

July 2025

Deniz Ergun

Türkiye Banking Sector Outlook

Main messages

CREDIT OUTLOOK



As a result of the ongoing tight monetary stance and the macro-prudential measures, the credit growth trend turned into a deceleration from a moderate path, albeit differentiating between segments. Higher level of real interest rates result in more restrictive financial conditions. However, expected rate cuts in the coming months and potential ease in regulatory credit growth caps might reverse this outlook a little bit.

CREDIT SEGMENTS



The growth momentum in TL credits was around the same levels in both public and private banks in June. FC credit growth was limited compared to previous months, and mostly led by public banks. TL commercial credit growth has decelerated further due to TL SME loans whose trend has moved even below the monthly growth limit lately. TL non-SME loans, on the other hand, have grown above the limits, led by non-capped items. Retail lending was driven by credit cards in June, due to mainly Bayram holidays. The card spending growth staying above inflation limits a clearer adjustment in domestic demand, albeit it's decelerating.

DEPOSITS



Recent geopolitical tension in the Middle East and news flow on domestic politics worsened the sentiment, resulting in FC demand of residents in June but to a low extent, helped by the attractiveness of TL rates. The CBRT has also revised the deposit share rules and the RRs for KKM accounts in order to disincentivize dollarization since the sentiment is still very fragile, by also adding support for banks via reduced TL RRR for FC deposits. The substantial rise in the size of funds keep authorities alert, which would contain a dramatic fall in TL deposit rates when the rate cutting cycle starts.

Main messages

PROFITABILITY



Due to delays in the easing cycle, banks continue to operate under high TL funding costs. Provision expenses also weigh on banks' profitability with ongoing NPL increases. However, after the start of the expected rate cuts in 3Q25, we expect the NIMs to improve in the last quarter of the year and the ROE levels to reach around 25% in 2025 for deposit banks (vs. our expectation of 25-28% prior to the twin shocks of March and April).

ASSET QUALITY



NPL ratio continues to move upwards led by the retail NPLs. Commercial NPLs are still below their historical levels, however the increase in SME NPLs continues. With that, banks continue to increase their provisioning levels which leads us to expect the currency adjusted CoR in deposit banks to be around 200bps in 2025 (vs. our expectation of 150-200bps previously).

CAPITAL

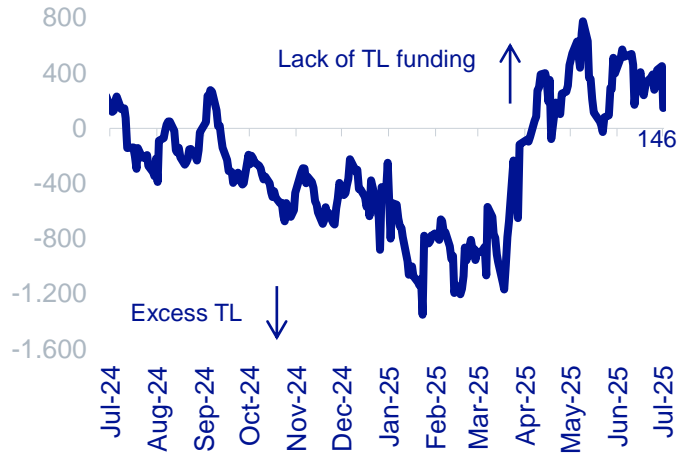


Capital ratios slightly rose in May; the ratios are around the historical levels. The equity increase was high in both private and public banks. BRSA forbearance measures continue to support the sector capital ratios against any significant TL depreciation.

Credit Developments

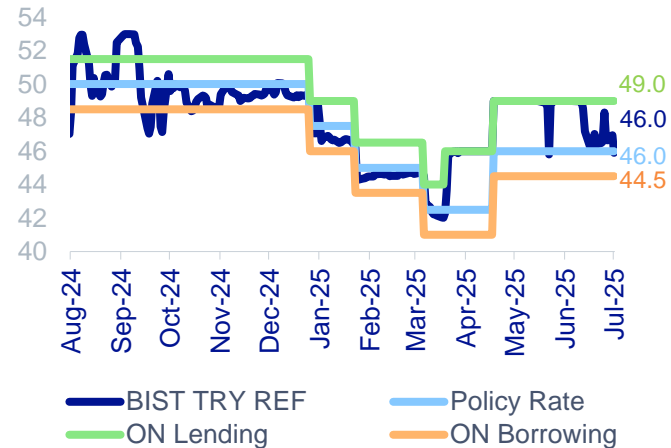
The CBRT maintains lack of liquidity and does not allow the ON TL rates to come down below the policy rate

NET CBRT FUNDING
(BN TL AS OF 1st OF JULY)



* Negative refers to excess TL liquidity, positive refers to the funding need of the market
Source: CBRT and Garanti BBVA Research

CBRT FUNDING RATE & BIST TRY REF
(%, SIMPLE)



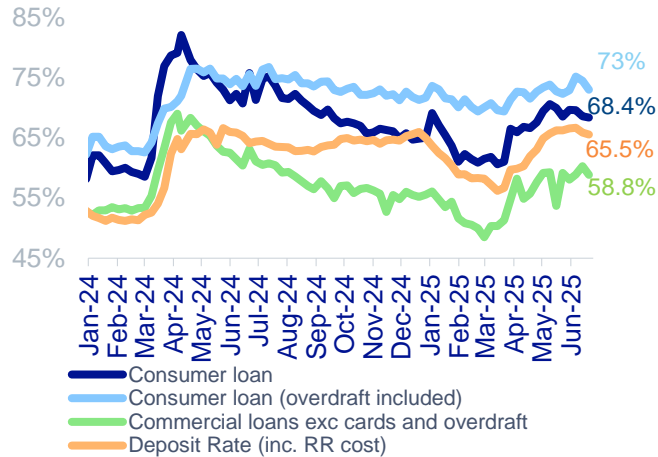
Source: CBRT and Garanti BBVA Research

The CBRT kept the cost of funding at 49% until June 12th, but later led it converge to the policy rate with a higher funding via one-week repos. Yet, day to day volatility brings additional tightening.

Financial conditions remain tight but have started to ease limitedly with rate cut expectations

LOAN AND DEPOSIT INTEREST RATES

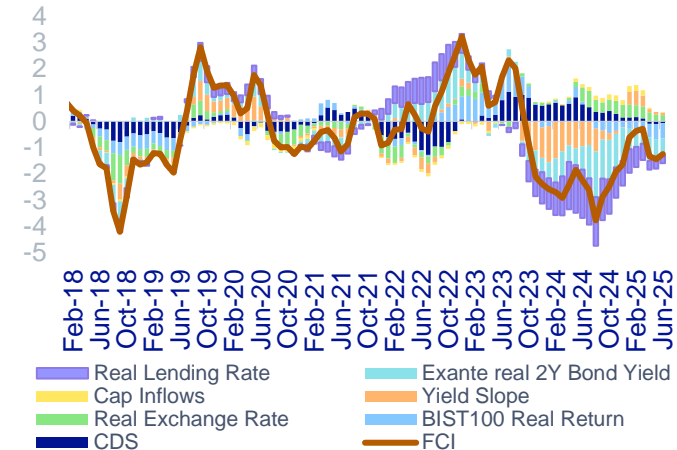
(%, SECTOR, WEEKLY FLOW, COMPUND)



Source: TURKSTAT, CBRT, Bloomberg and Garanti BBVA Research

GARANTI BBVA FINANCIAL CONDITIONS INDEX

(FCI) (STANDARDIZED, + EASING, - TIGHTENING)



Source: TURKSTAT, CBRT and Garanti BBVA Research

The recent ease in the cost of funding (down to 46% from 49%) have been reflected to loan rates only to a small extent because of the constraints from deposit rules.

