

Türkiye: Banking Sector Outlook

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Key messages



CREDIT OUTLOOK

The tightening steps of the CBRT in the aftermath of the March political shock were followed by much tighter financial conditions and additional macro-pru throughout April and early May. Deposit rates rose to their highest level since Dec24; and credit rates reached their peak since 3Q24. Credit growth maintains its limited growth.



CREDIT SEGMENTS

TL commercial credit growth continues to be determined by the regulatory monthly caps, with banks also focusing on non-capped items. Growth momentum was mainly maintained by private banks compared to slower growth in public banks in April. FC credits growth in parity-adjusted terms are in the negative area. Retail lending is dominated by GPL and credit deposit accounts, credit card spending in real terms continues to remain moderate.



DEPOSITS

The rise in residents FC deposits decelerated to \$2.3bn in April after its \$8.6bn increase in March if price effects are excluded. The CBRT raised FC RRRs by 200bps further across all maturities to disincentivize dollarization in early May. Also, a monthly increase target of 0.3 points for TL commercial deposit share was introduced for banks with a share < 60%. The FC demand seems to be mitigated with high TL rates, seen in inflows into TL funds and deposits.



PROFITABILITY

In 1Q25, the negative contribution from loan-deposit spread to profitability continued yet with a strong compensation from fees and commissions. We expect the negative impact of the recent additional FC RR costs to be offset by the higher remuneration rates; and also NIM to be partially supported by higher lending rates going forward. However, the possibility of longer than expected monetary tightening continues to weigh on the 2025 profitability of the sector.



ASSET QUALITY

Consumer NPLs continue to be the key driver of the rise in overall NPL ratio. NPLs in commercial segment started to pick up since end-March as well. However, banks have increased their provision levels amid NPL inflows. We continue to expect the currency adjusted CoR in deposit banks to be 150-200 bps in 2025.



CAPITAL

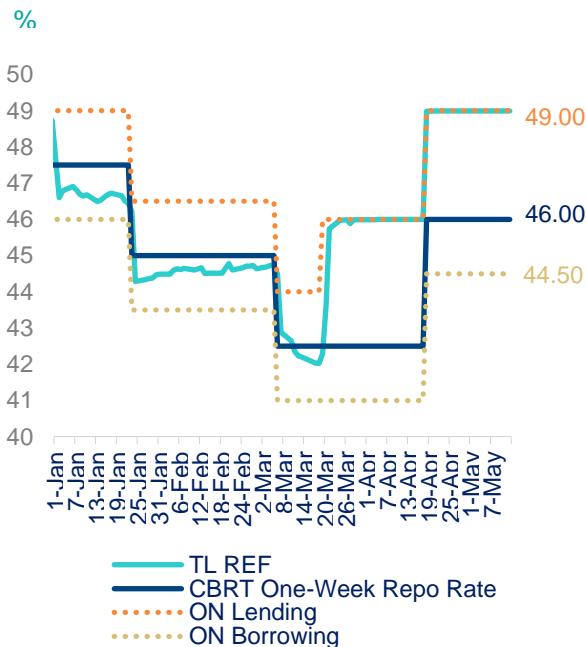
The sector experienced some decline in CET-1 ratios in 1Q25 due to dividend payments, update on the yearly operational risk and an increase in the RWA. However, sector's capital buffers stay solid, also being supported by the BRSA forbearance measures against any significant TL depreciation.

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Turkish Banking Sector: Credit Developments

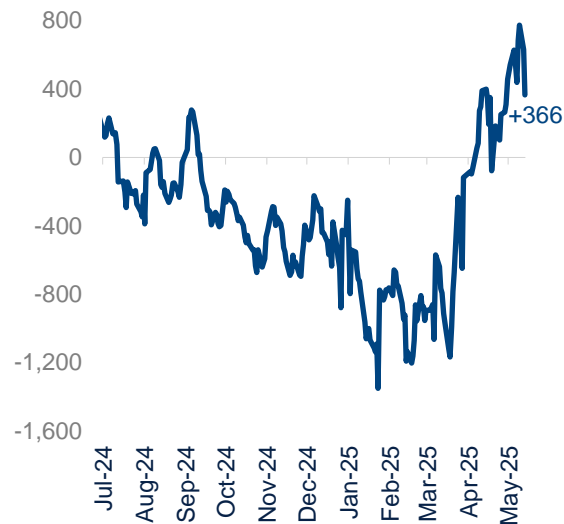
The CBRT raised the policy rate and started funding the market by mainly the ON lending rate of 49% and squeezed financial conditions further with new macro-pru

CBRT POLICY RATE & BIST TRY REFERENCE RATE



NET CBRT FUNDING*

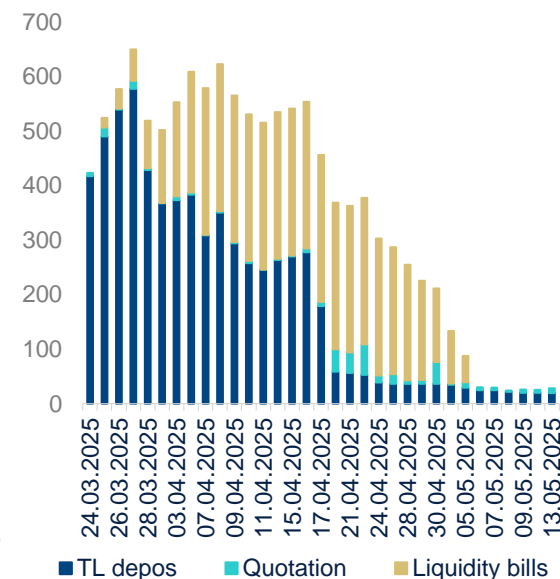
mn TL as of May 13th



* Negative values refer to excess TL liquidity, positive values refer to the funding need of the market

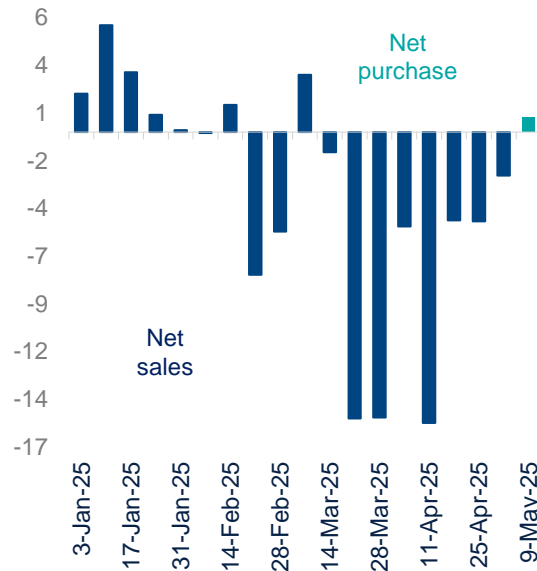
TOTAL TL STERILIZATION

bn TL as of May 13th



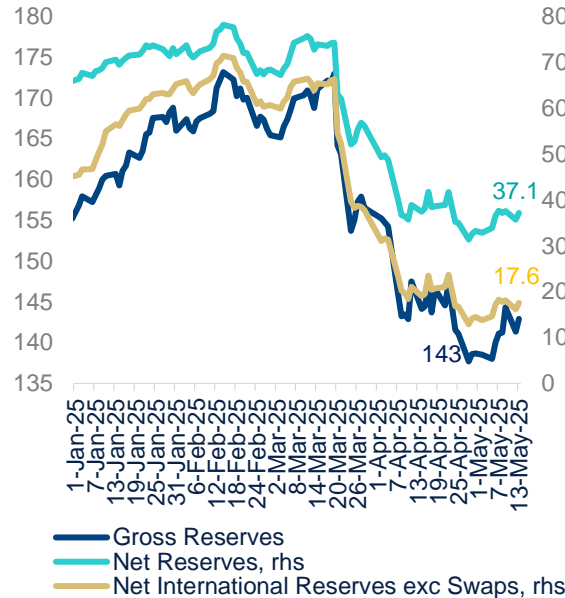
The depletion from the CBRT reserves has stopped by end April and the CBRT has become a net FC buyer last week

CBRT RESERVES NET* FLOW
US\$BN weekly



* Adjusted from gold price effects. Excluding the contribution from exports and services income inflows, and rediscount loans. CBRT payments due from KKM are assumed to have a similar ratio in Garanti BBVA since March 29th 2024.

CBRT INTERNATIONAL RESERVES
US\$BN as of May 13th



HIGH QUALITY LIQUID FOREIGN ASSETS (HQLA)* OF THE CBRT
US\$BN, weekly, as of May 2nd



* HQLA refers to foreign currency reserves of the CBRT excluding IMF SDR and other central banks' swaps

Monetary stance continues to be supported by macroprudential measures with some easing* in TL conversion criteria after March shock



Regulations for TL deposit share and KKM

- Monthly target for TL deposit share with retail TL deposit share of at least 60% (suspended* in March)
- Monthly target of 0.3pp for TL deposit share of legal persons for banks with TL deposit share lower than 60% (for the ones above 60%, ruling to keep it)
- Targets for KKM gradual reduction (overall monthly KKM activity of 60%)
- At least 15% monthly conversion from KKM to TL standard deposits (suspended* after March shock)



Loan growth caps

- Limits on monthly 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 monthly FX loan growth (0.5% down from 1% previously) with also a narrowed down scope in investment loans



Regulations on RR

- The RRR of 33% for KKM up to 6 months
- The RRR of 22% for KKM for up to 1 year & above 1 year
- The RRR of 17% for TL demand deposits and deposits for 1 & 3 months
- The RRR of 10% for TL deposits above 3 months
- TL RRR of 4% for ST FC deposits
- The RRR of 32% for FC deposits up to 1 month
- The RRR of 28% for FC deposit up to 1 year
- The RRR of 22% for FC deposit above 1 year
- The RRR of 25% for FC repo transactions with residents of a maturity up to 1 year
- Blocked portion of RRR for TL liabilities raised to 40% from 30%

