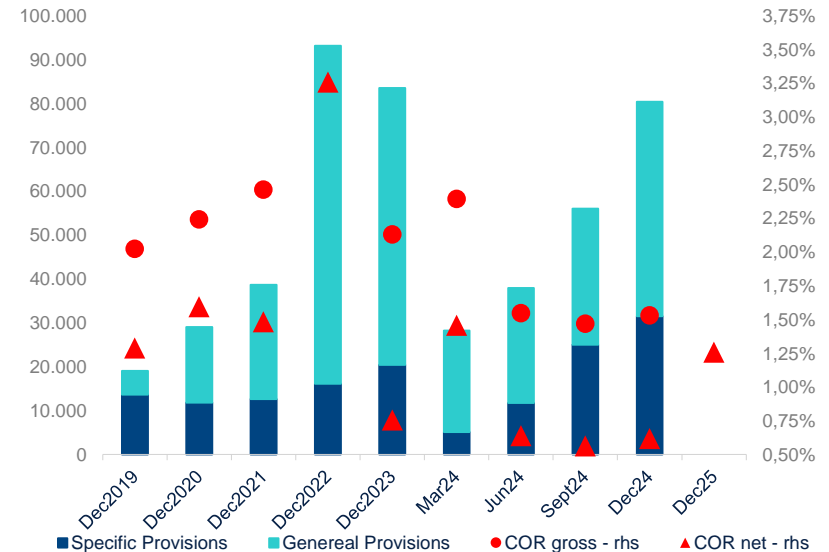
Source: BRSA and Garanti BBVA Research.

We expect the CoR to be around 200bps in private deposit banks and 125bps in public deposit banks, leading to a 100bps normalization in 2025 wrt 2024.

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



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



* 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.

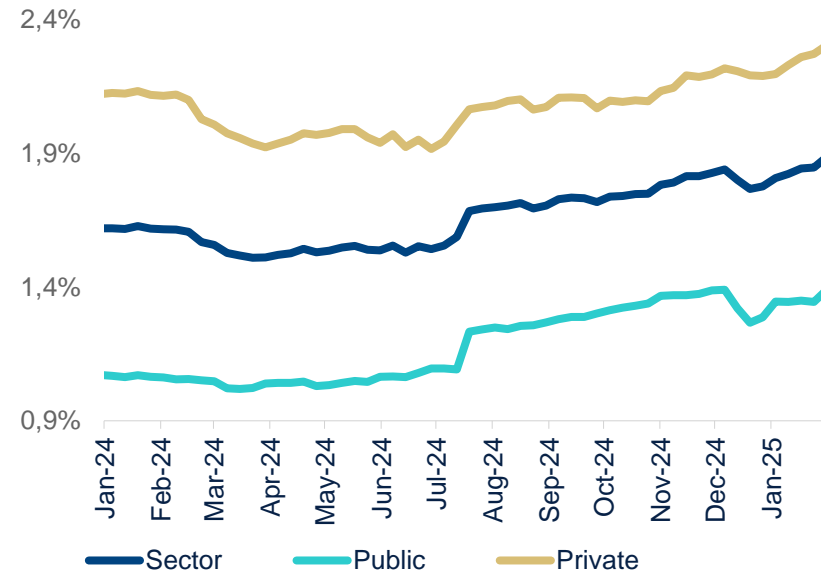
05

Turkish Banking Sector: Asset Quality

NPL ratio of the sector continued to rise to 1.9% in Jan25 (vs. 1.6% in Jan24), led by the deterioration in the retail segment.