Monetary stance continues to be supported with the latest macro-prus to support the transition to TL deposits

Regulations for TL deposit share and KKM

- The monthly growth targets for real-person TRY deposit shares have been increased for banks with a share below 60%. For the ones btw 60-65% ratio, a monthly growth target of 0.4pp has been introduced. For the ones above 65%, the rule is to keep it.
- The monthly growth targets for commercial TRY deposit shares have been kept as 0.3pp. For the ones above 60% ratio, the rule is to keep it.
- The target for transition of KKM accounts to TRY has been abolished, while the total target for KKM activity as renewals has been maintained (as being above 60%).
- The minimum interest rate applicable to KKM accounts has been reduced from 50% to 40% of the policy rate.

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, 2% for overdraft loans with more than 3 installments are kept.
- CGF loans have been excluded from the monthly growth caps.
- Limits on monthly FC loan growth (0.5%) with also a narrowed down scope in investment loans continue.

Regulations on RR

- The RRR of 33% rose to 40% for KKM up to 6 months
- The RRR of 22% for KKM for up to 1 year & above 1 year
- The RRR of 10-17% for non-KKM TL deposits
- TL RRR of 2.5% for FC deposits
- The RRR of 22-32% for FC deposits
- The RRR of 18% for funds from repo transactions from abroad & loans obtained from abroad of a maturity up to 1 month, and 14% up to 3 month
- The RRR of 12% for deposits from banks abroad
- The RRR of 10% for CPI-, PPI-, and TLREF-indexed deposits

Regulations for Capital Adequacy Ratio

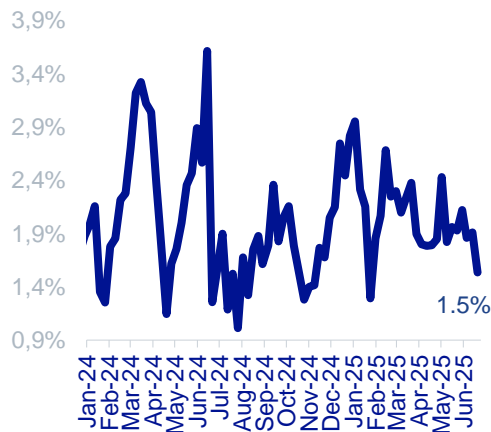
- The BRSA had removed additional risk weights on banks' CAR calculations.
- The BRSA had raised the USDTRY forbearance level used in CAR calculation from 25.8 (26.06.2023 CBRT «Buy» rate) to 32.82 (28.06 2024 CBRT «Buy» rate).

Moderation in credit growth turned into a deceleration with the trend rate falling to around 25% levels from 30%

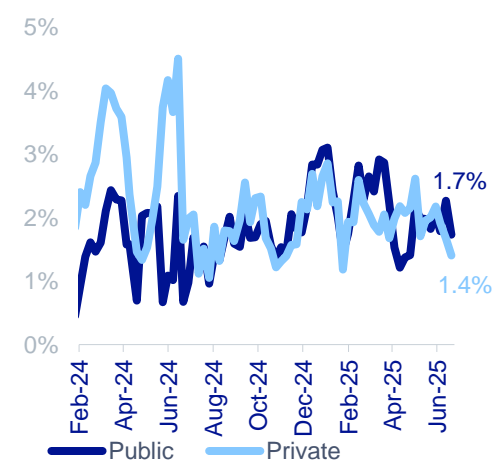
**TOTAL CREDIT GROWTH
(FX ADJ)**
13 WEEK ANNUALIZED & YOY



**TOTAL CREDIT GROWTH
(FX ADJ)**
4 WEEK CUMULATIVE



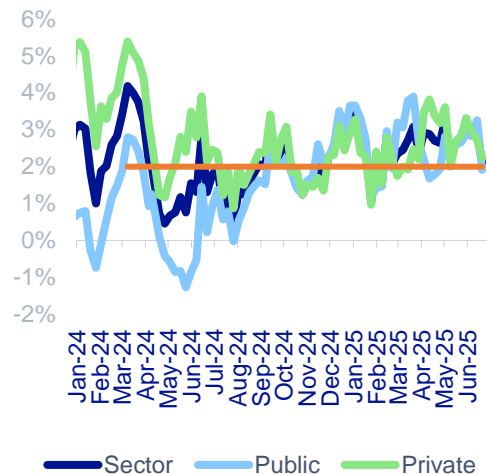
**TOTAL CREDIT GROWTH
(FX ADJ)**
4 WEEK CUMULATIVE



TL credit growth is similar in both public and private banks. FC lending growth is mostly led by the parity impact

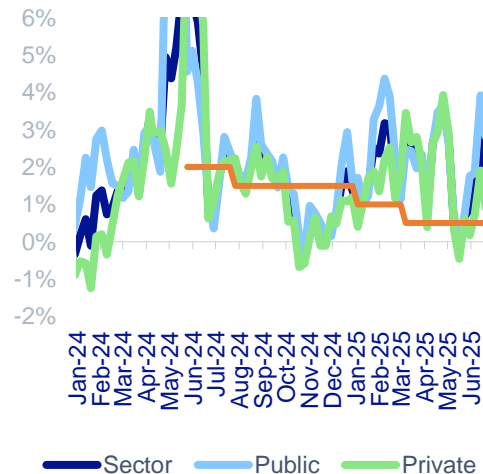
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



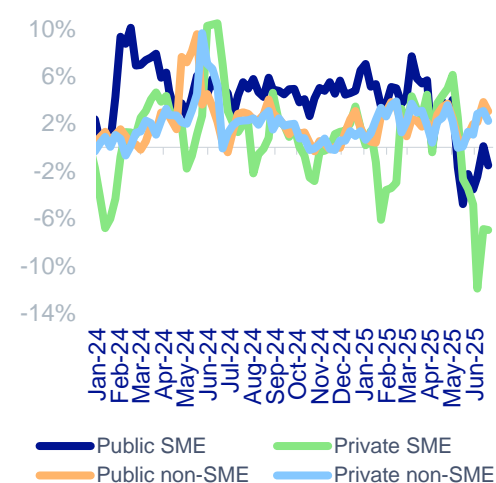
FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