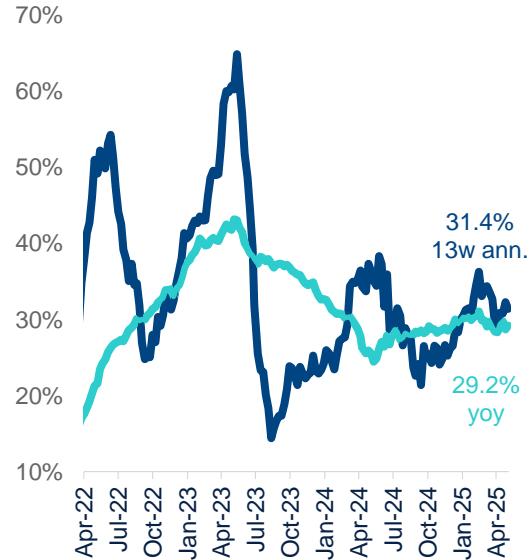


Regulations for Capital Adequacy Ratio

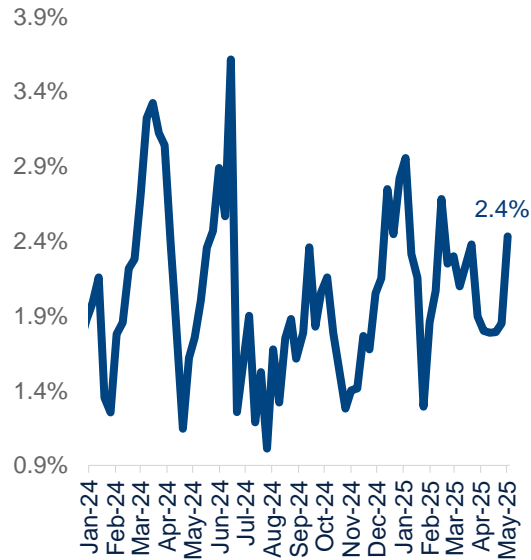
- The BRSA removed additional risk weights on banks' CAR calculations.
- The BRSA increased the USDTRY forbearance level used in CAR calculation from 25.8 (26.06.2023 CBRT «Buy» rate) to 32.82 (28.06 2024 CBRT «Buy» rate).

After the financial tightening since March, the acceleration in credit growth has reversed with the trend rate and yoy rate both hovering around 30%

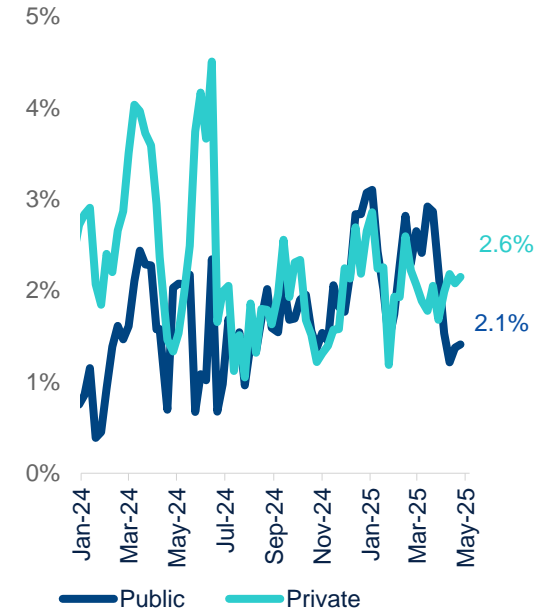
TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED & YOY



TOTAL CREDIT GROWTH (FX ADJ)
4 WEEK CUMULATIVE



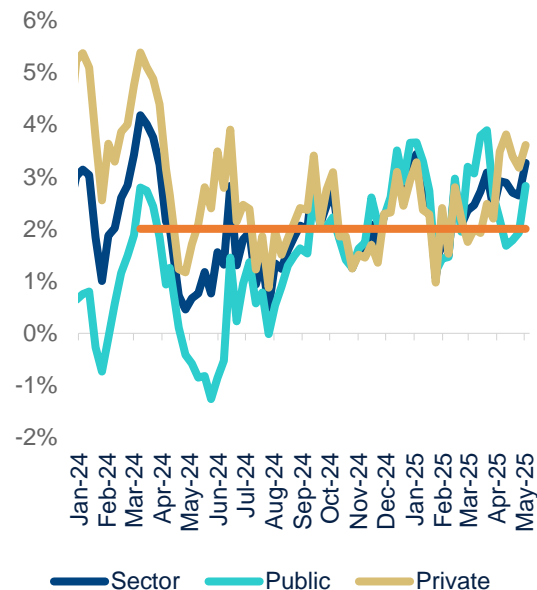
TOTAL CREDIT GROWTH (FX ADJ)
4 WEEK CUMULATIVE



Private banks differentiated positively from public banks in TL credit growth throughout April. FC lending growth has been led by mostly the parity impact

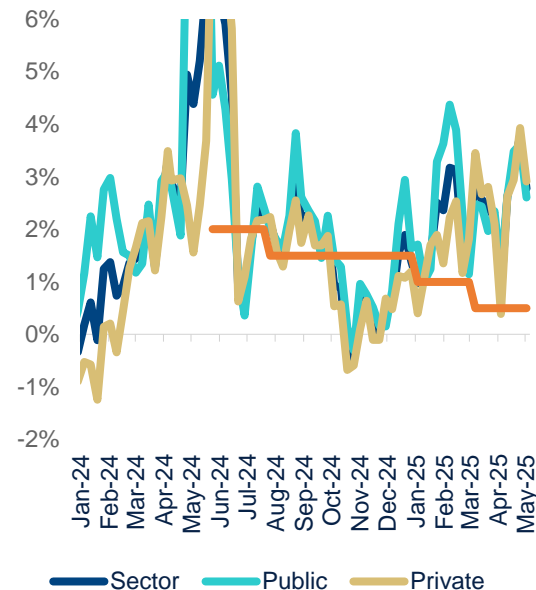
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



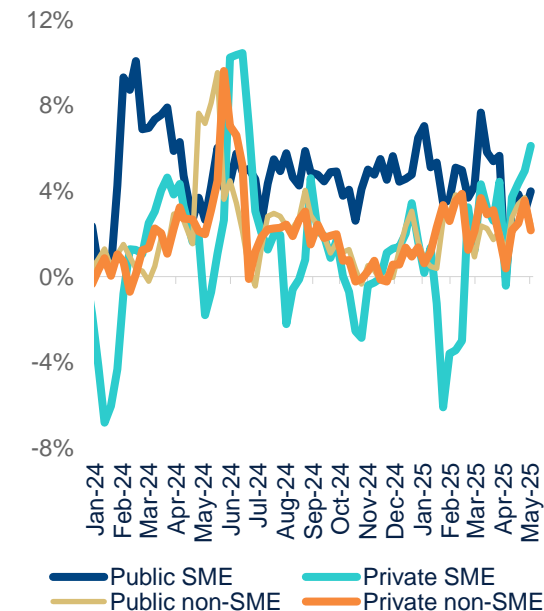
FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE

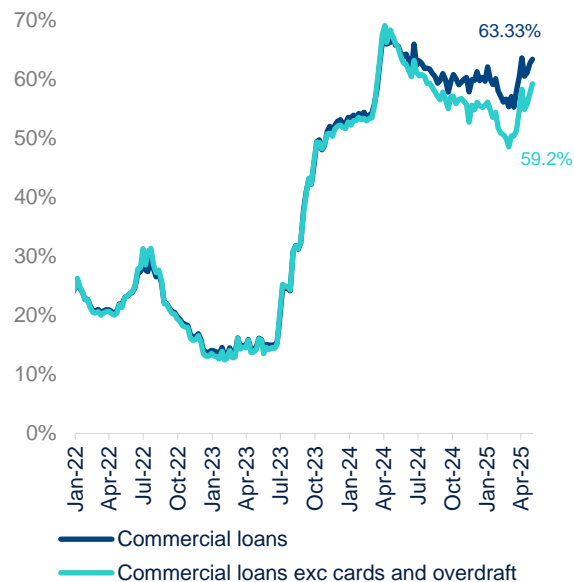


* The CBRT reduced the monthly credit growth cap to 0.5% from 1% in FC credits with also a narrowed down scope in investment loans as of March 2025

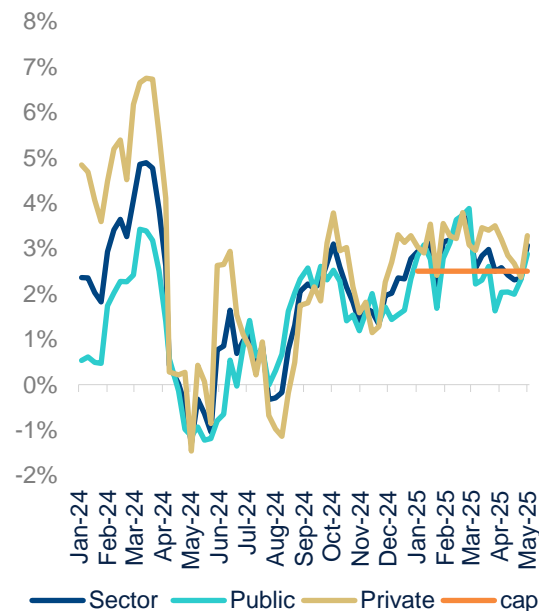
Source: BRSA and Garanti BBVA Research.