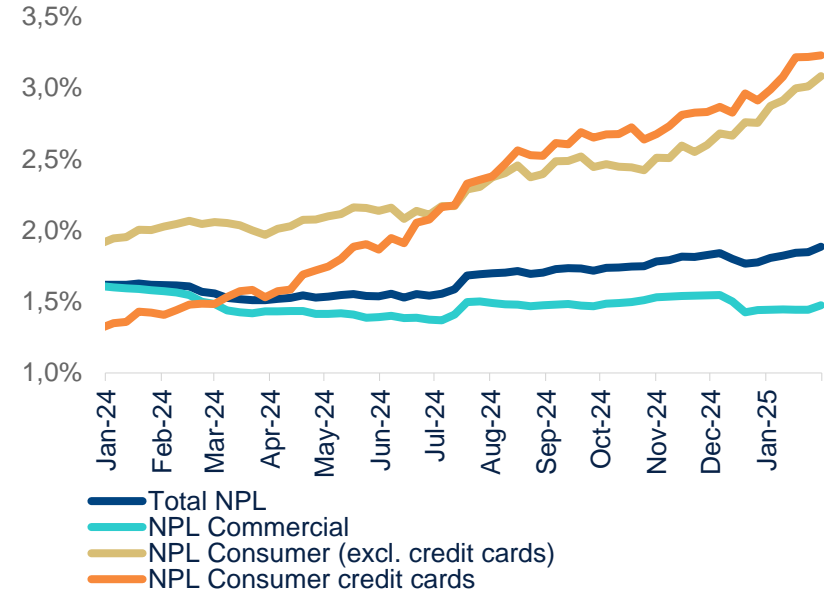
NPL RATIO

%



NPL IN SUB-SEGMENTS

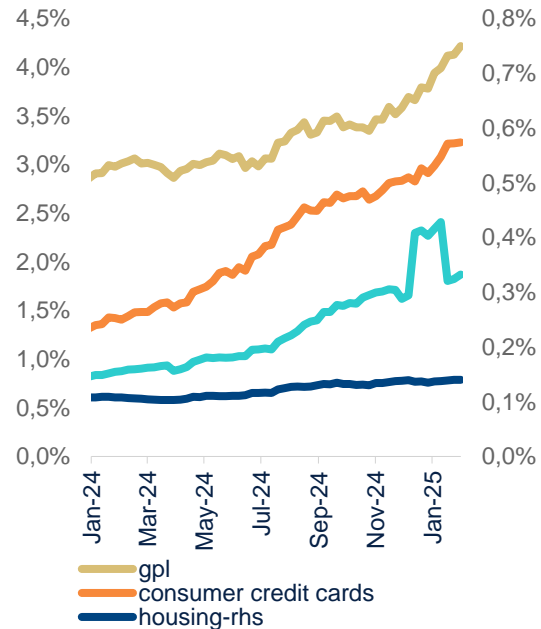
%



NPL ratio of consumer credit cards rose to 3.3% and for GPL to 4.2% (vs. 1.4% and 2.9% in Jan24). In sectors, construction has the highest NPL with 4%.