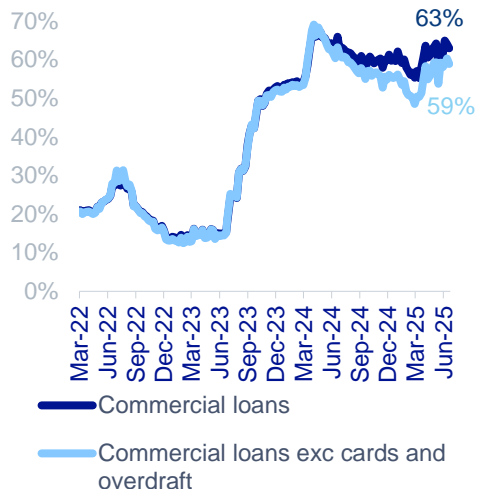
FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE

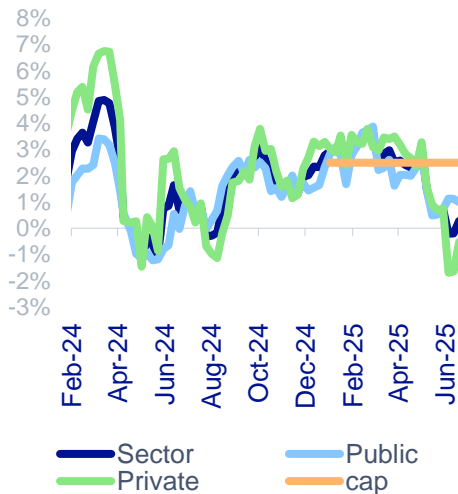


TL SME credit growth fell even below the caps in June. Commercial interest rates fell by 360bps compared to May

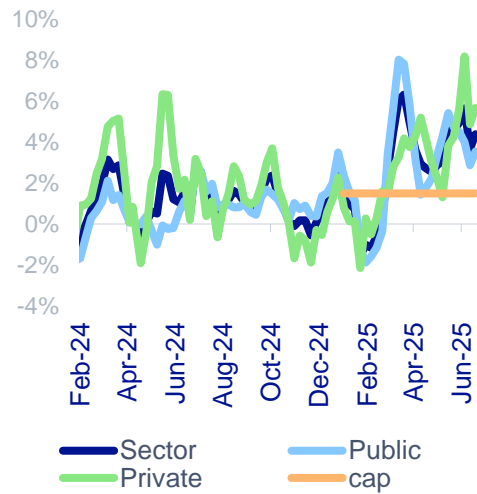
TL COMMERCIAL CREDIT RATES
WEEKLY, COMPOUND, FLOW



TL SME COMMERCIAL CREDITS GROWTH
4 WEEK CUMULATIVE

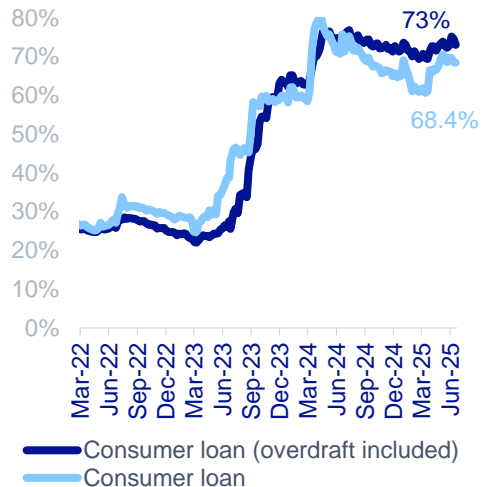


TL NON-SME COMMERCIAL CREDITS GROWTH
4 WEEK CUMULATIVE

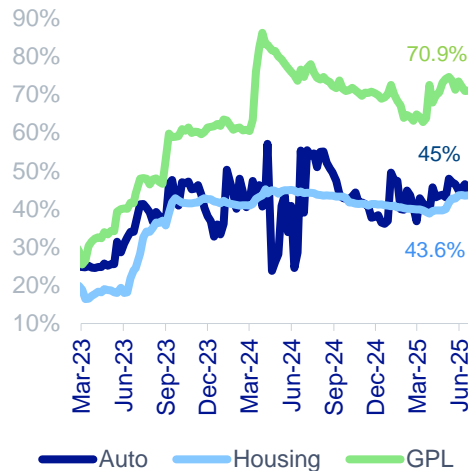


Interest rates in consumer credits continue to be high with only a limited fall compared to commercial rates

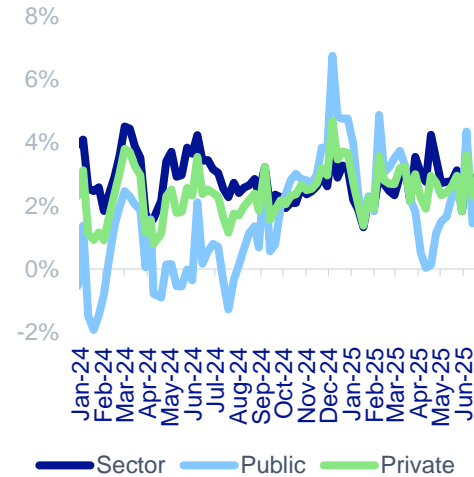
CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



CONSUMER CREDIT RATES
4 WEEKLY, COMPOUND, FLOW



CONSUMER* CREDIT GROWTH
4 WEEK CUMULATIVE, DEPOSIT BANKS

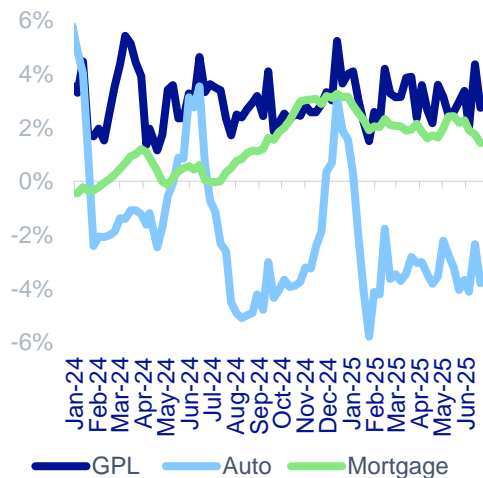


* housing, auto, general purpose loans (GPL).
Source: BRSA and Garanti BBVA Research

Credit card spending gained momentum in June rising above the monthly inflation trend due to holidays