TL commercial credit growth decelerated in April. Both SME & non-SME credit growth was stronger in private banks, seemingly in non-capped non-SME items

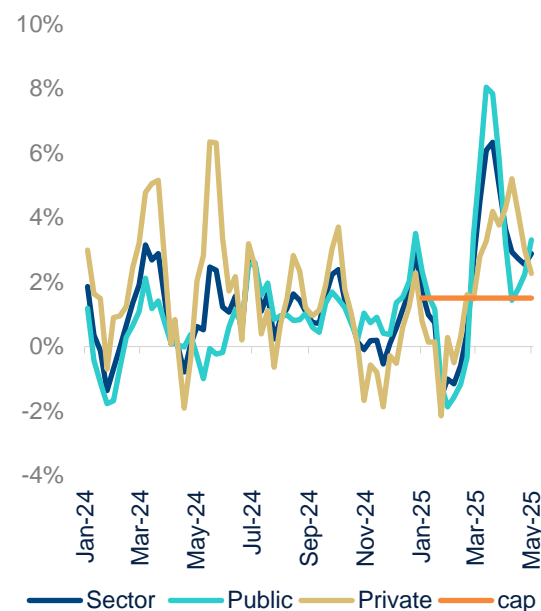
TL COMMERCIAL CREDIT RATES
WEEKLY, COMPOUND, FLOW



TL SME COMMERCIAL CREDITS GROWTH
4 WEEK CUMULATIVE



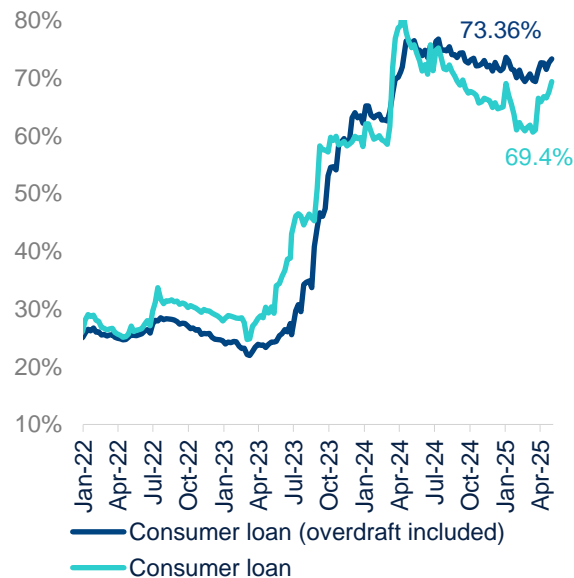
TL NON-SME COMMERCIAL CREDITS GROWTH
4 WEEK CUMULATIVE



Interest rates in consumer GPLs reached above 70%. Consumer credit growth moderates with private banks differentiating from public banks most recently

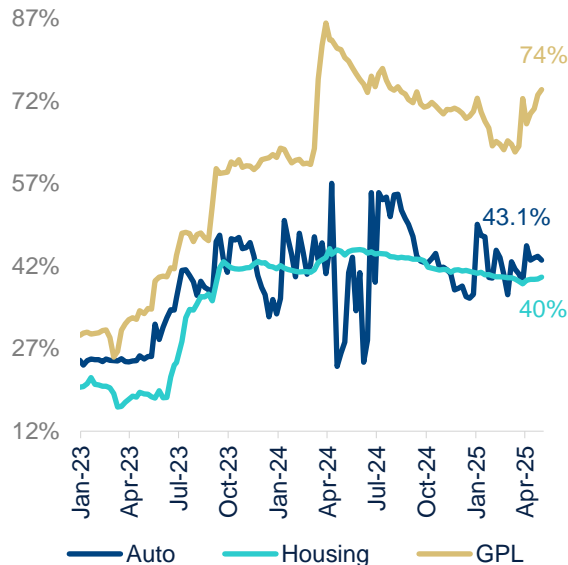
CONSUMER CREDIT RATES

WEEKLY, COMPOUND, FLOW



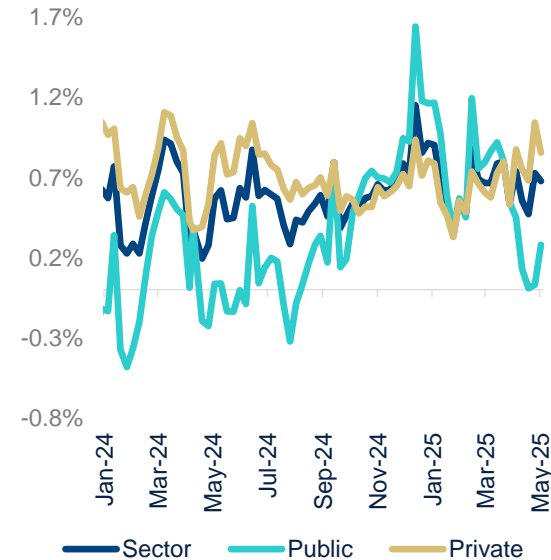
CONSUMER CREDIT RATES

WEEKLY, COMPOUND, FLOW



CONSUMER* CREDIT GROWTH

4 WEEK CUMULATIVE, DEPOSIT BANKS

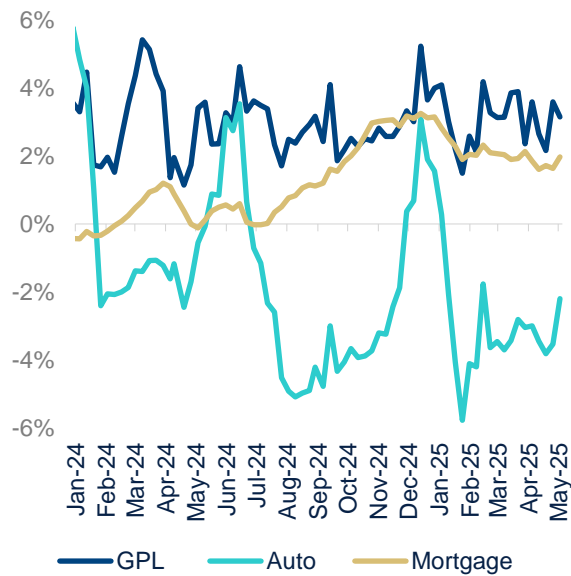


* housing, auto, general purpose loans (GPL).

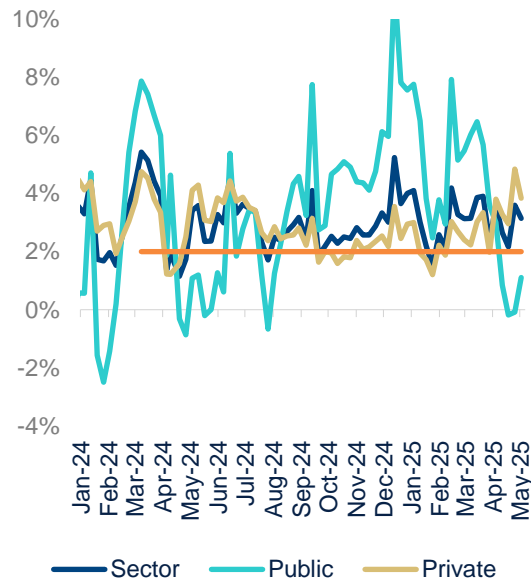
Source: BRSA and Garanti BBVA Research.

Overdraft loans continue to move up the general purpose loans in private banks. Albeit moderating, credit card spending remains above monthly inflation trend

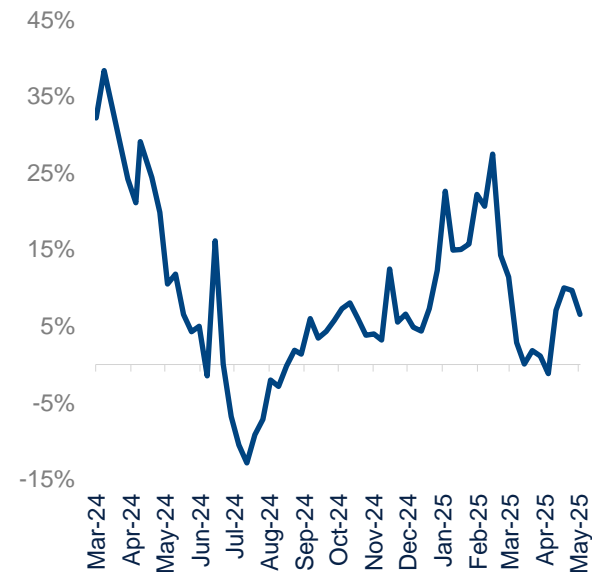
CONSUMER* CREDIT GROWTH
4 WEEK CUMULATIVE, DEPOSIT BANKS



GENERAL PURPOSE LOANS
4 WEEK CUMULATIVE, DEPOSIT BANKS



RETAIL CREDIT CARDS SPENDING
DEPOSIT BANKS, REAL 3M ANNUALIZED

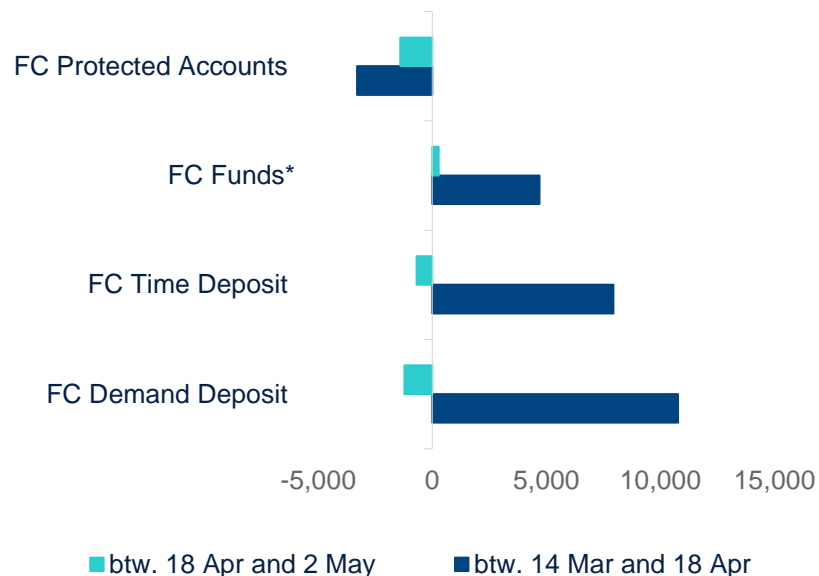


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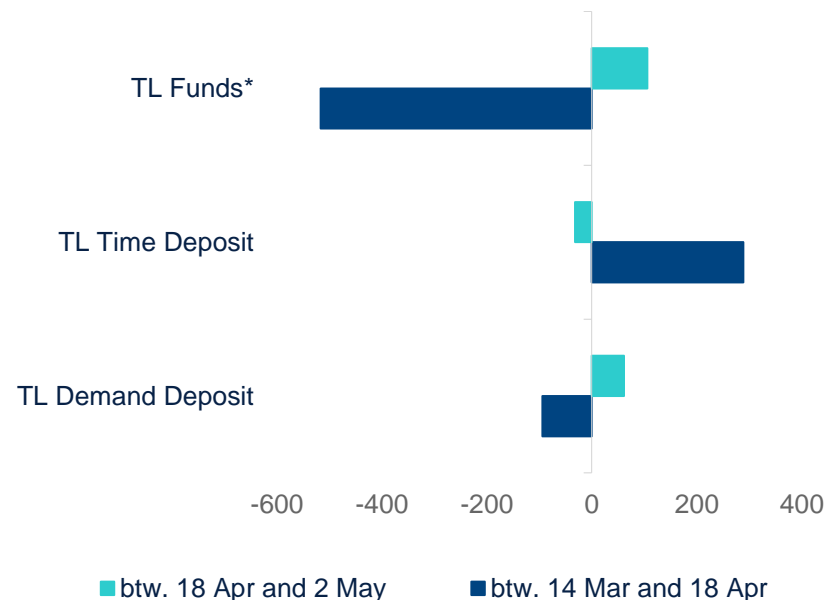
Turkish Banking Sector: Liquidity

