

Türkiye: Banking Sector Outlook

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Key messages



CREDIT

On the back of both internal & external shocks, and the following tightening steps of the CBRT, credit growth decelerated in March. The CBRT raised the overnight lending rate up to 46% and squeezed the TL liquidity even further, which pushed up both the credit and deposit rates.



CREDIT SEGMENTS

Increase in TL commercial credit rates pulled down the growth in especially non-SMEs. On FC credits front, though providing better rates, the CBRT's further restrictions on monthly growth caps as of the start of March contained growth in this segment as well. Retail lending continues to be led by GPL and credit deposit accounts, albeit more moderate compared to February.



DEPOSITS

The size of the FX-protected scheme (KKM) declined further to below \$20 bn in the first week of April (3.6% of total). Following the recent shocks and the price effects in gold, FC deposits of residents rose to almost \$190bn as of April 4. The intervention of the CBRT has decelerated last week with cooling down demand from particularly residents.



PROFITABILITY

The recent financial tightening weighs on the 2025 profitability of the sector. The increased funding costs are expected to narrow down NIMs in 2Q25 compared to 1Q25, causing a slower improvement throughout the year and hence causing ROE levels remaining below inflation by year-end (25-28% overall RoE in deposit banks vs. our revised 31% YE inflation) under the assumption of the CBRT starting to ease the policy rate June onwards (35% policy rate by end 2025). If the shocks prevail and the CBRT maintains a much tighter stance, we put a downward bias on NIM recovery.



ASSET QUALITY

The slow but steady increase in NPL ratio continues, staying below 2% in early April. SMEs, credit cards and GPLs stay as the critical sectors for new NPL formation. We expect the currency adjusted CoR to be 150-200 bps in 2025.



CAPITAL

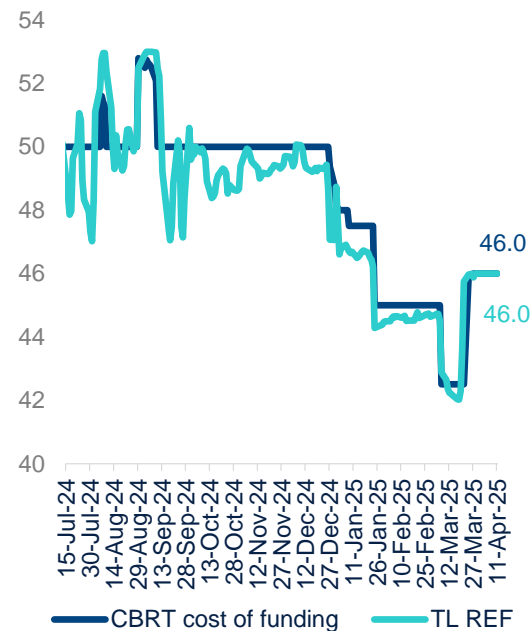
The sector's capital buffers stay solid. The BRSA also eased the buyback rules by allowing banks not to deduct the buyback amounts from core capital. This supported the stability in share prices during the recent volatility.

01

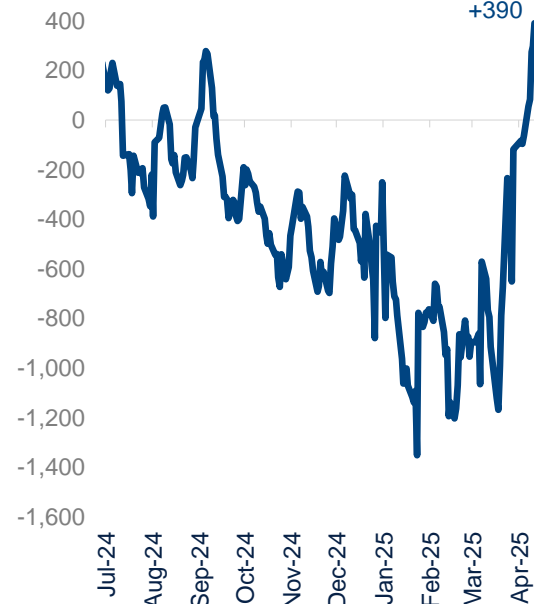
Turkish Banking Sector: Credit Developments

In order to absorb the most recent shocks, the CBRT hiked the ON lending rate to 46% in an interim meeting and squeezed TL liquidity completely with different tools

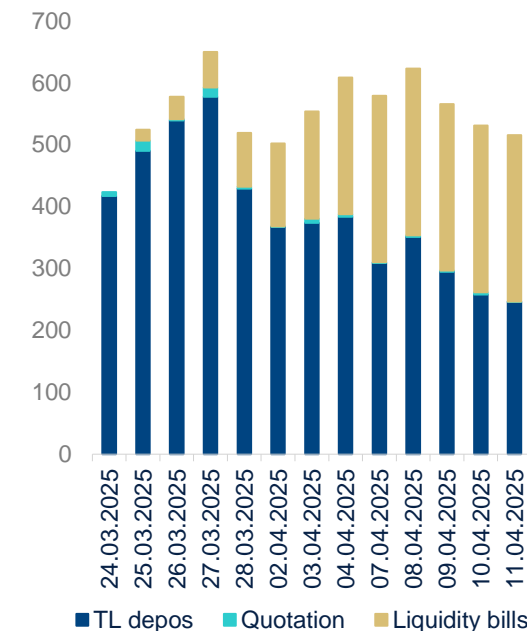
CBRT FUNDING RATE & BIST TRY REFERENCE RATE



NET CBRT FUNDING*
MN TL AS OF APR 11TH



TOTAL TL STERILIZATION
BN TL AS OF APR 11TH



Monetary stance continues to be supported by macroprudential measures, yet with some easing* in KKM rules in March and April periods



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 monthly KKM activity of 60%)
- At least 15% monthly conversion from KKM to TL standard deposits

* In March and April periods, monthly KKM to TL conversion rule of 15% has been suspended in addition to the exchange rate fixing in the calculation of retail TL deposit share of at least 60%



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 30% for FC deposits up to 1 month
- The RRR of 26% for FC deposit up to 1 year
- The RRR of 20% for FC deposit above 1 year
- Blocked portion of RRR for TL liabilities raised to 40% from 30%