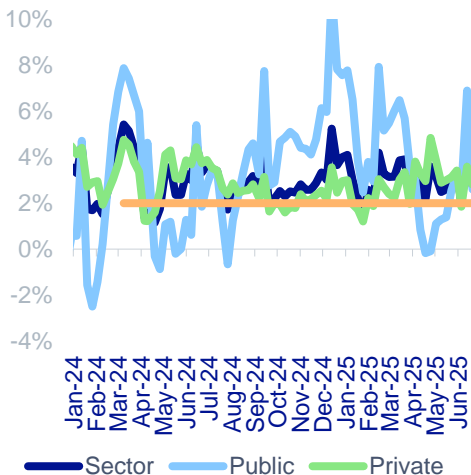
CONSUMER* CREDIT GROWTH

4 WEEK CUMULATIVE,
DEPOSIT BANKS



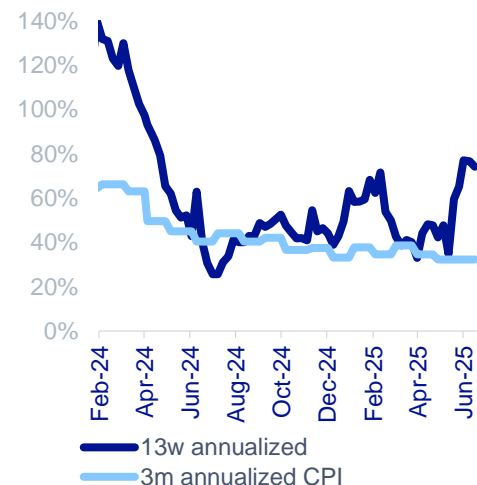
GENERAL PURPOSE LOANS

4 WEEK CUMULATIVE,
DEPOSIT BANKS



RETAIL CREDIT CARDS

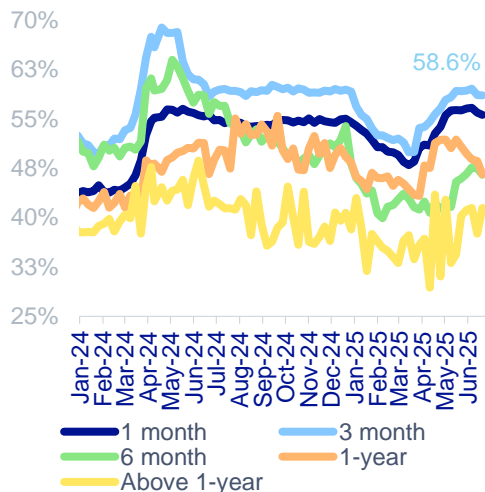
SPENDING GROWTH
DEPOSIT BANKS



Liquidity

TL deposit rates have eased limitedly in June with the retreat in the CBRT cost of funding by 300bps

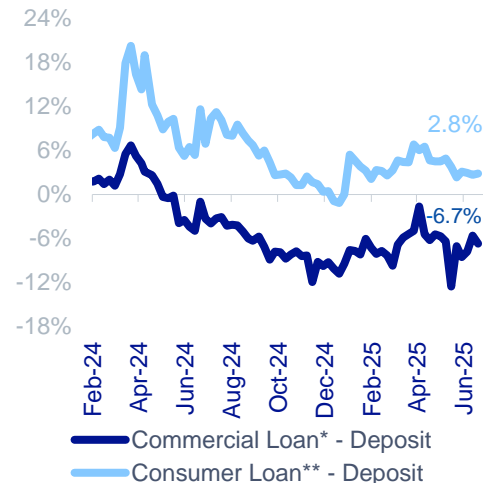
TL DEPOSIT INTEREST RATES
%, FLOW, SECTOR, WITHOUT RR COST



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



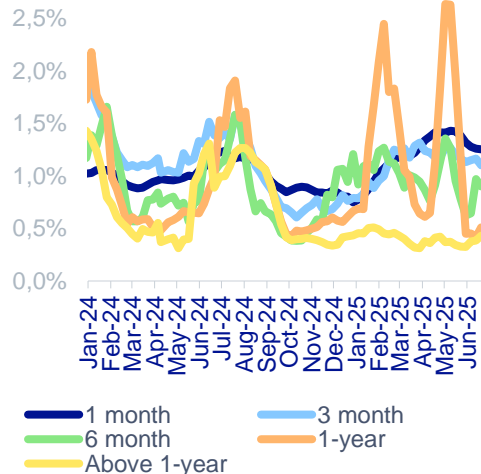
TL INTEREST RATE SPREAD
%, FLOW, SECTOR, INC. RR COST



FC interest spreads remain more favorable, yet the banks are restricted by the monthly credit growth caps

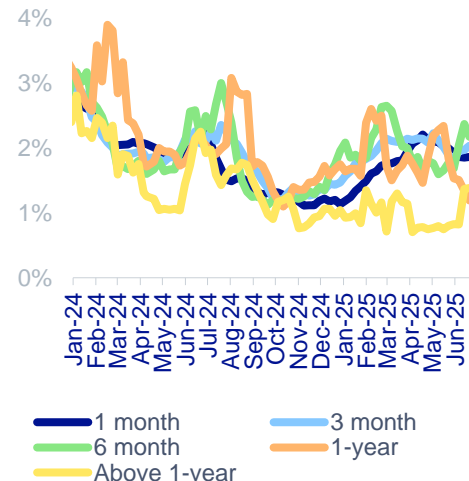
EURO DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



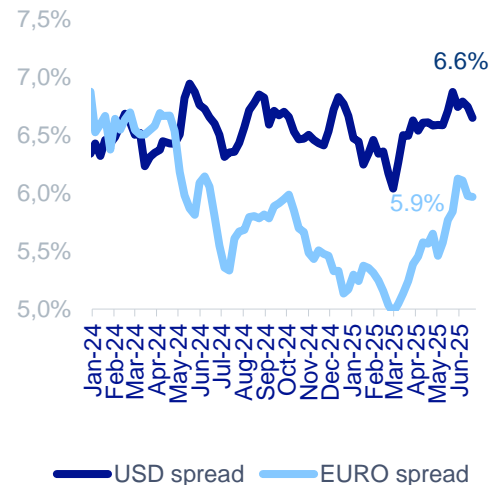
USD DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



FC INTEREST RATE SPREAD

%, 4W AVG, FLOW, SECTOR

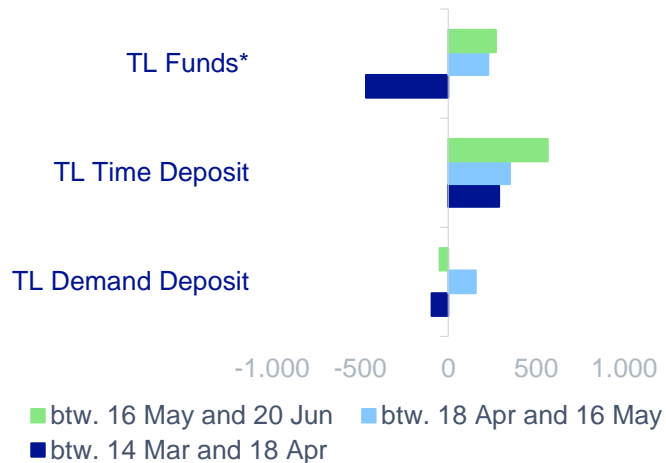


*The ratio for TL-denominated RR that should be maintained for FX deposits has been reduced from 4% to 2,5%.