Inflows into FC instruments have stabilized, we observe an increasing exposure from both corporate and retail clients to TL assets, particularly TL funds

CHANGES IN FC INSTRUMENTS, SECTOR
\$USMN



CHANGES IN TL INSTRUMENTS, SECTOR
TL BN



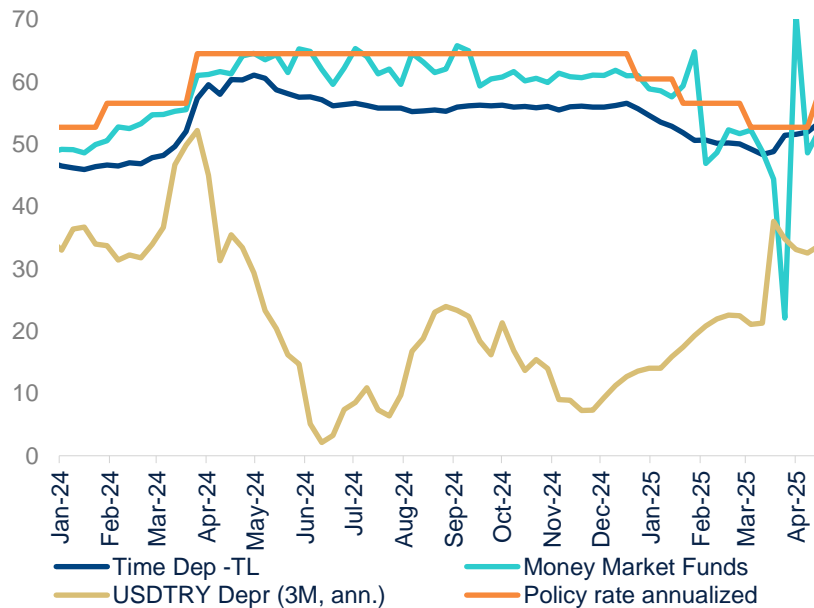
* FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds. TL Funds include Money Market Participation & Hedge Funds, Stock Market Funds, Debt Securities Funds, TL Hedge Funds and TL Variable Funds

Source: BRSA, TEFAS & Garanti BBVA Research.

The volatility seen in the returns of money market funds (MMFs) has been contained by the recent tightening and TL REF bond purchases of the CBRT

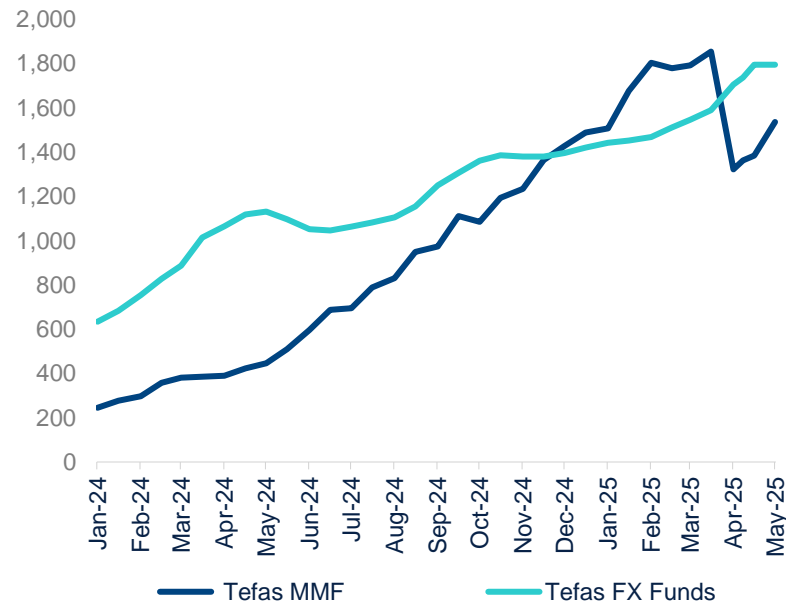
DEPOSIT RATES & ASSET RETURNS

%, flow, compounded



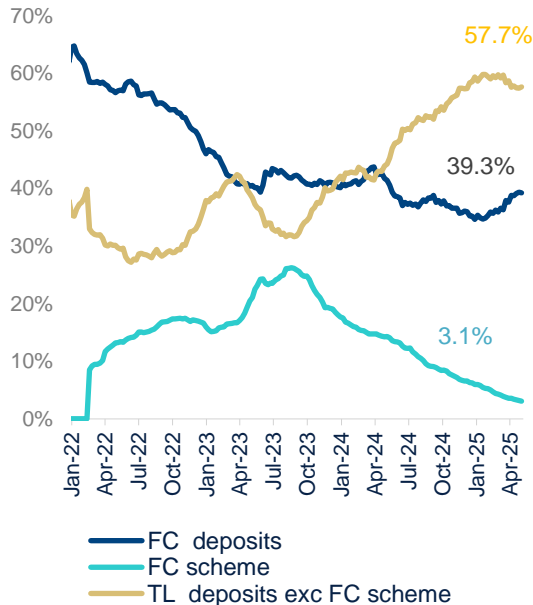
TL MONEY MARKET FUNDS (MMF) & FC FUNDS

BN TL

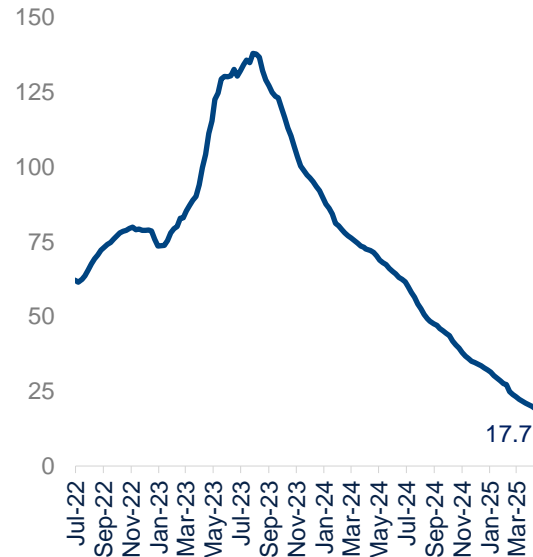


The CBRT* increased the reserve requirement ratios for FX deposits* by 200 bps across all maturities to avoid dollarization and to support the FX reserves

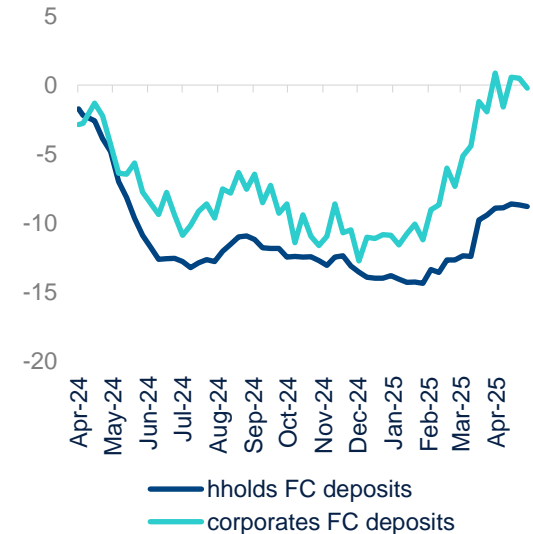
BANKING SECTOR DEPOSITS
%, SHARE IN TOTAL, AS OF MAY 2nd



FC PROTECTED SCHEME (KKM)
\$BN, ADJUSTED BY 13-WEEK USDTRY AVG



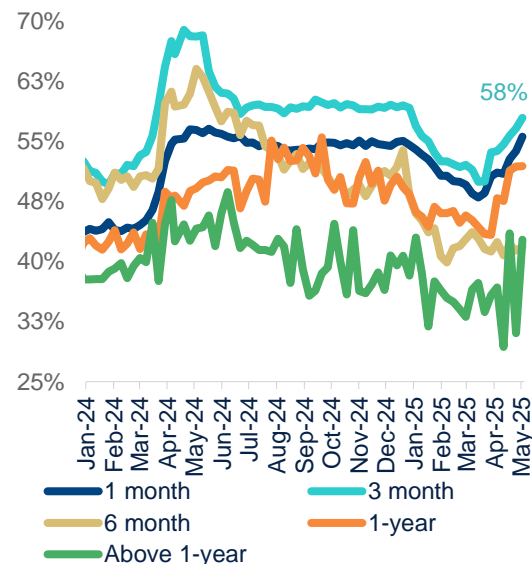
CHANGE IN FC DEPOSITS
US\$BN, ADJUSTED, CUMULATIVE
CHANGE AFTER MAR24 TILL MAY25



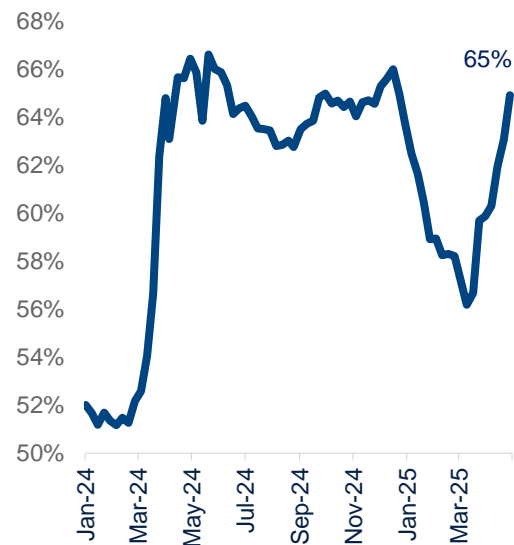
* Reserve requirement ratios (RRR) for FX deposits were raised by 200 bps across all maturities. RRR for funds that are derived from FX repo transactions with residents of a maturity up to 1 year has been raised by 400 bps and the calculation method has been changed. The minimum share of export proceeds to be sold to the CBRT were increased from 25% to 35% until July 31. The FX conversion support rate, applied to firms' FX conversions of export proceeds to the Turkish lira, were raised to 3% until July 31, 2025.