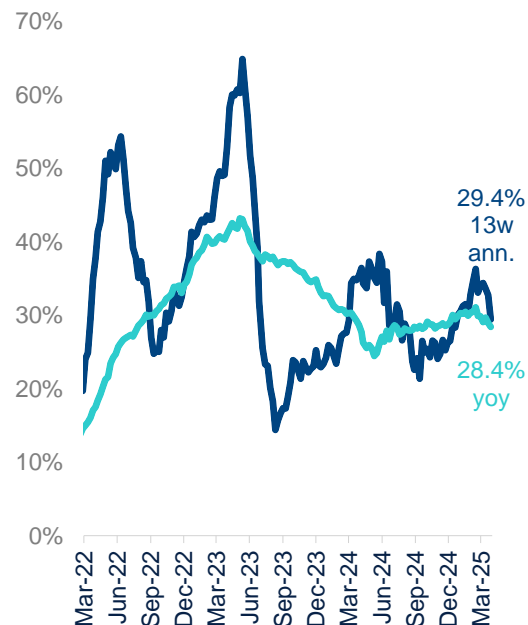


Regulations for Capital Adequacy Ratio

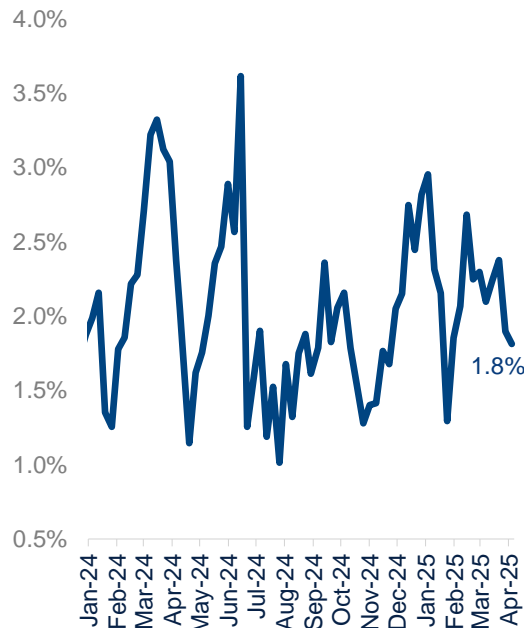
- The BRSA removed additional risk weights on banks' CAR calculations.
- The BRSA increased the USDTRY forbearance level used in CAR calculation from 25.8 (26.06.2023 CBRT «Buy» rate) to 32.82 (28.06 2024 CBRT «Buy» rate).

Credit growth continued to decelerate in March as a result of the additional financial tightening led by the most recent internal and external shocks

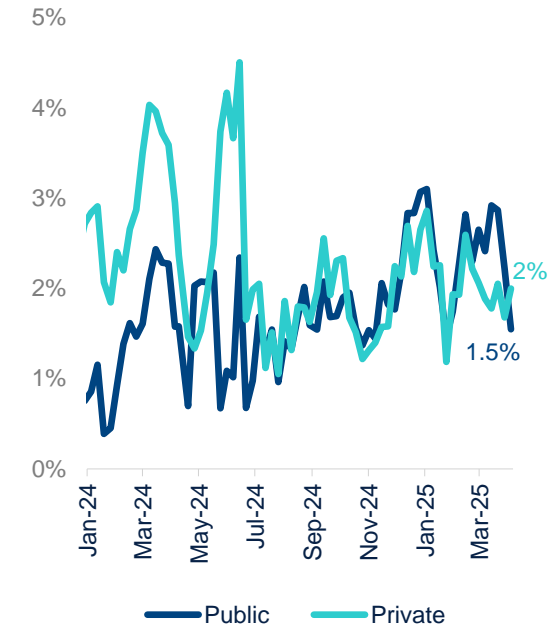
TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED & YOY



TOTAL CREDIT GROWTH (FX ADJ)
4 WEEK CUMULATIVE



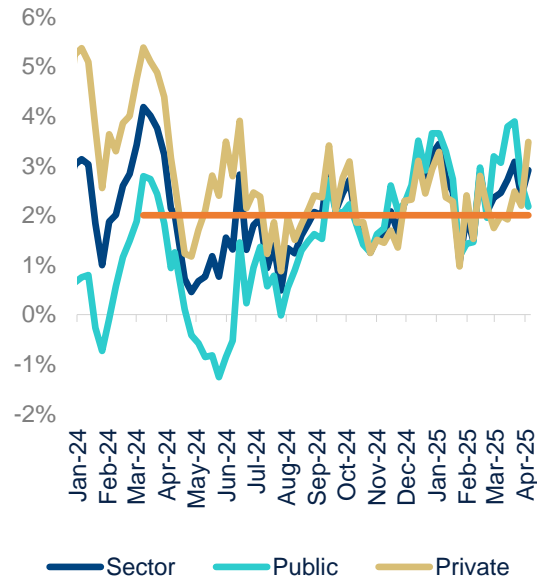
TOTAL CREDIT GROWTH (FX ADJ)
4 WEEK CUMULATIVE



The increasing momentum in FC lending has been restricted further* with the CBRT's revised regulation on FC credits at the start of March

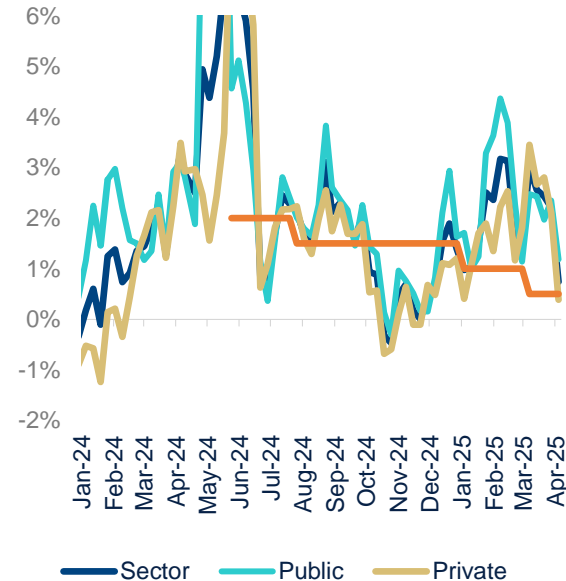
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



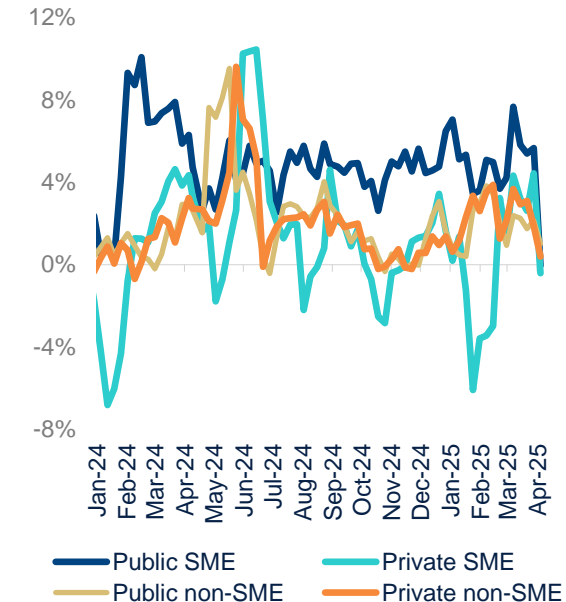
FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE, DEPOSIT BANKS



FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

4 WEEK CUMULATIVE



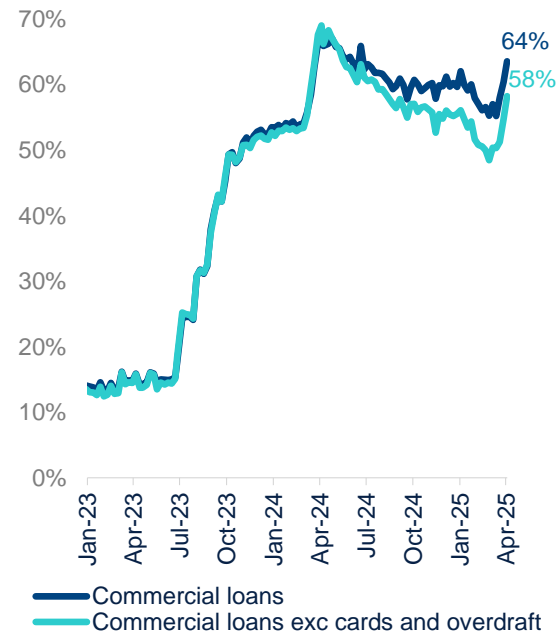
* The CBRT reduced the monthly credit growth cap to 0.5% from 1% in FC credits with also a narrowed down scope in investment loans as of March 2025

Source: BRSA and Garanti BBVA Research.