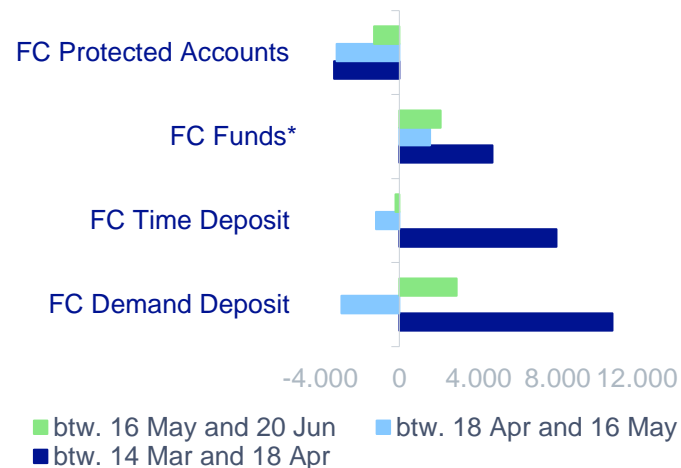
Source: CBRT & Garanti BBVA Research.

We observe an increasing exposure from both corporates and retailers to TL assets, particularly TL time deposits

CHANGES IN TL INSTRUMENTS, SECTOR
(BN TL)



CHANGES IN FC INSTRUMENTS, SECTOR
(\$USmn)



* 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

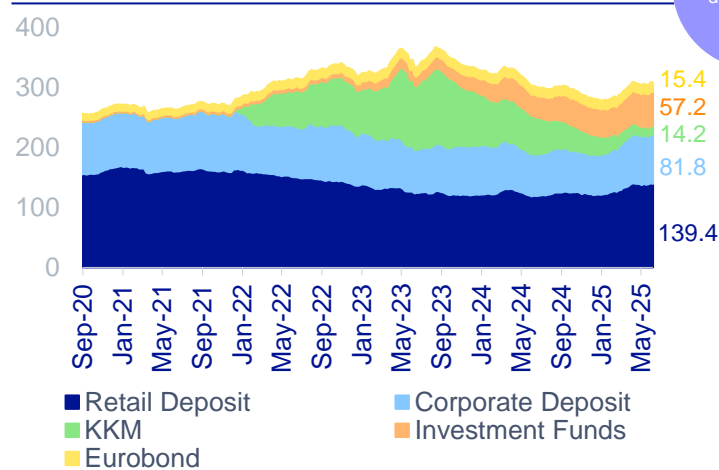
Source: TEFAS, BRSA, CBRT and Garanti BBVA Research

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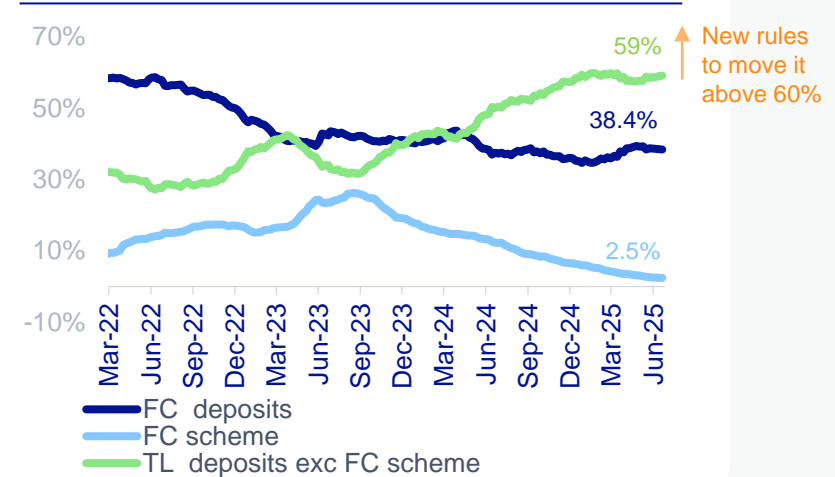
The volatility in the returns of money market funds (MMFs) after February has been contained by the monetary tightening and TL REF bond purchases of the CBRT, which has again initiated inflows to TL MMFs (reaching a size of \$45bn out of nearly \$80bn total TL funds).

Authorities become alert about the substantial increase in the size of the funds on financial stability concerns

FC PRODUCTS HELD BY RESIDENTS (\$USbn, HHOLDS + NON-FIN CORPORATES)



BANKING SECTOR DEPOSITS (% SHARE IN TOTAL)



Source: CBRT and Garanti BBVA Research

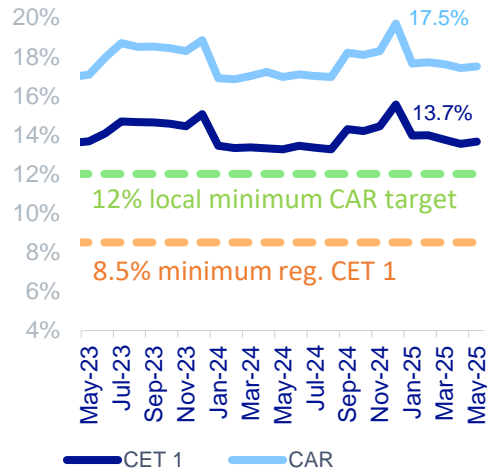
Source: CBRT and Garanti BBVA Research

The CBRT evaluates there is a little more room to increase the TL deposit ratio above 60%, by which they will not allow a dramatic fast decline in TL deposit rates during the rate cutting cycle.

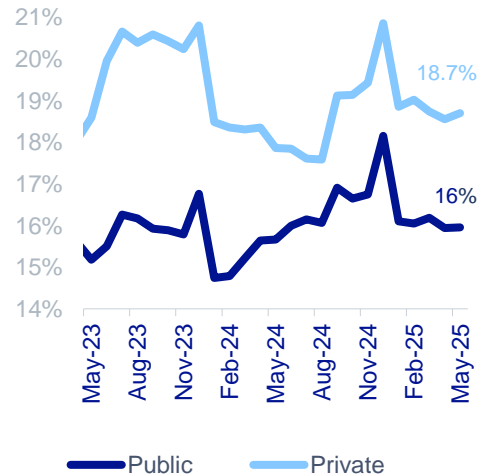
Solvency and Capital Adequacy

Capital ratios slightly rose in May and the ratios are around the historical levels

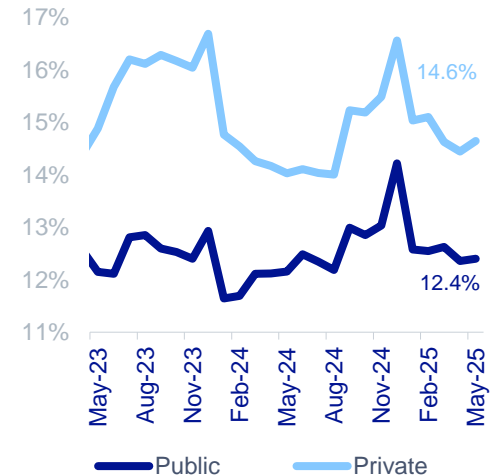
CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO** (%)