Following the CBRT's updated regulations* to incentivize the transition to TL deposits, TL deposit rate reached its highest since Dec'24

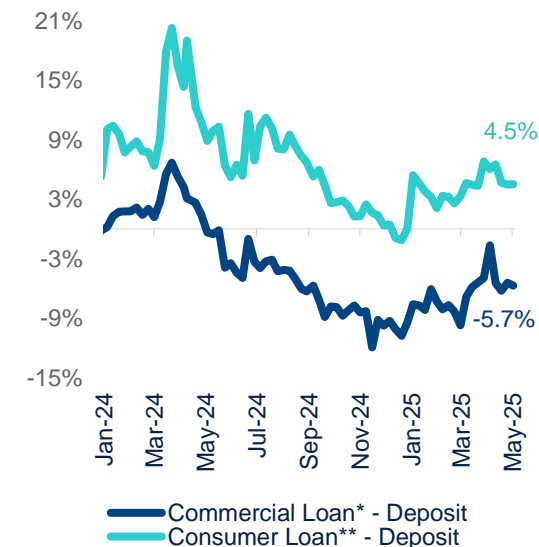
TL DEPOSIT INTEREST RATES
%, FLOW, SECTOR, WITHOUT RR COST



TL DEPOSIT RATE INC. RR COST
%, FLOW, SECTOR



TL INTEREST RATE SPREAD
%, FLOW, SECTOR, INC. RR COST



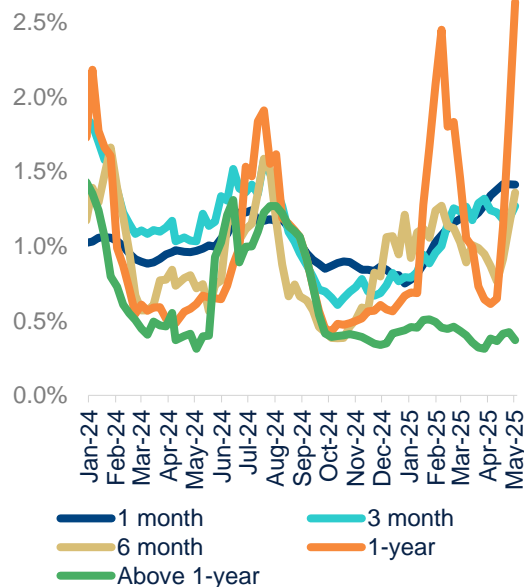
*A monthly increase target of 0.3 points for TL deposit share of legal persons were introduced for banks with a share lower than 60%. Reserve requirement ratios (RRR) for FX deposits were raised by 200 bps across all maturities. RRR for funds that are derived from FX repo transactions with residents of a maturity up to 1 year has been raised by 400 bps and the calculation method has been changed. The remuneration rate applied to required reserves maintained for TL deposits were raised from 84% to 86% of the CBRT's weighted average funding cost to support banks' balance sheets.

Source: CBRT & Garanti BBVA Research.

Banks' demand for FC liquidity pushed up the FC deposit rates. Yet, the impact of new macro-pru* will likely be seen as lower FC rates in the next weeks

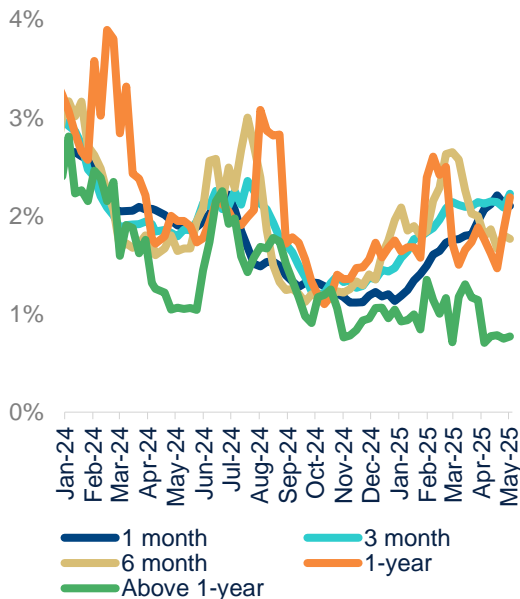
EURO DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



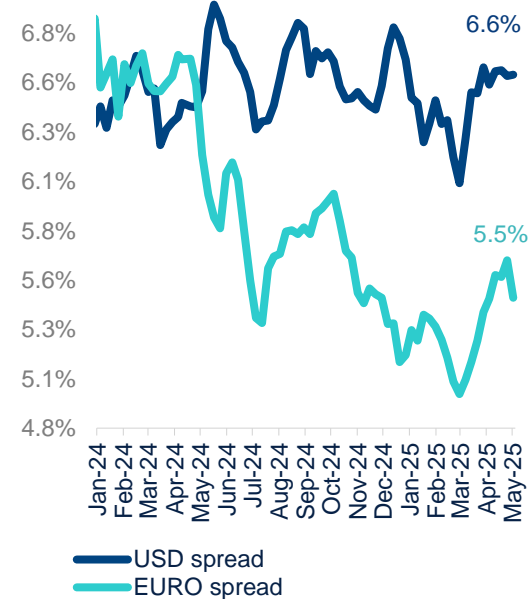
USD DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



FC INTEREST RATE SPREAD

%, 4W AVG, FLOW, SECTOR



* Increase in FCC RRs by 200bps for all maturity brackets & Monthly target of 0.3pp for TL deposit share of legal persons for banks with TL deposit share lower than 60% (for the ones above 60%, ruling to keep it)

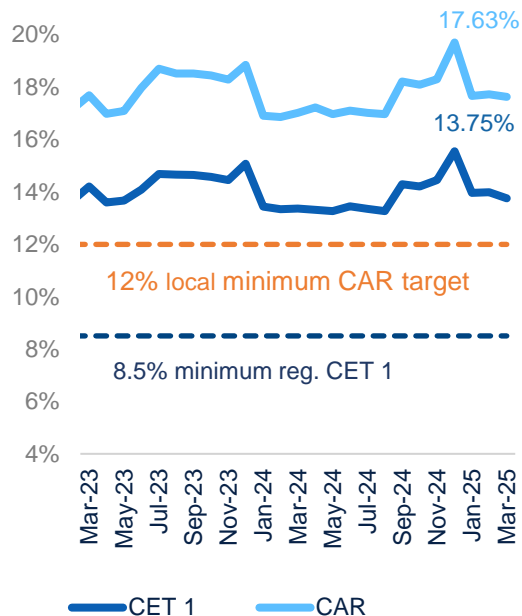
Source: CBRT & Garanti BBVA Research.

04

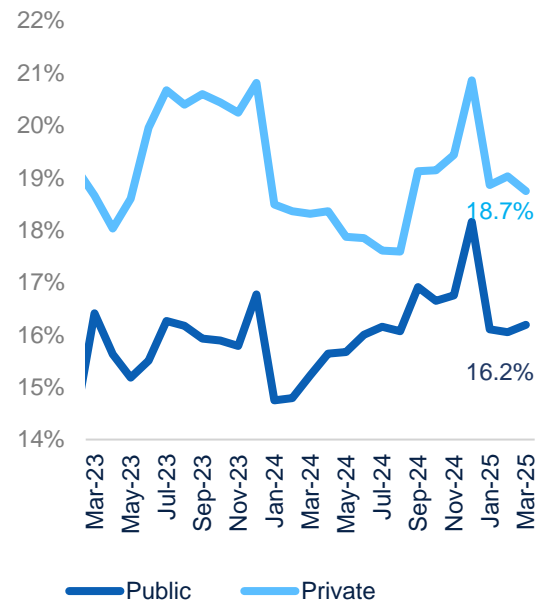
Turkish Banking Sector: Solvency and Capital Adequacy

CET 1 ratio in private banks fell in March by 50 bps due to decline in their core capital, mainly caused by the dividend payments in March

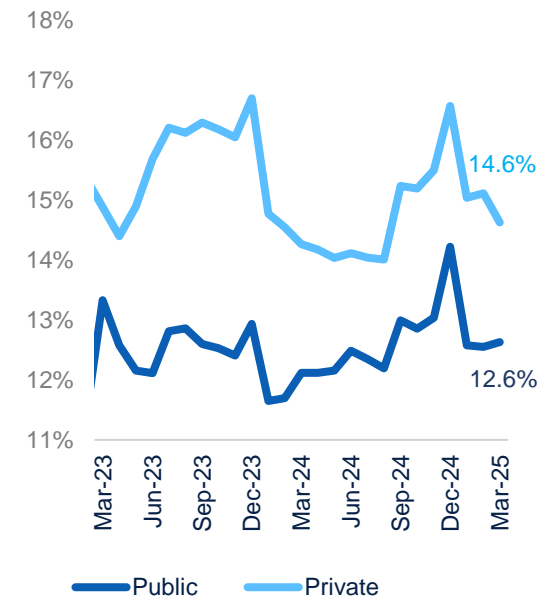
**CAPITAL ADEQUACY RATIO (CAR)
AND CET 1 RATIO** (%)**



CAPITAL ADEQUACY RATIO



CET 1 RATIO
%**



** Common Equity Tier 1.

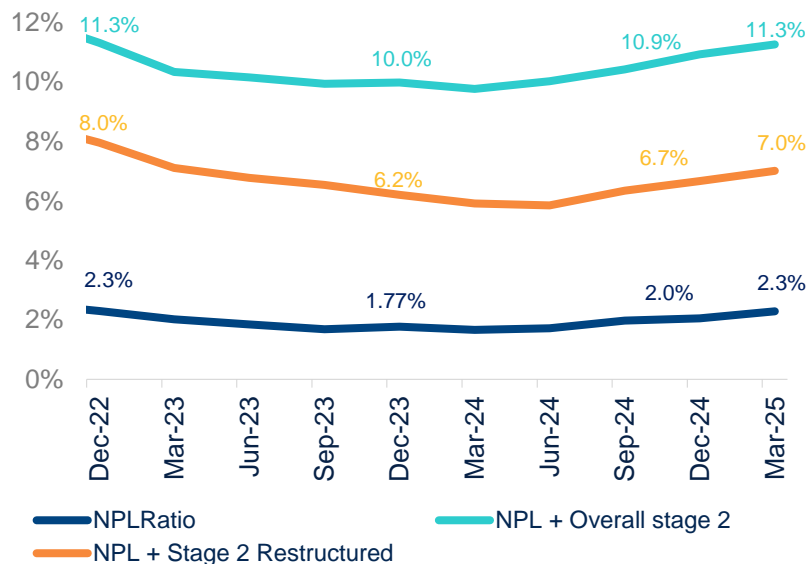
Source: BRSA and Garanti BBVA Research.