With the increase in commercial credit interest rates (almost 800bps since March 19th), growth rates in non-SME credits fell sharply

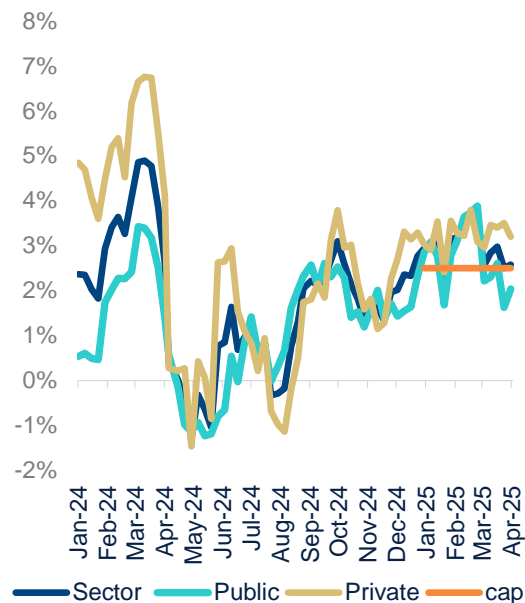
TL COMMERCIAL CREDIT RATES

WEEKLY, COMPOUND, FLOW



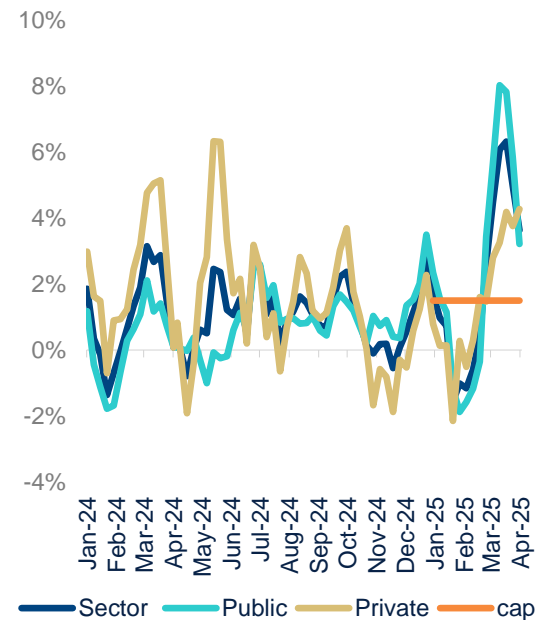
TL SME COMMERCIAL CREDITS

GROWTH 4 WEEK CUMULATIVE



TL NON-SME COMMERCIAL CREDITS

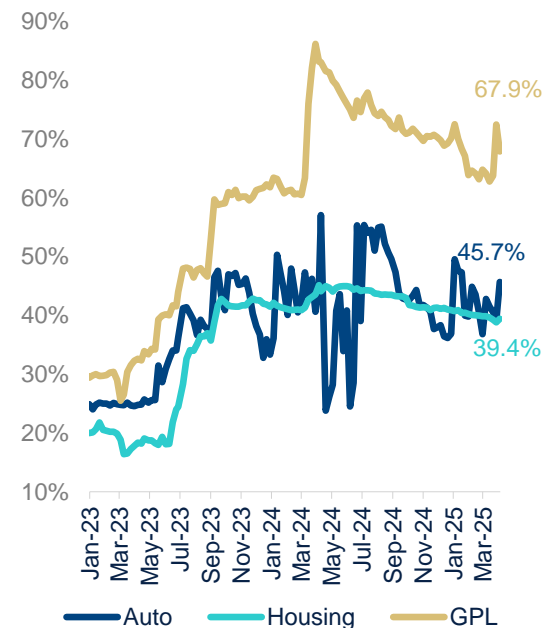
GROWTH 4 WEEK CUMULATIVE



The increase in retailer credit rates has been more limited. Retailer lending is now pushed by private banks (compared to public banks throughout February)