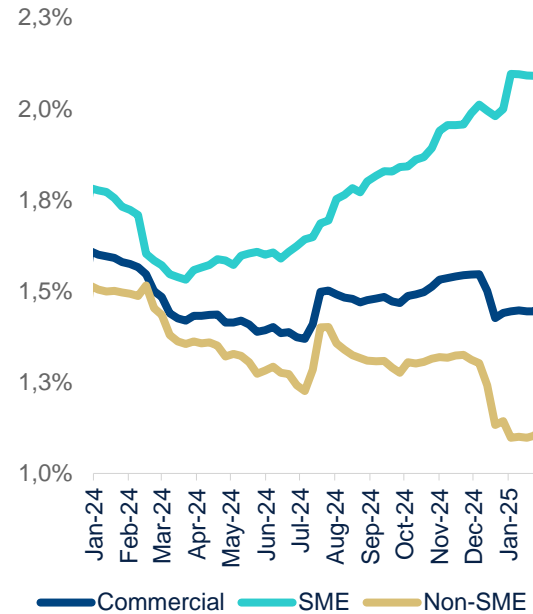
NPL IN CONSUMER LOANS

%



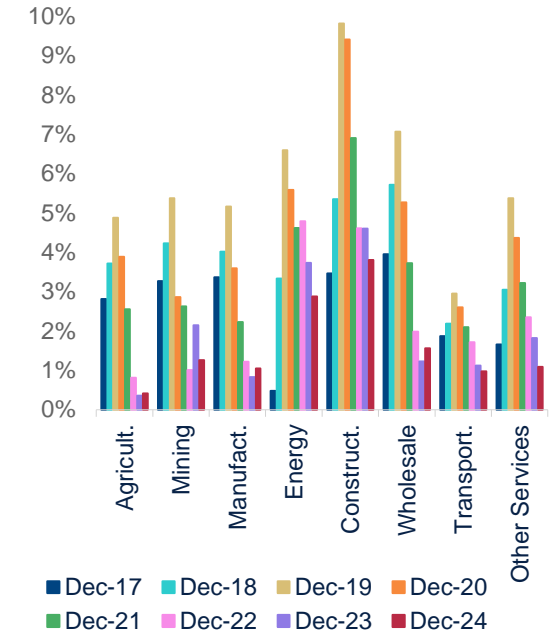
NPL IN COMMERCIAL LOANS SUBSEGMENTS

%



SECTORIAL NPL

%



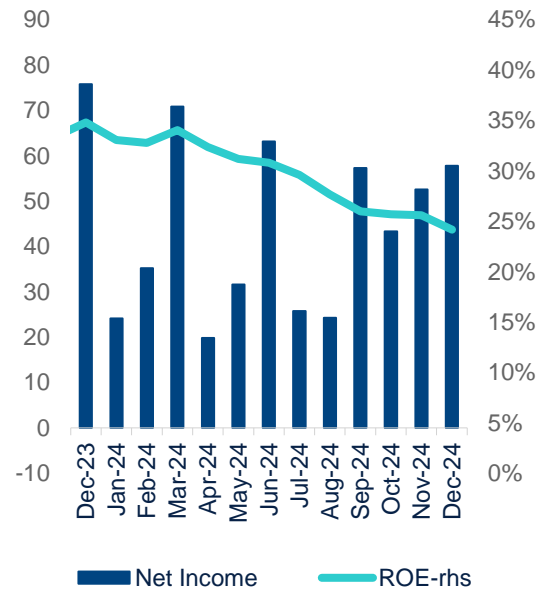
06

Turkish Banking Sector: Profitability

Deposit banks' net income declined by 11% in Dec24 on y-o-y terms. ROE and ROA ratios fell further to 24.2% and 2.1%, respectively.

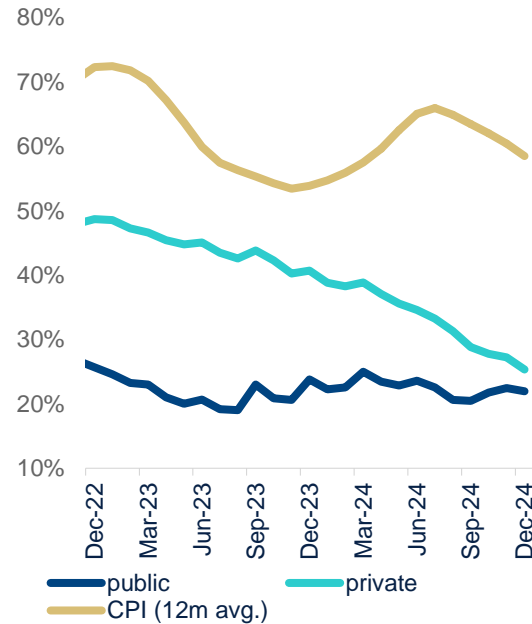
NET INCOME & RETURN ON EQUITY (ROE)

BN TL MONTHLY, % 12M CUMULATIVE



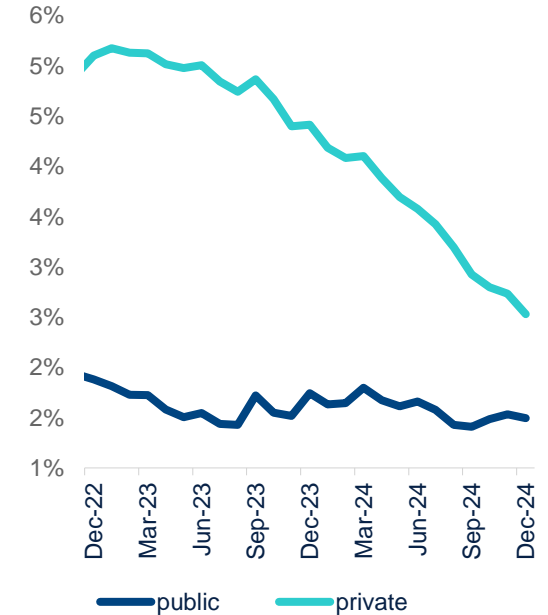
RETURN ON ASSETS (ROE)

%12M CUMULATIVE



RETURN ON ASSETS (ROA)