05

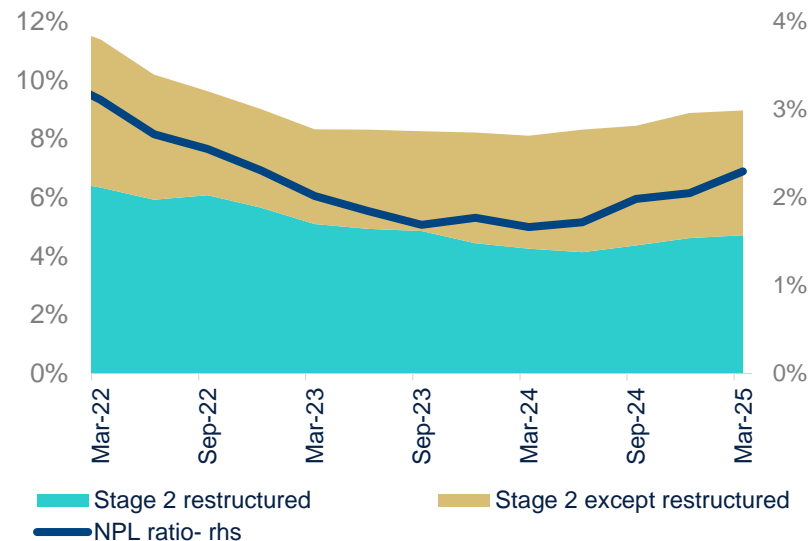
Turkish Banking Sector: Asset Quality

The share of the sum of Stage 2 and NPLs* in total loans rose further to 11.3% in 1Q25, mainly caused by the acceleration of NPL growth

ASSET QUALITY OUTLOOK: PEER DEPOSIT BANKS**



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



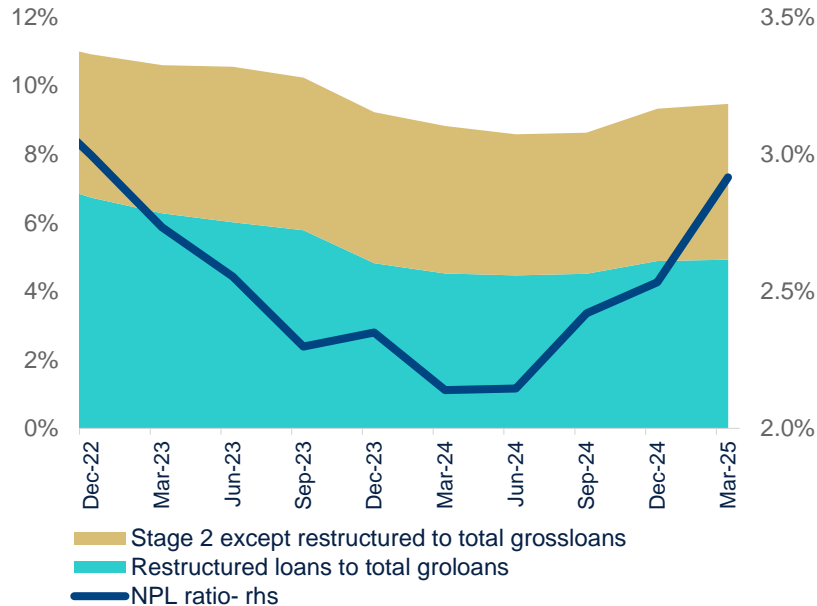
* According to the definition of the CBRT Financial Stability Report, the share of the sum of Stage 2 and NPLs in gross loans is taken into account as total credit risk.

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

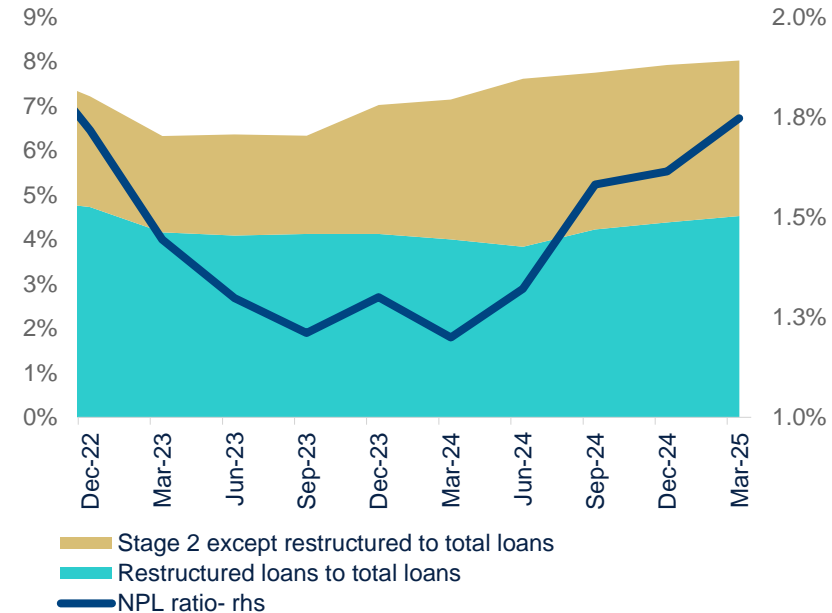
Source: KAP (Public Disclosure Platform), Garanti BBVA Research

Share of restructured loans in Group 2 segment remains higher in public peers whereas the acceleration in NPL growth in 1Q25 was strong in overall peers

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



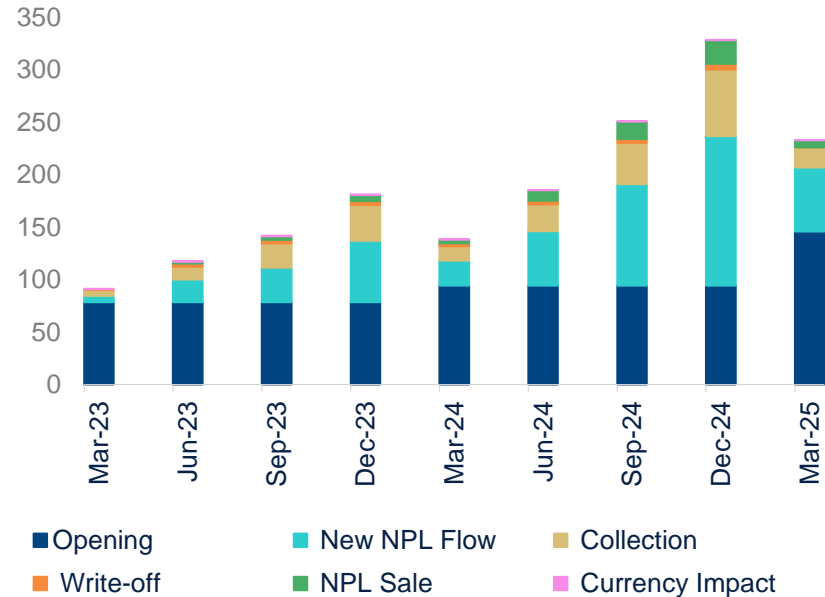
RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS: PUBLIC DEPOSIT BANKS



NPL amount in 1Q25 was realized much higher compared to previous years' quarters in peer banks. New NPL formation increase was higher in private peers

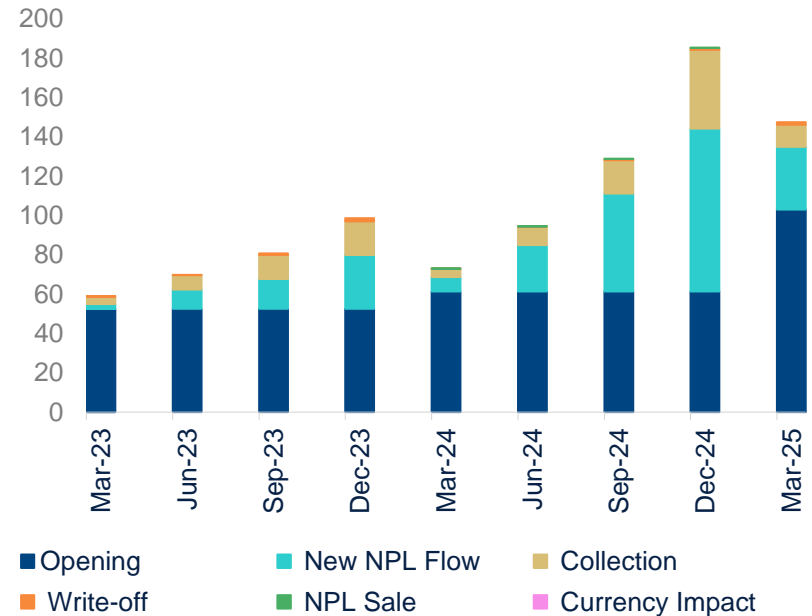
NPL MOVEMENTS PEER PRIVATE BANKS*

BN TL



NPL MOVEMENTS PEER PUBLIC BANKS*

BN TL



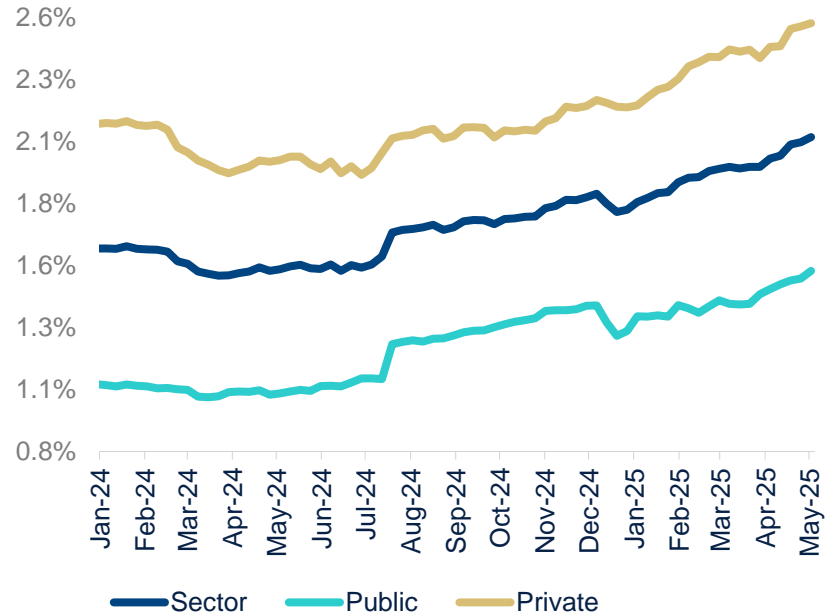
* Data includes 7 top peer deposit banks as 4 private and 3 public banks.