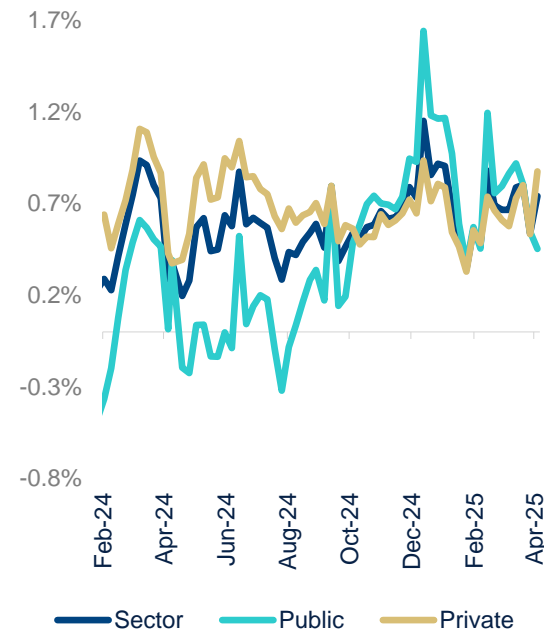
CONSUMER CREDIT RATES

WEEKLY, COMPOUND, FLOW



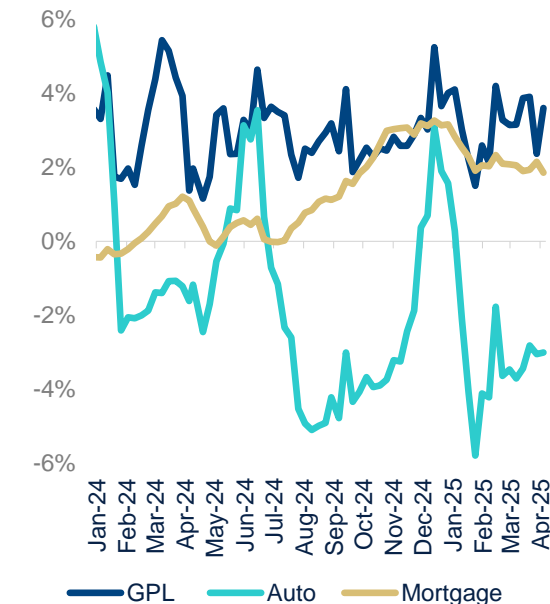
CONSUMER* CREDIT GROWTH

4 WEEK CUMULATIVE, DEPOSIT BANKS



CONSUMER* CREDIT GROWTH

4 WEEK CUMULATIVE, DEPOSIT BANKS

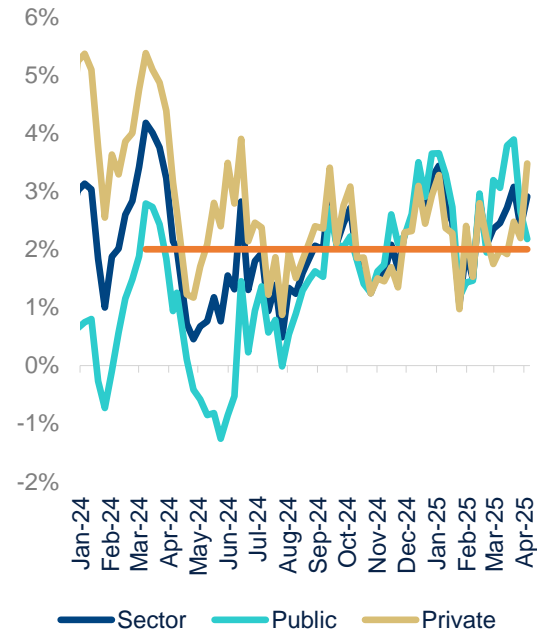


* housing, auto, general purpose loans (GPL).

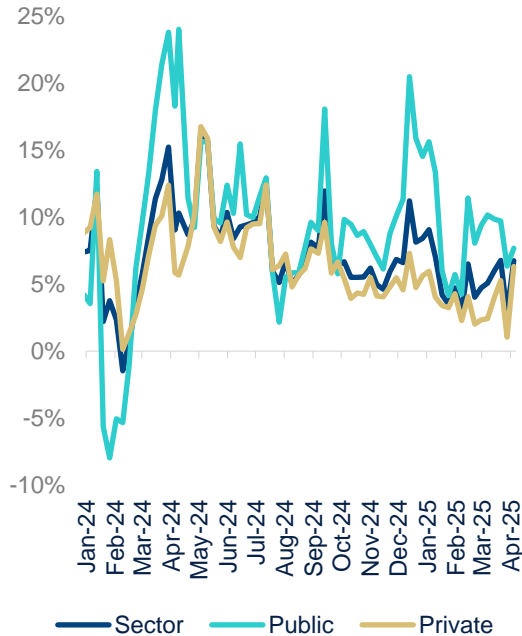
Source: BRSA and Garanti BBVA Research.

Overdraft loans continue to move up the general purpose loans in both public & private banks. Trend in credit card spending fell below inflation trend

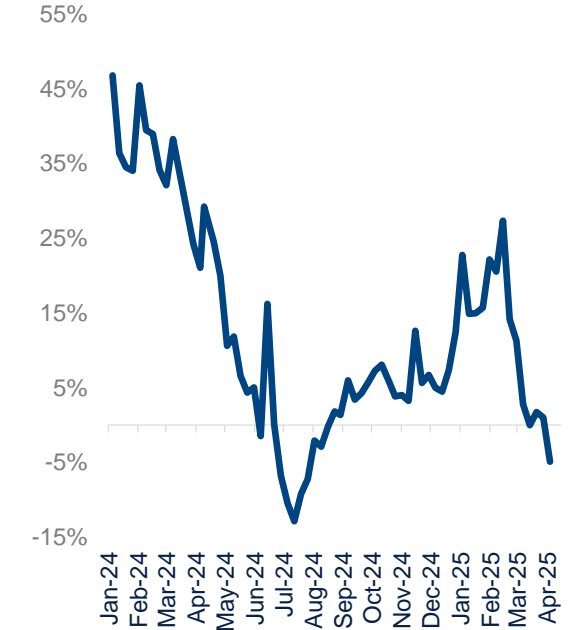
GENERAL PURPOSE LOANS
4 WEEK CUMULATIVE, DEPOSIT BANKS



CREDIT DEPOSIT ACCOUNT (KMH)
4 WEEK CUMULATIVE, DEPOSIT BANKS

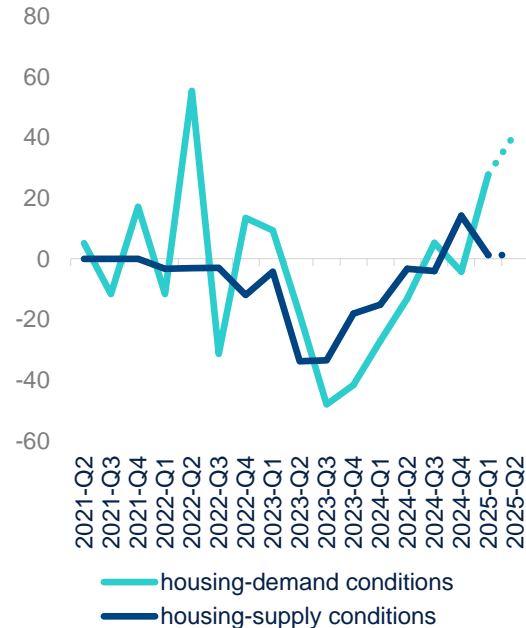


RETAIL CREDIT CARDS SPENDING
DEPOSIT BANKS, 13W ANNUALIZED REAL

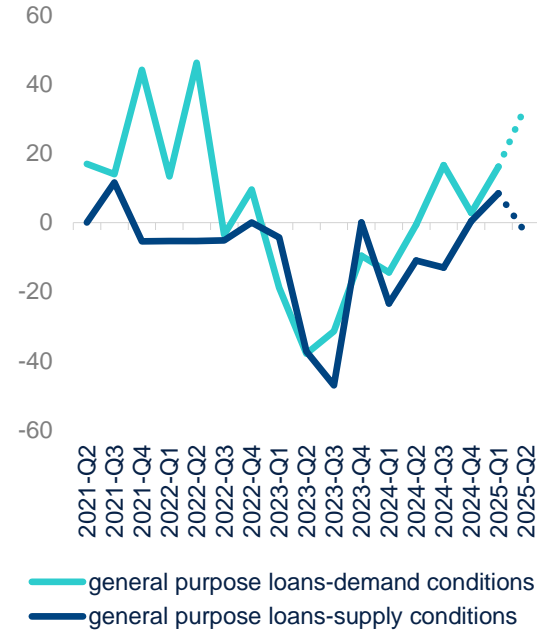


According to CBRT Bank Lending Survey, supply conditions will continue to be tight for consumer loans; however, demand is expected to pick up in 2Q25