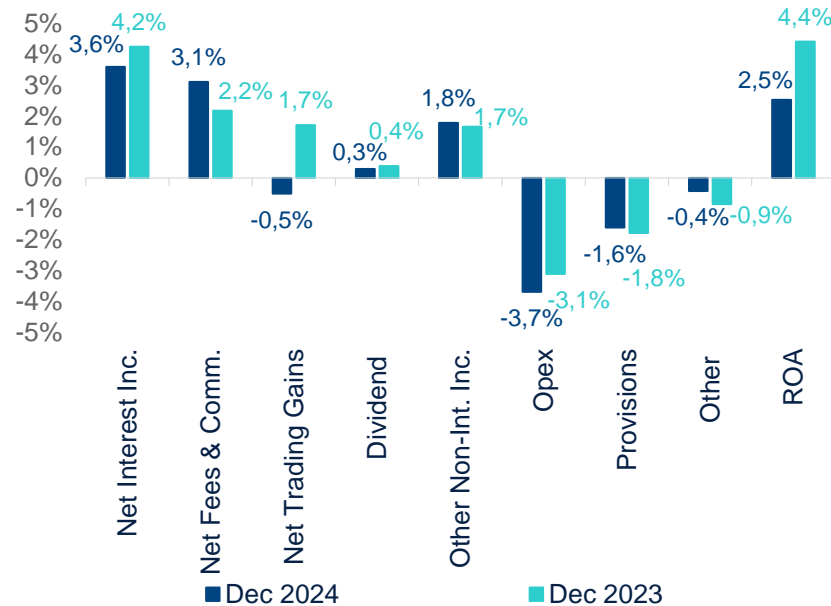
%12M CUMULATIVE



Fees and commissions continue their strong support whereas operational expenses and provisions have been weighing on profitability.