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

NPL ratio of the sector continues its gradual rise and reached 2.1% as of early May. Consumer NPLs remain to be key determinants of the rise in sector NPLs

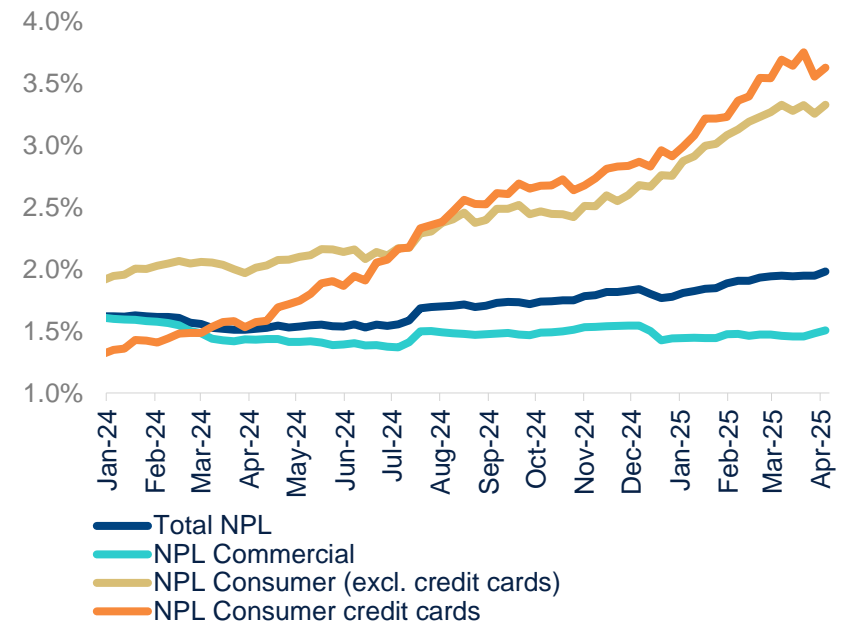
NPL RATIO

%



NPL RATIO IN SUB-SEGMENTS

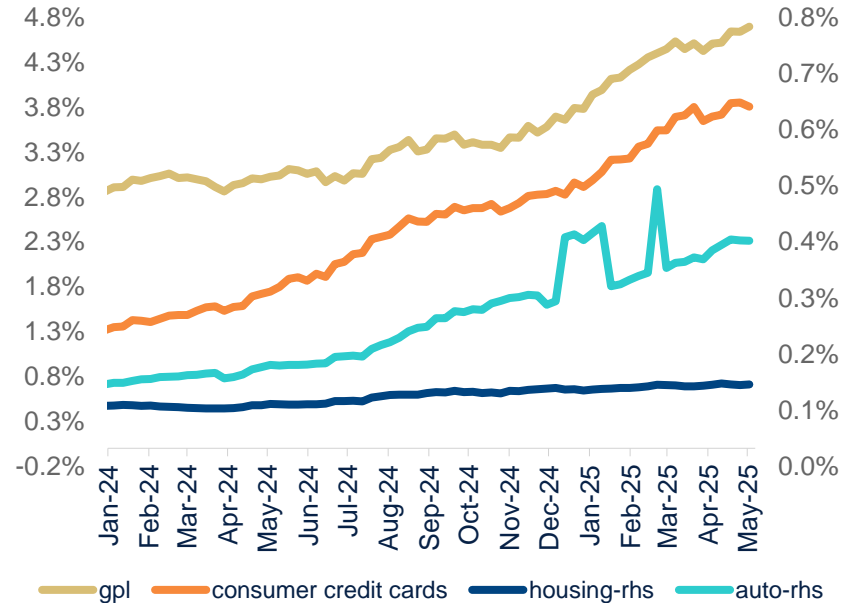
%



Increase in commercial NPL is caused by the ongoing increase in SME NPL. NPL ratio in consumer credit cards is at 3.8% and in GPLs at 4.7%

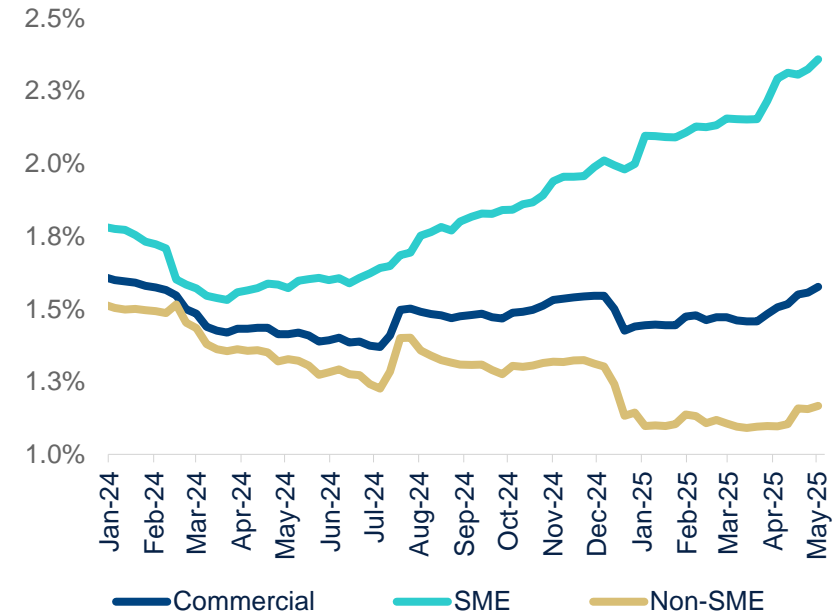
NPL RATIO IN CONSUMER LOANS

%



NPL RATIO IN COMMERCIAL LOANS

%



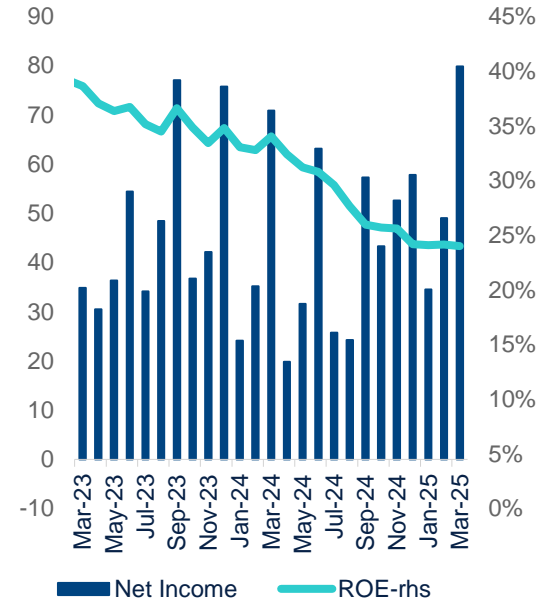
06

Turkish Banking Sector: Profitability

Deposit banks' net income rose by 26% on annual terms in March. ROE remained almost stable at 24%

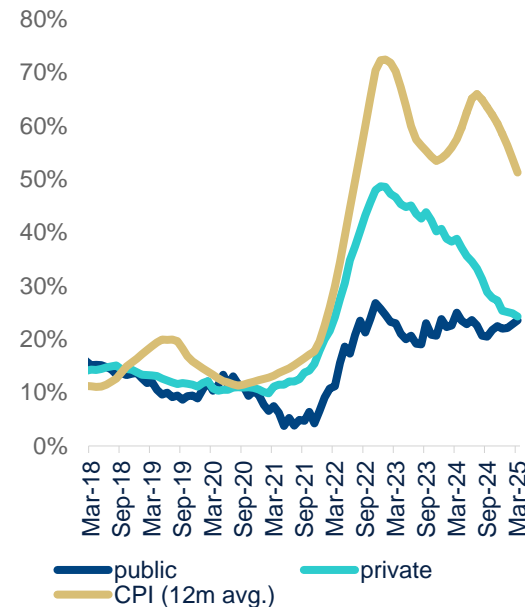
NET INCOME & RETURN ON EQUITY (ROE)

BN TL MONTHLY, % 12M CUMULATIVE



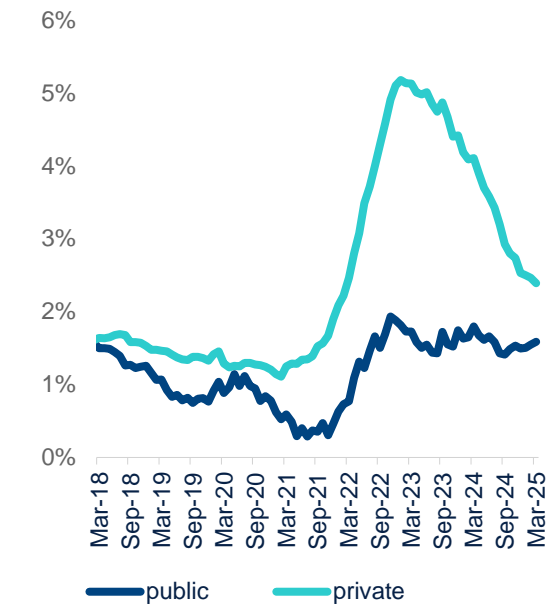
RETURN ON EQUITY (ROE)

%12M CUMULATIVE



RETURN ON ASSETS (ROA)