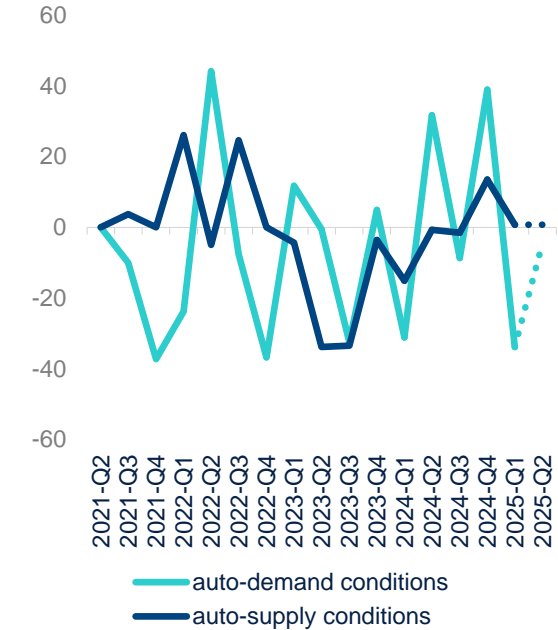
CREDIT CONDITIONS: HOUSING NET BALANCE



CREDIT CONDITIONS: GPL NET BALANCE



CREDIT CONDITIONS: AUTO NET BALANCE



>0 Easing; <0 Tightening.

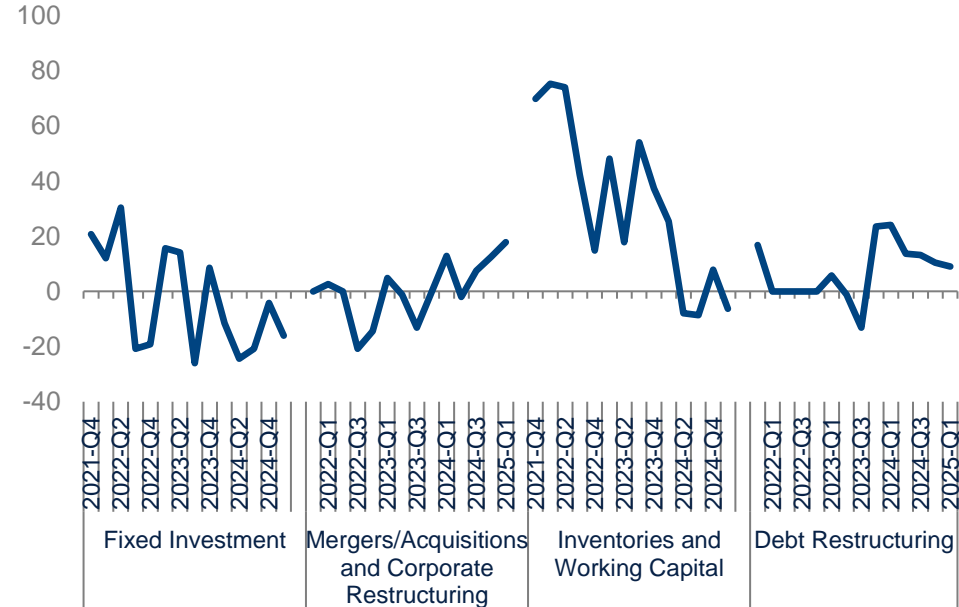
Source: CBRT Bank Lending Survey 1Q25, dotted lines show the expected values for 2Q25.

Banks expect some easing in their commercial credit standards in 2Q25

CREDIT CONDITIONS: COMMERCIAL NET BALANCE



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



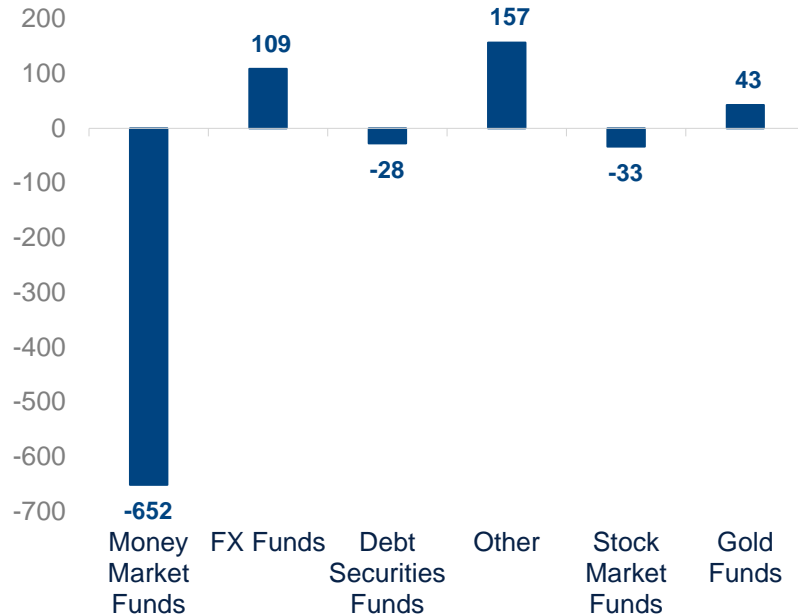
02

Turkish Banking Sector: Liquidity

Fall in TL investment funds was TL 485bn and inflows into FC funds reached TL109bn btw 18 Mar-11 Apr, while the rest mostly flowed into FC deposits