CAPITAL ADEQUACY RATIO %



CET 1** RATIO %



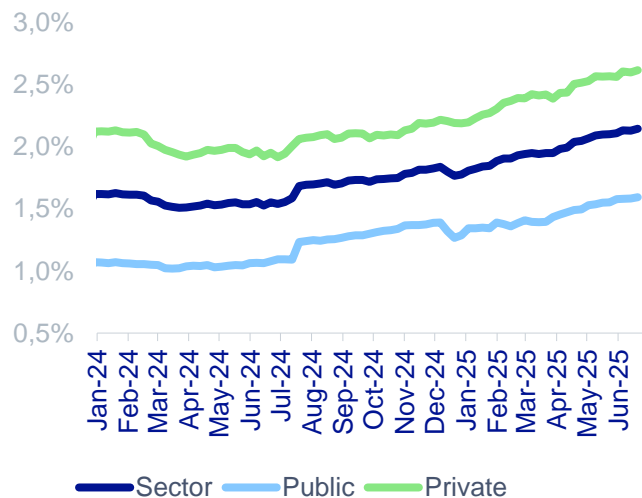
** Common Equity Tier 1.
Source: BRSA and Garanti BBVA Research.

Asset Quality

NPL rise in credit cards and GPLs keeps weighing more, where the restructuring facility* slows down the worsening

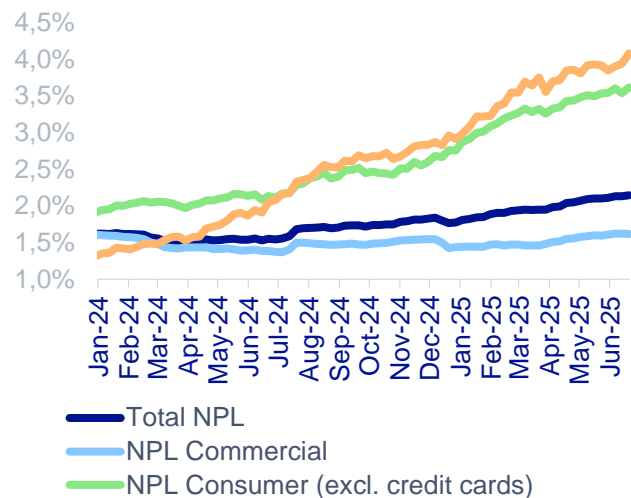
NPL RATIO IN CONSUMER LOANS

%



NPL RATIO IN SUB-SEGMENTS

%

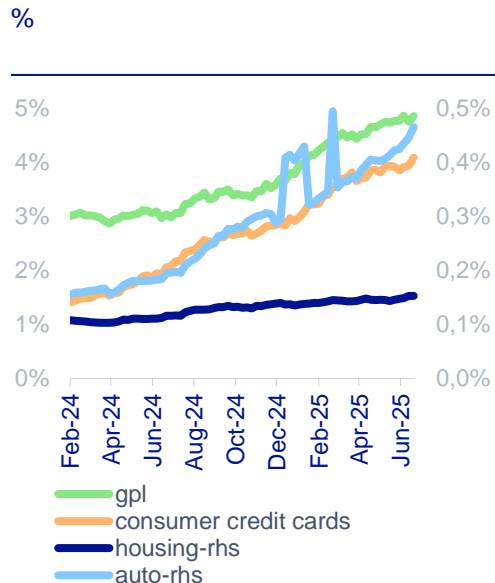


In Sep24, restructuring options for credit cards and general purpose loans were introduced if the minimum payment requirement has not been met for the former and principle and/or interest payment has not been made for 30 days for the latter: debts will be able to be restructured for up to 60 months where the interest rate applied will be capped at 3.11%/month, and card limits of customers benefiting from the restructuring will not be increased until 50% of the restructuring debt has been paid back.

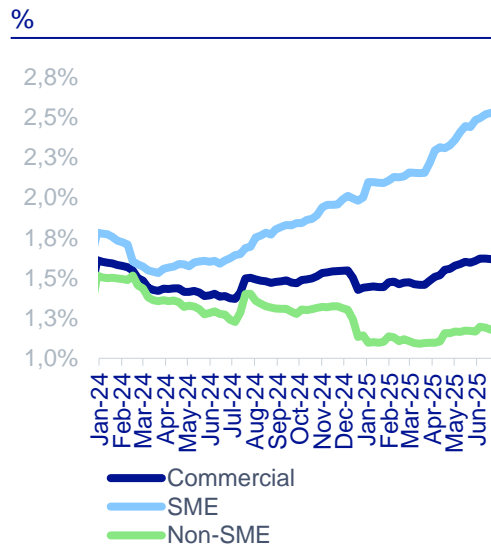
Source: CBRT, BRSA and Garanti BBVA Research.

NPL rise in SMEs, which has around 50% share in total commercial NPL amount, has started to be seen more clearly

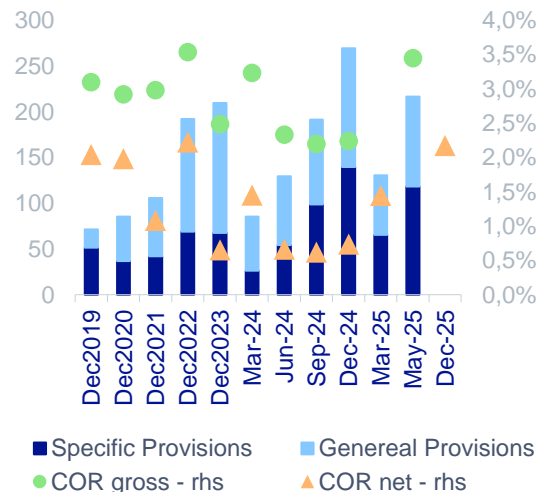
NPL RATIO



NPL RATIO IN COMMERCIAL LOANS



COST OF RISK (COR) IN DEPOSIT BANKS* BN TL & LOAN LOSS PROVISIONS / AVG. NET LOANS %

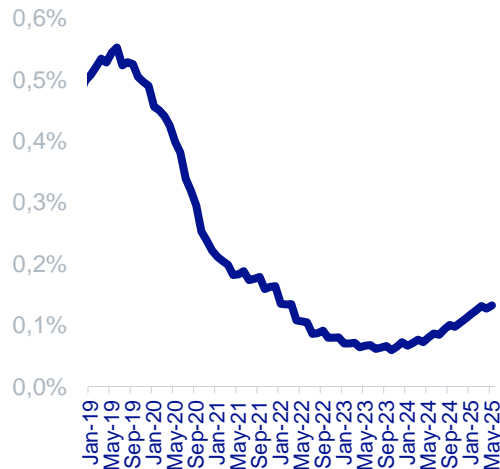


* Due to public data restriction, we use peer banks' data as a proxy for the net CoR estimation.