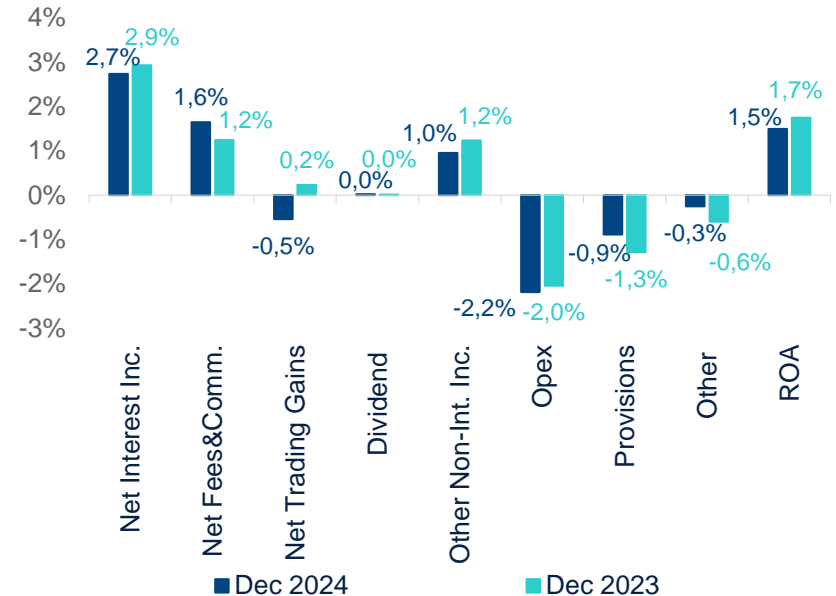
ROA COMPONENTS PRIVATE BANKS

12M CUMULATIVE AS OF OCT 2024 VS DEC 2023



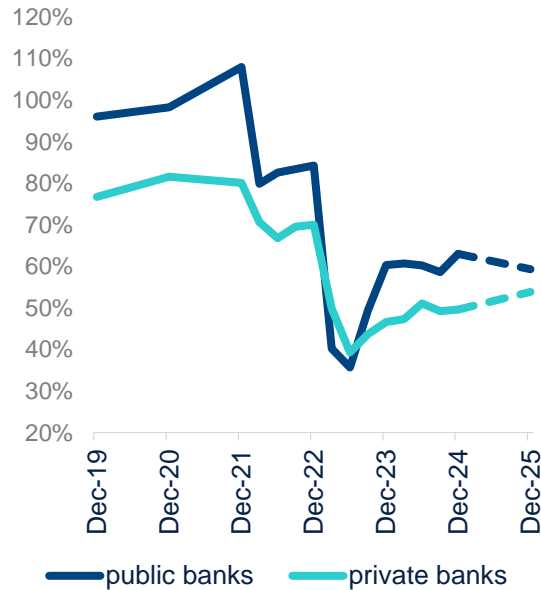
ROA COMPONENTS PUBLIC BANKS

12M CUMULATIVE AS OF DEC 2024 VS DEC 2023

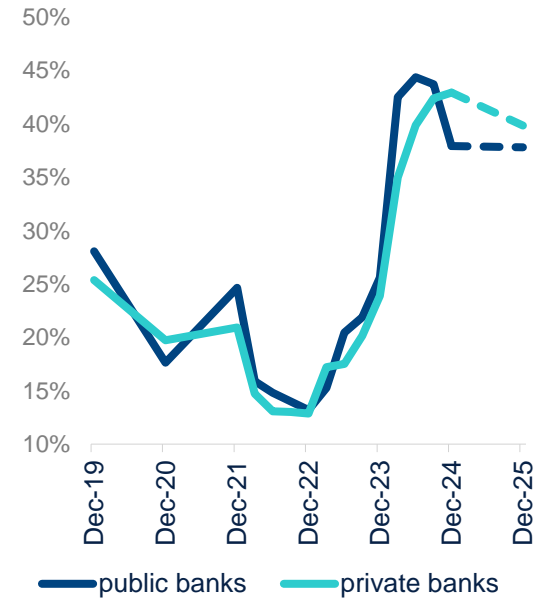


The contribution from trading and FX gains, fees and commissions started to normalize compared to previous quarters and expected to do so in 2025.

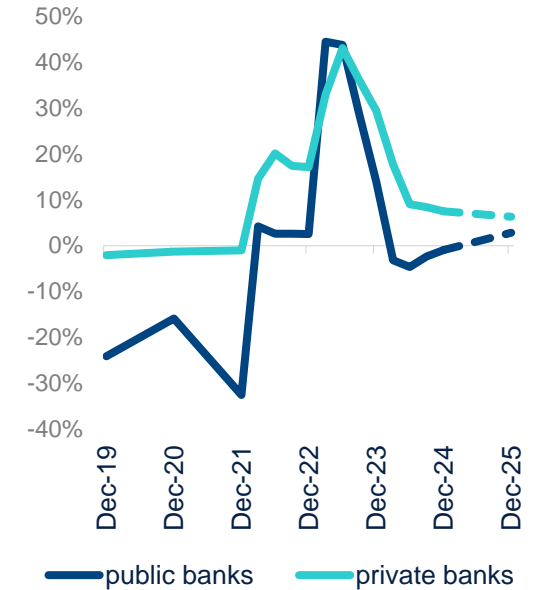
NET INTEREST REVENUE / TOTAL REVENUE, %



FEES & COMMISSION REVENUE / TOTAL REVENUE, %



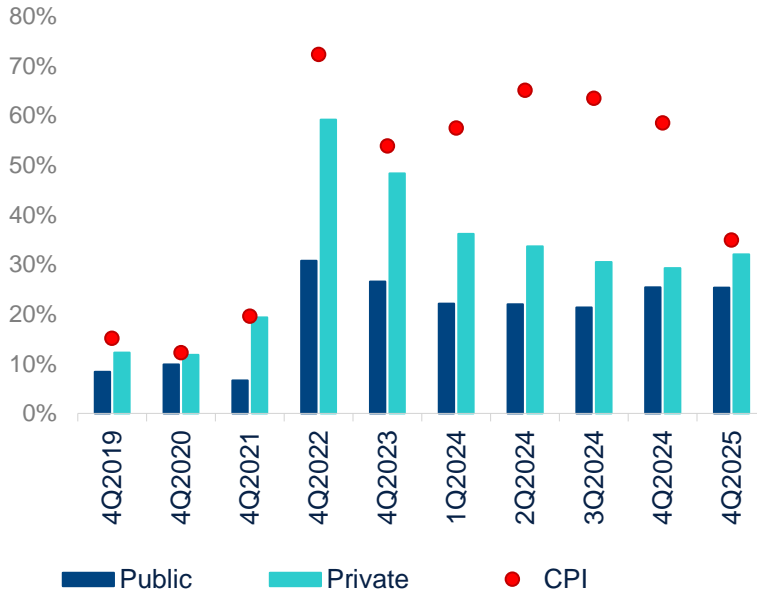
TRADING & FX GAINS / TOTAL REVENUE %



The weakening in NIM throughout 2024 stopped and started to improved as of 4Q24. We expect RoE of the private deposit banks to barely catch average CPI in 2025.