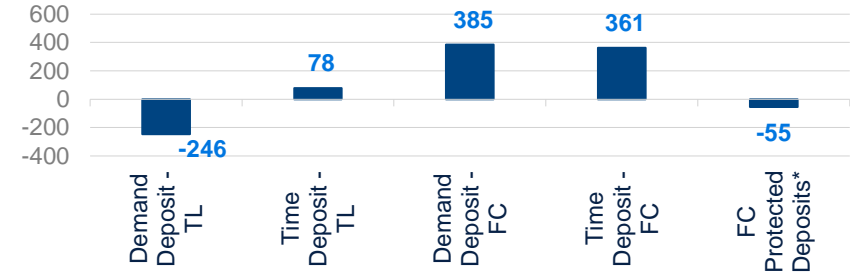
CHANGES IN INVESTMENT FUNDS

bnTL, 18 MARCH-11 APRIL

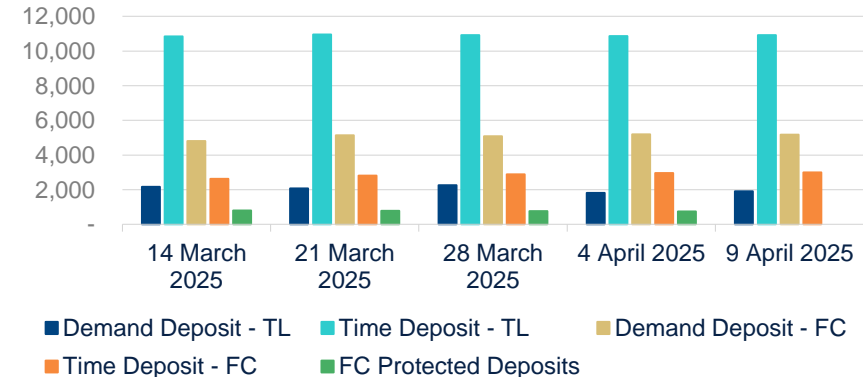


DEPOSITS IN THE BANKING SYSTEM

bnTL, changes in 14 Mar-9 Apr in the first chart, stock value in the second



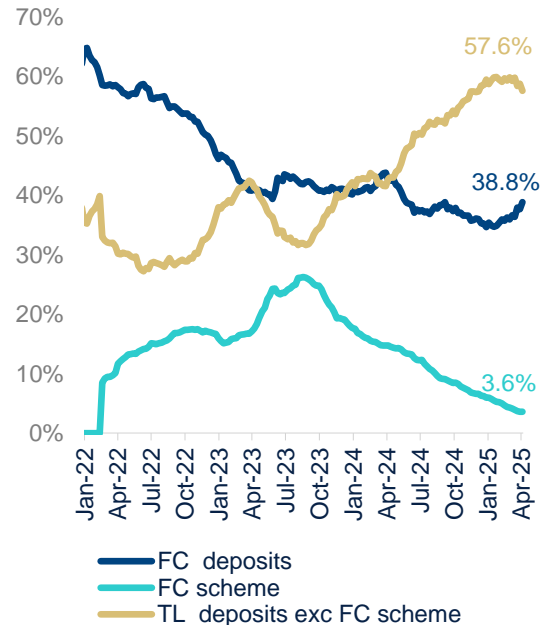
*change in FC protected deposits between 14 March 2025 and 4 April 2025



TL deposit share had already stabilized at nearly 60% and started to come down depending on the pace of dollarization. TL deposit rates are on the rise

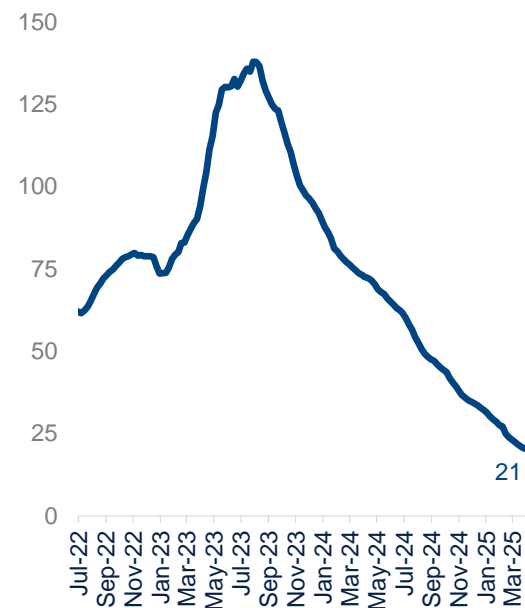
BANKING SECTOR DEPOSITS

% , SHARE IN TOTAL, AS OF APR 4TH



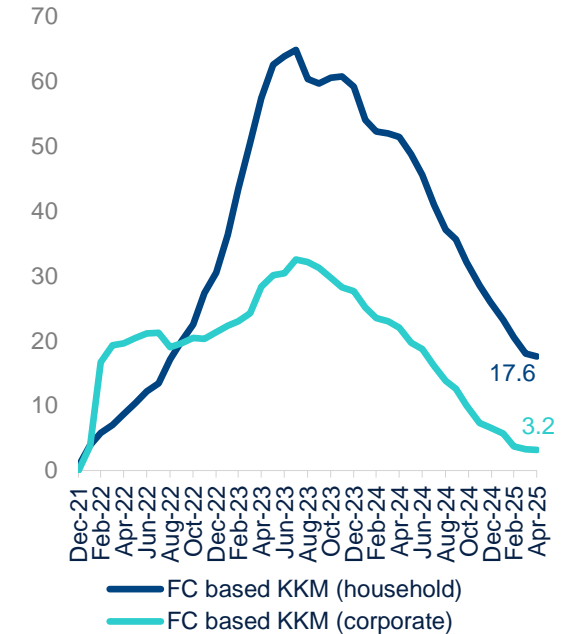
FC PROTECTED SCHEME (KKM)

\$BN, ADJUSTED BY 13-WEEK USDTRY AVG



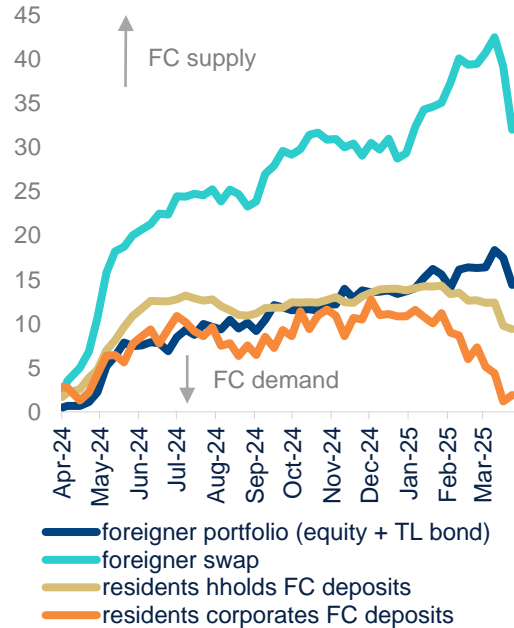
FC PROTECTED SCHEME (KKM)

US\$BN, ADJUSTED, AS OF APR 4TH

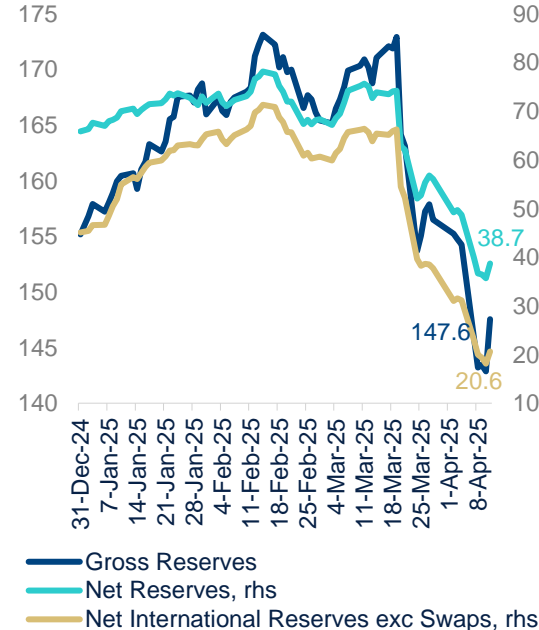


After the heavy depletion of reserves in March, the intervention of the CBRT has decelerated last week with cooling down demand of particularly residents