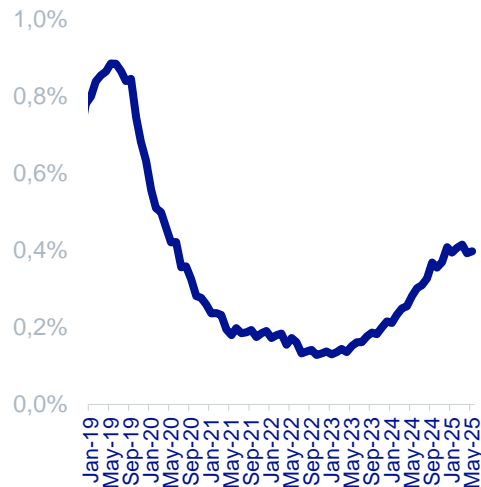
Source: CBRT, BRSA and Garanti BBVA Research.

Financial stress indicators, protested bills and returned checks, do not show an urgent signal of a harsh worsening

**AMOUNT OF PROTESTED
BILLS / GDP**
(% 12M ROLLING)



**AMOUNT OF RETURNED
CHECKS/ GDP**
(% 12M ROLLING)



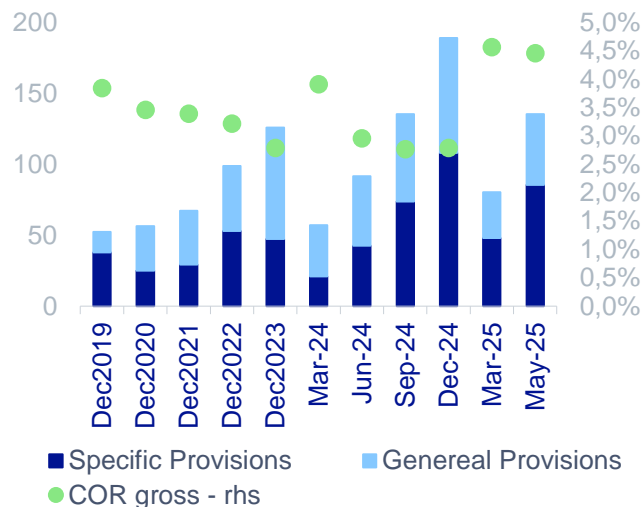
**RETURNED CHECKS/PRESENTED
CHECKS**
%



Banks maintain their policy of high provisioning

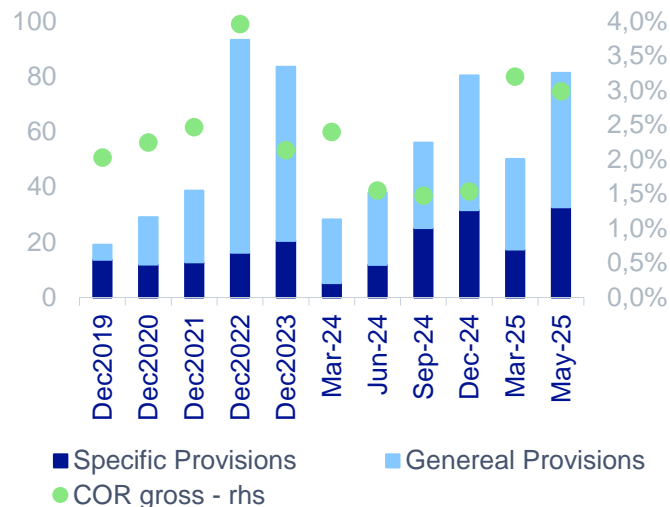
PRIVATE BANKS: PROVISIONS & CoR

BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %



PUBLIC BANKS: PROVISIONS & CoR

BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %

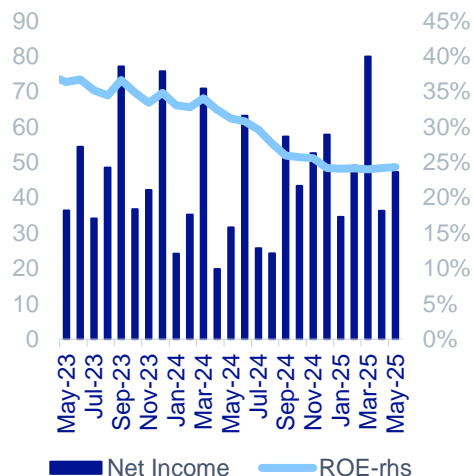


Profitability

Deposit banks' net income rose by 36% y/y in May. Net monthly avg. income in Apr-May fell by 23% vs. 1Q25

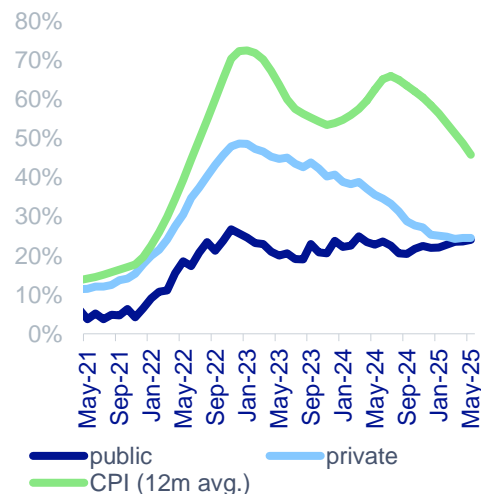
NET INCOME & RETURN ON EQUITY (ROE)

BN TL MONTHLY, % 12M CUMULATIVE



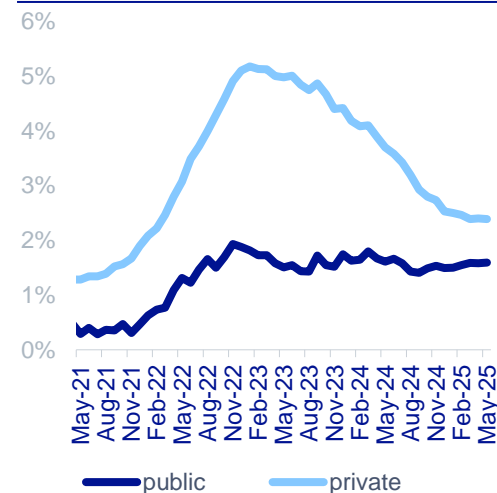
RETURN ON EQUITY (ROE)

%12M CUMULATIVE



RETURN ON ASSETS (ROA)

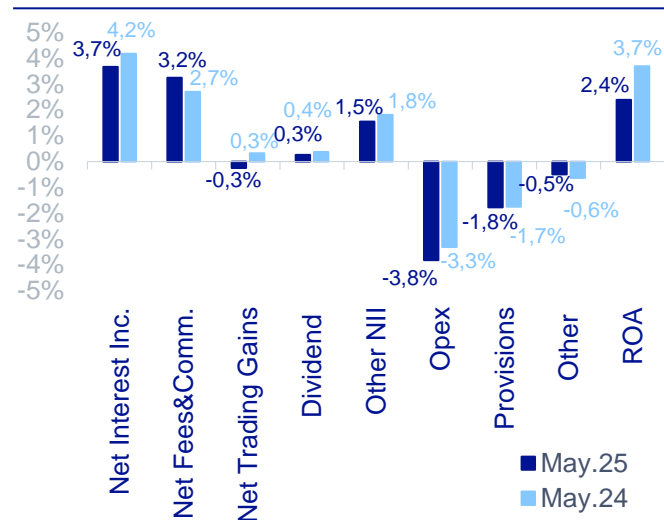
%12M CUMULATIVE



Net interest income was slightly weaker than last year in May in both public and private banks