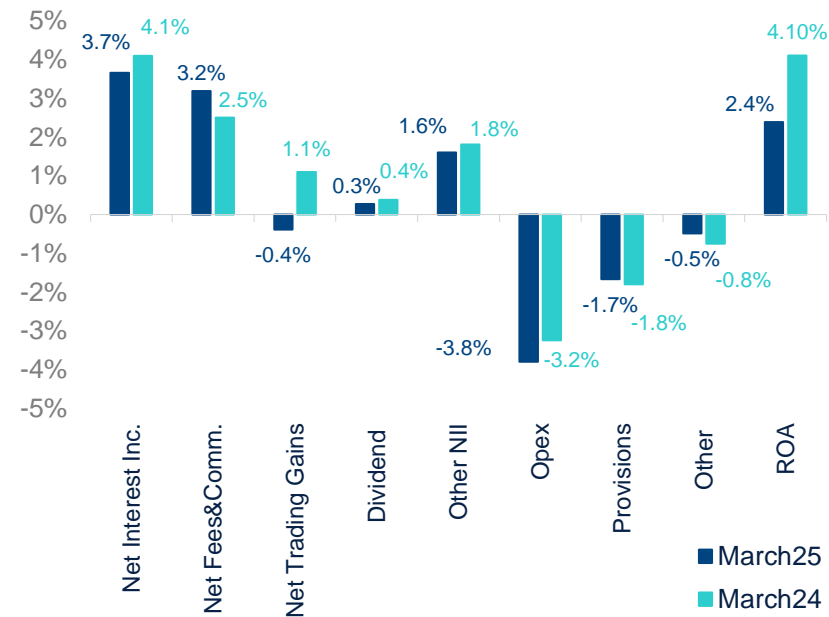
%12M CUMULATIVE



Net Interest Income was stronger in private banks. Strong contribution from gains from fees and commissions continued to be supportive

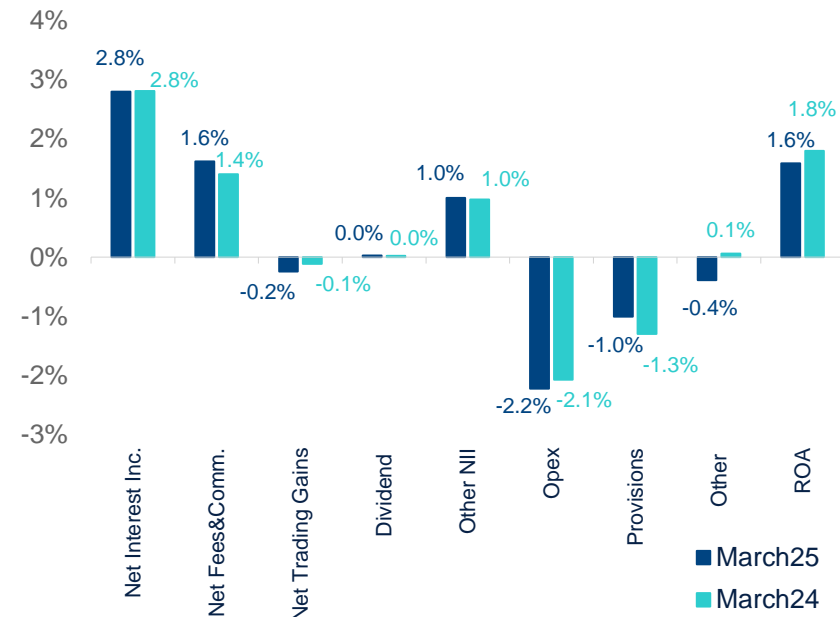
ROA COMPONENTS PRIVATE BANKS

12M CUMULATIVE AS OF MAR 2025 VS MAR 2024



ROA COMPONENTS PUBLIC BANKS

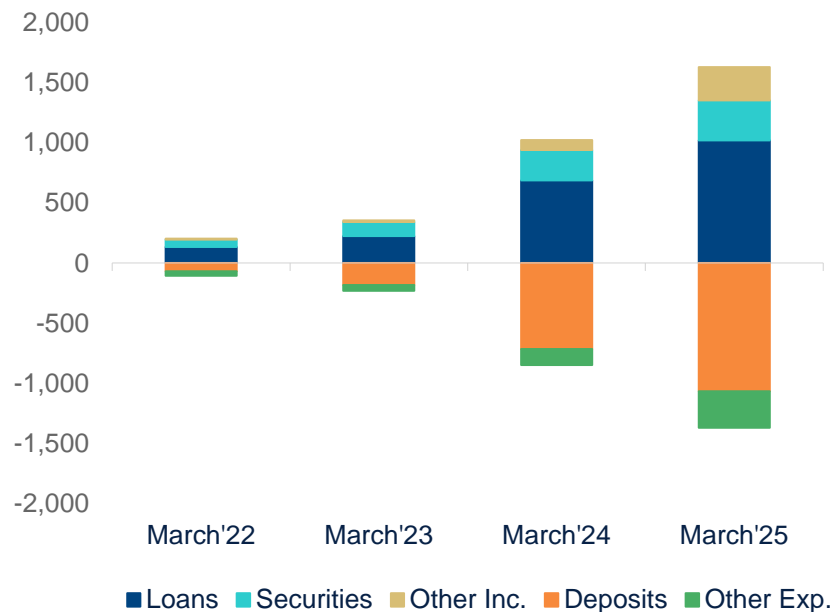
12M CUMULATIVE AS OF MAR 2025 VS MAR 2024



The contribution from loan-deposit spreads continues to weigh to the downside for profitability

COMPONENTS OF NET INTEREST INCOME*

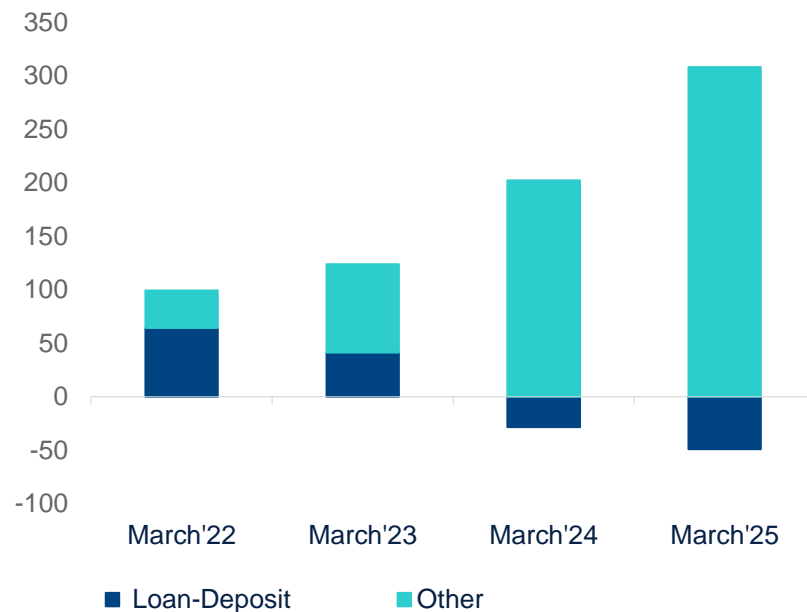
bn TL



Source: CBRT, BRSA and Garanti BBVA Research

COMPONENTS OF NET INTEREST INCOME*

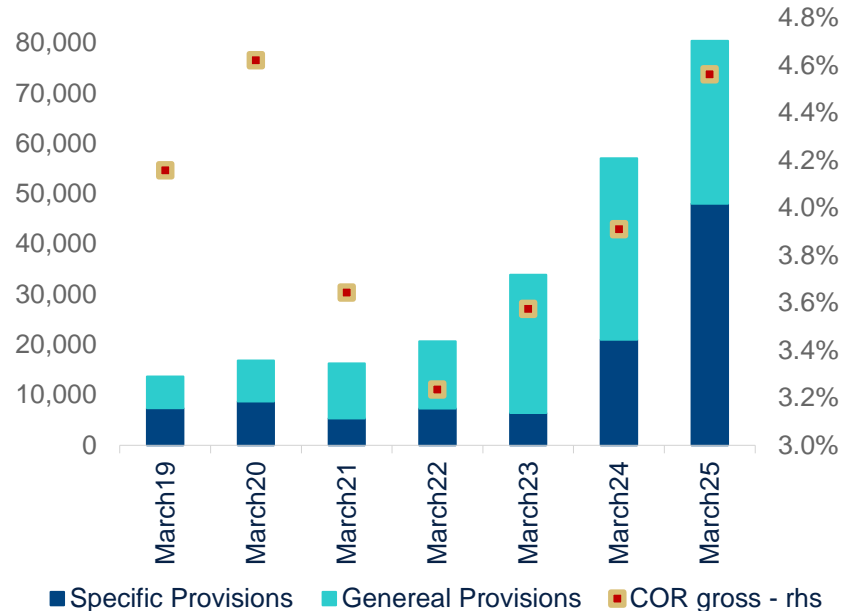
bn TL



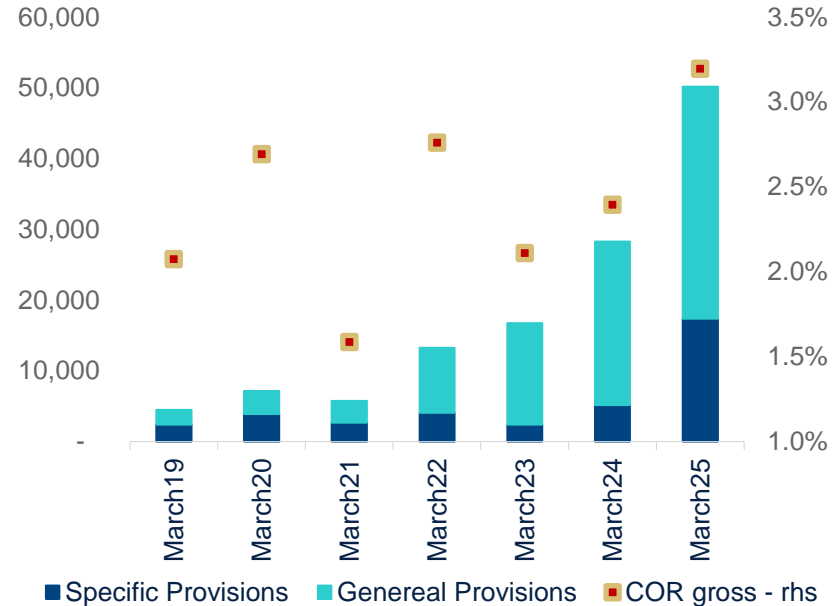
* Other Income refers to interest income coming from money market transactions, securities and repo transactions. Other Expenditures refers to interest expense coming from money market transactions, securities and repo transactions. Other refers to their sum

Amid NPL inflows, mostly coming from retail segment, banks increased their provisions

PRIVATE BANKS: PROVISIONS & CoR (gross)



PUBLIC BANKS: PROVISIONS & CoR (gross)



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Türkiye: Banking Sector Outlook

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