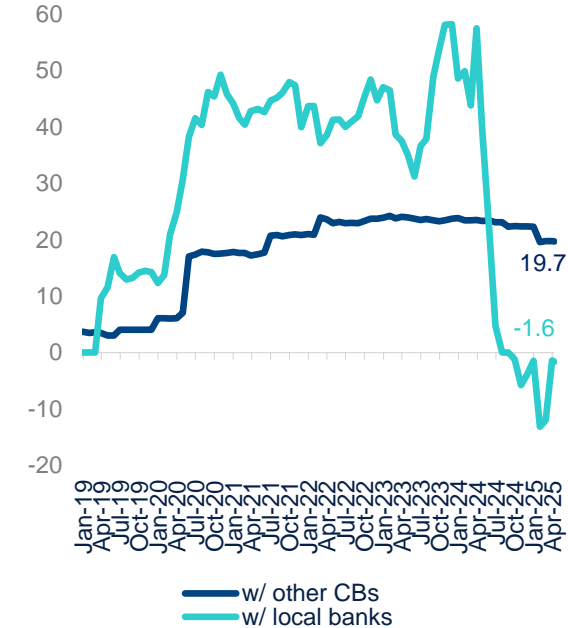
FOREIGN CURRENCY FLOWS (US\$BN,
CUMULATIVE SINCE END MARCH 2024)



CBRT INTERNATIONAL RESERVES
US\$BN AS OF APR 11TH

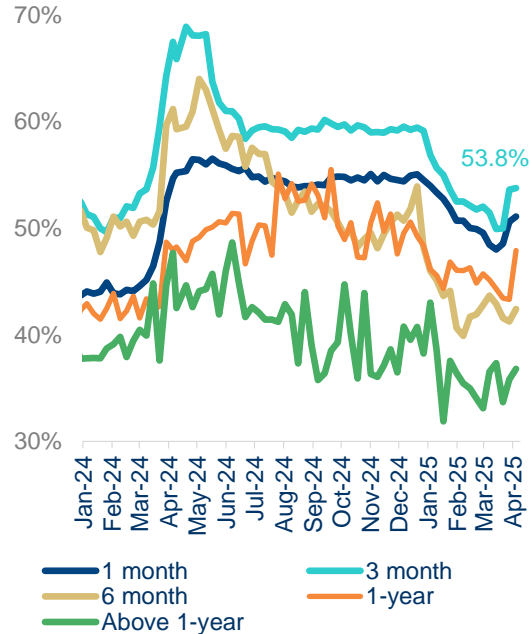


CBRT SWAP POSITION
US\$BN AS OF APR 11H

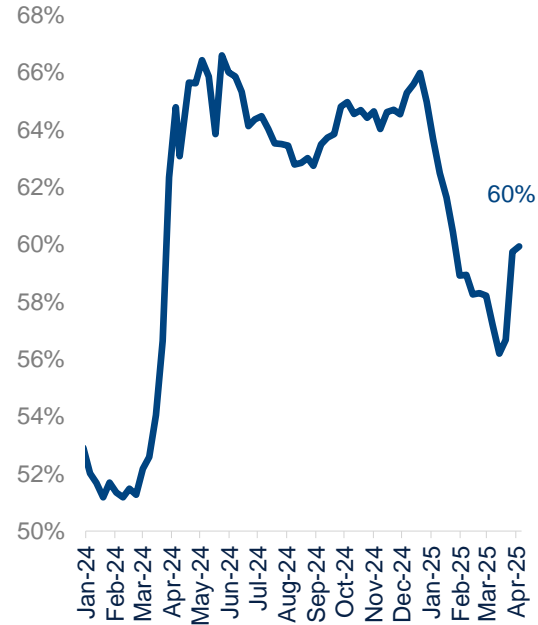


TL deposit rate rose by 322bps since mid-March. Rise in credit rates was realized higher, extending the spreads especially on the commercial segment

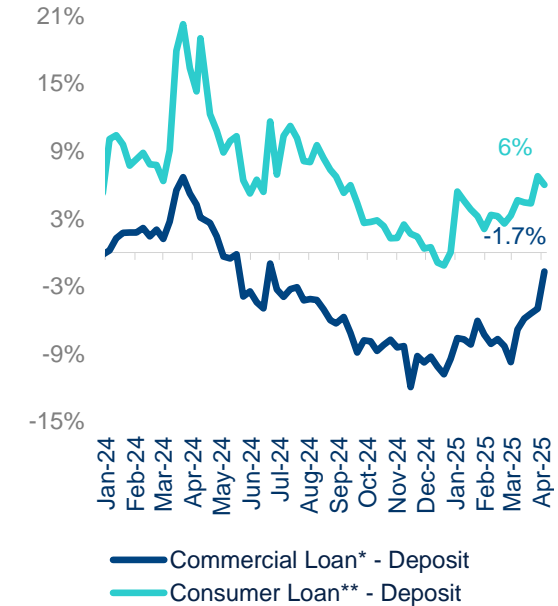
TL DEPOSIT INTEREST RATES
%, FLOW, SECTOR, WITHOUT RR COST



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



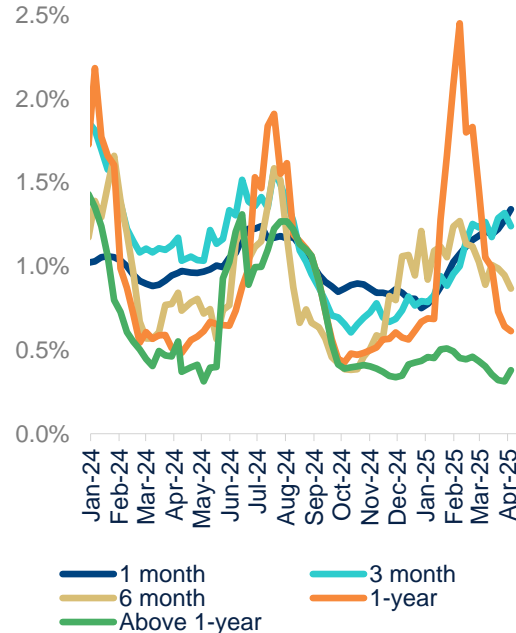
TL INTEREST RATE SPREAD
%, FLOW, SECTOR, INC. RR COST



Demand for FC liquidity buffer from banks and dollarization tendency of residents (to contain TL outflows) moved FC deposit rates higher in shorter maturities

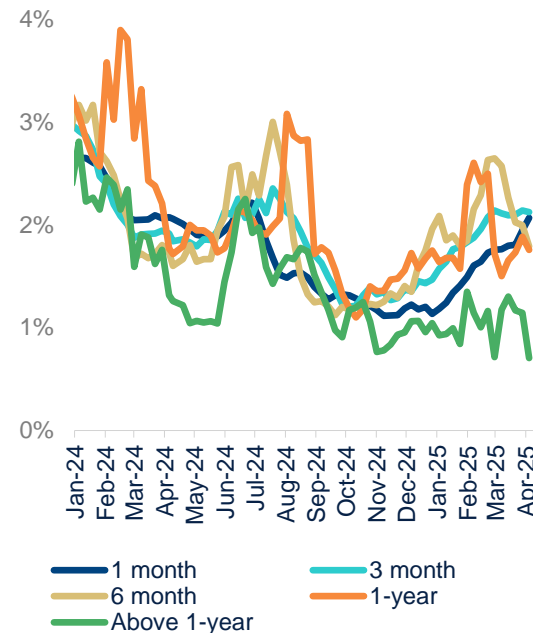
EURO DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