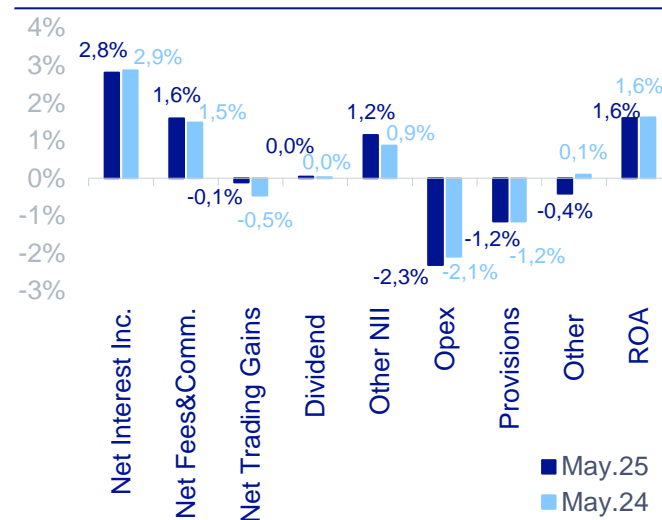
ROA COMPONENTS PRIVATE BANKS

12M CUMULATIVE AS OF MAY2025 VS MAY2024



ROA COMPONENTS PUBLIC BANKS

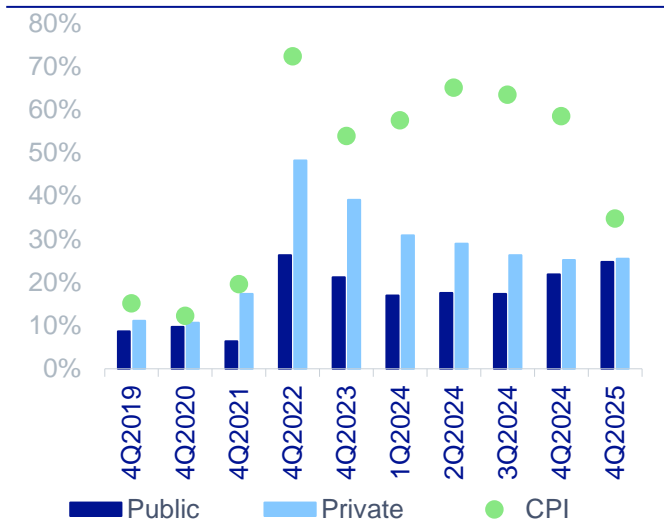
12M CUMULATIVE AS OF MAY2025 VS MAY2024



Due to the additional tightening of the CBRT, we expect the room for ROE* improvement will be more limited by end 2025

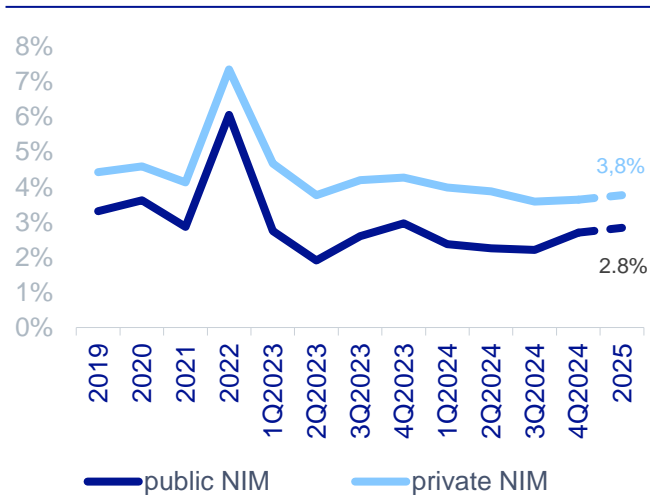
ROE EVOLUTION & FORECASTS*

Annualized % with average annual CPI



NIM EVOLUTION & FORECASTS

Annualized %

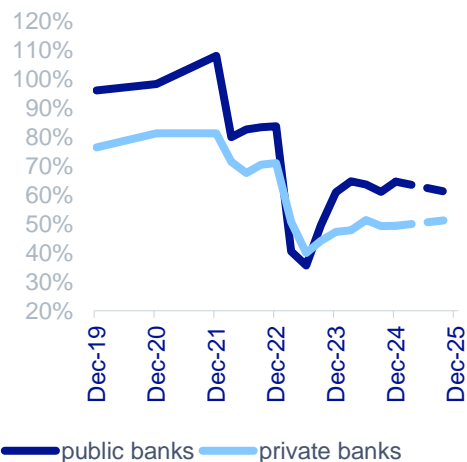


* ROE estimation for the deposit banks is based on our forecasts for banking sector variables which are also based on our macroeconomic forecasts. In our previous estimations, we used the sum of "paid-in capital + reserves and retained earnings" as the denominator in calculating the ROE. From now on, we are using "the total equity" in our calculations following the standardized BRSA methodology.

The contribution from trading and FX gains, fees and commissions are expected to normalize in 2025

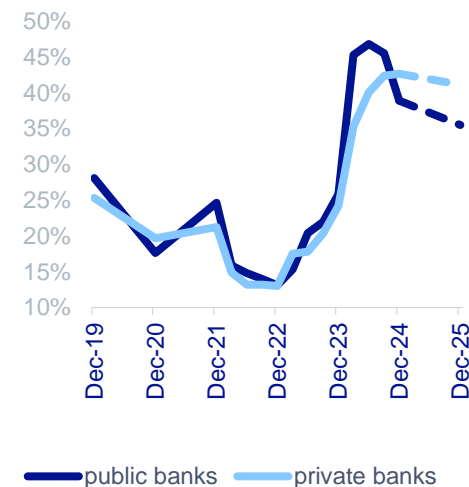
NET INTEREST REVENUE / TOTAL REVENUE

%



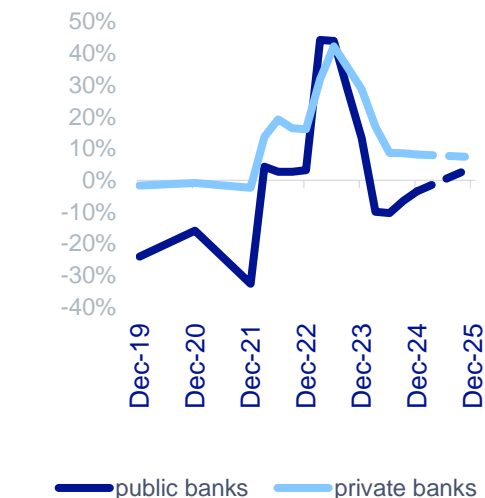
FEES & COMMISSION REVENUE / TOTAL REVENUE,

%



TRADING & FX GAINS / TOTAL REVENUE

%



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