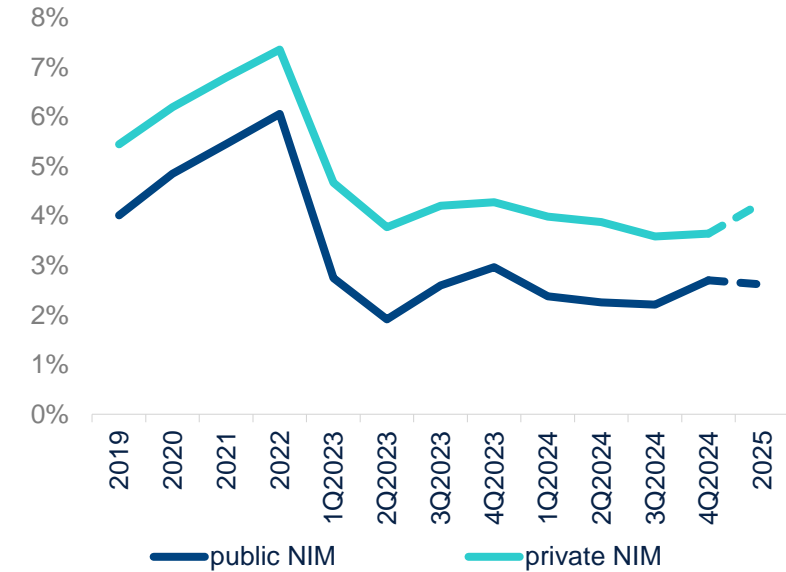
ROE

Annualized % with average annual CPI



NIM

Annualized %

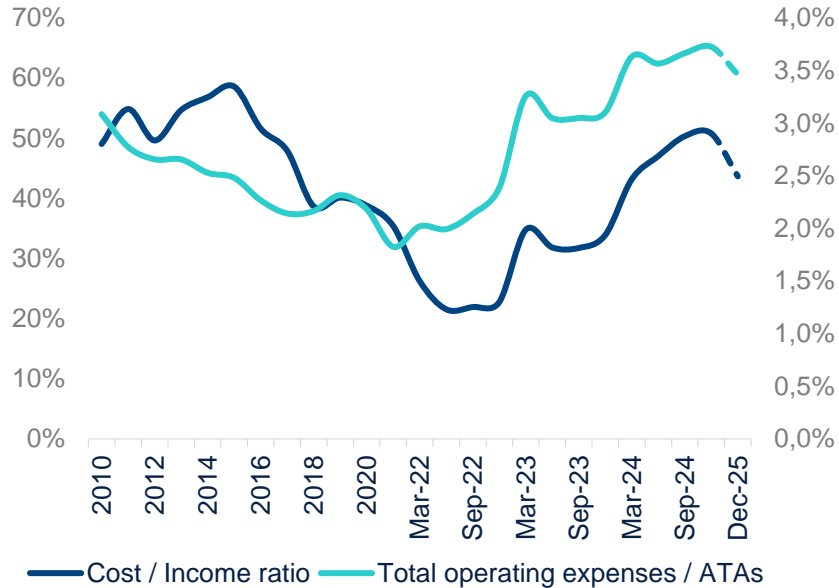


07

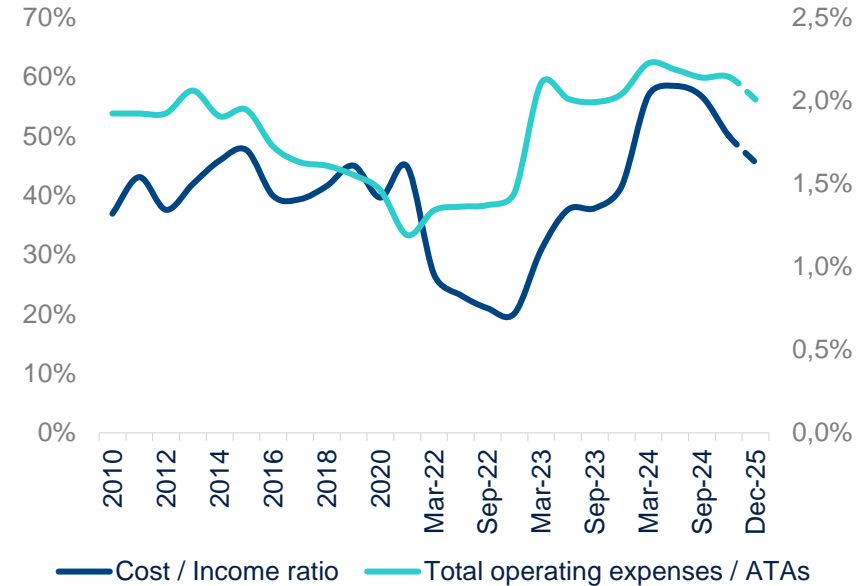
Turkish Banking Sector: Efficiency

Cost to income ratios improved in 4Q24 in both 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



Disclaimer

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website www.bbva.com.

Türkiye: Banking Sector Outlook

January 2025

Deniz Ergun
Garanti BBVA Research