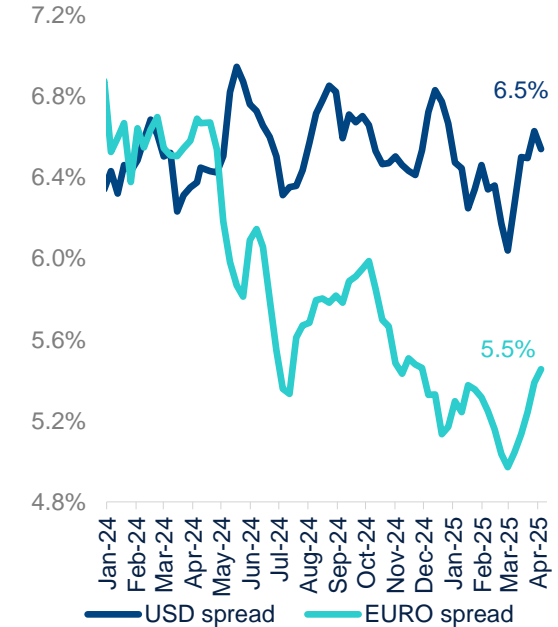
USD DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



FC INTEREST RATE SPREAD

%, 4W AVG, FLOW, SECTOR

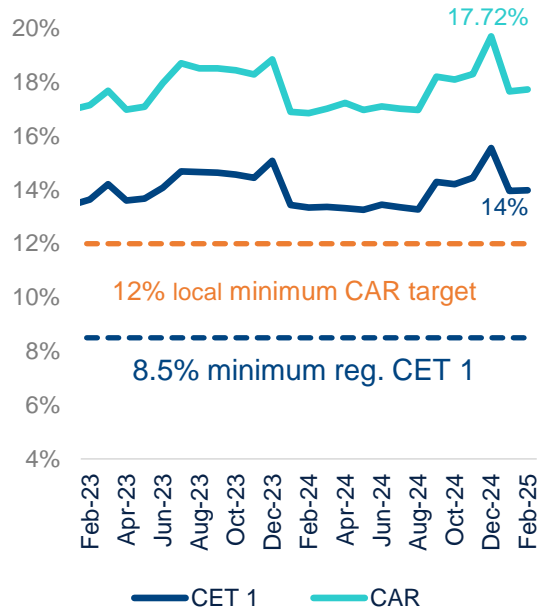


04

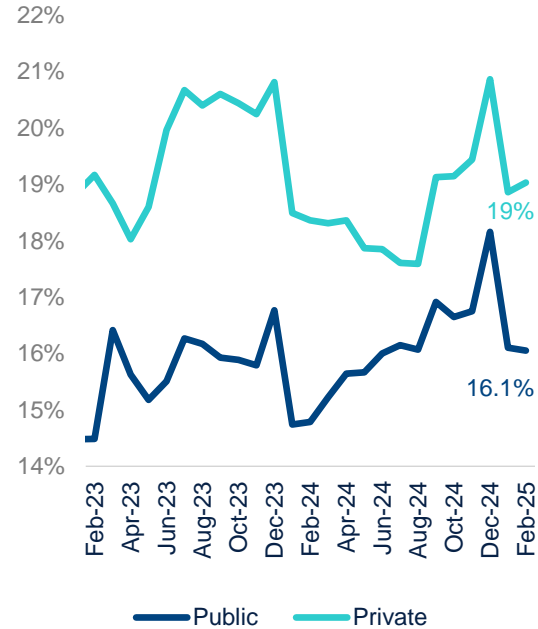
Turkish Banking Sector: Solvency and Capital Adequacy

After the fall in Jan'25 due to the seasonal rise in OPEX, capital ratios started to improve in private banks, yet with some drainage from the latest depreciation

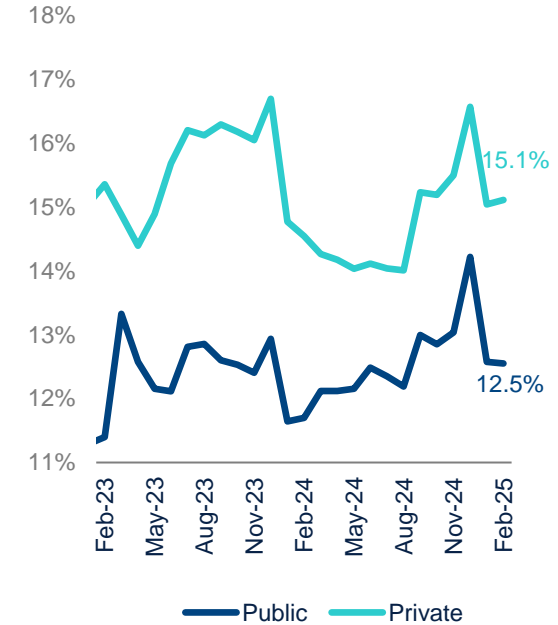
**CAPITAL ADEQUACY RATIO (CAR)
AND CET 1 RATIO** (%)**



CAPITAL ADEQUACY RATIO



CET 1 RATIO
%**



* mostly seasonal due to its once in a year calculation in every January. ** Common Equity Tier 1.
Source: BRSA and Garanti BBVA Research.

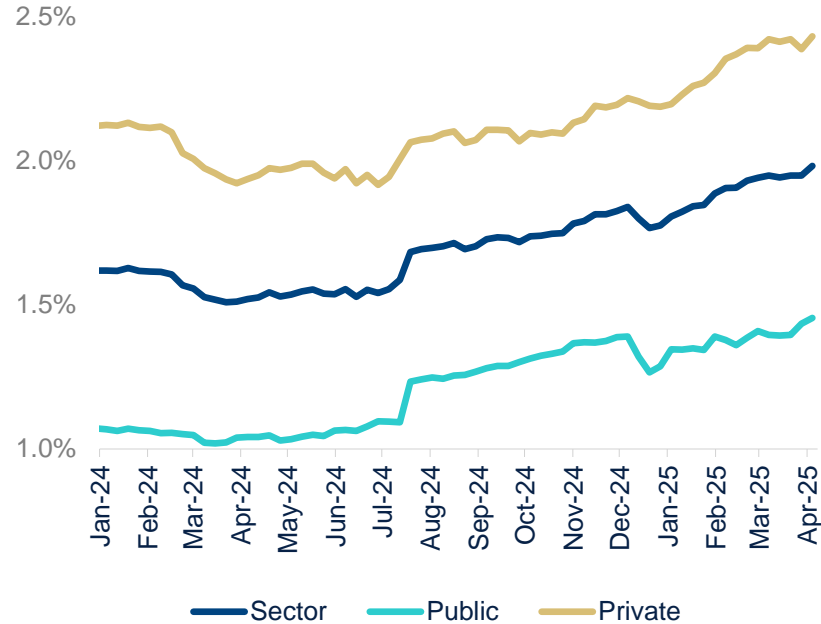
05

Turkish Banking Sector: Asset Quality

NPL ratio of the sector continued to rise gradually but remained below 2% in early April, with the particular deterioration in the retail segment

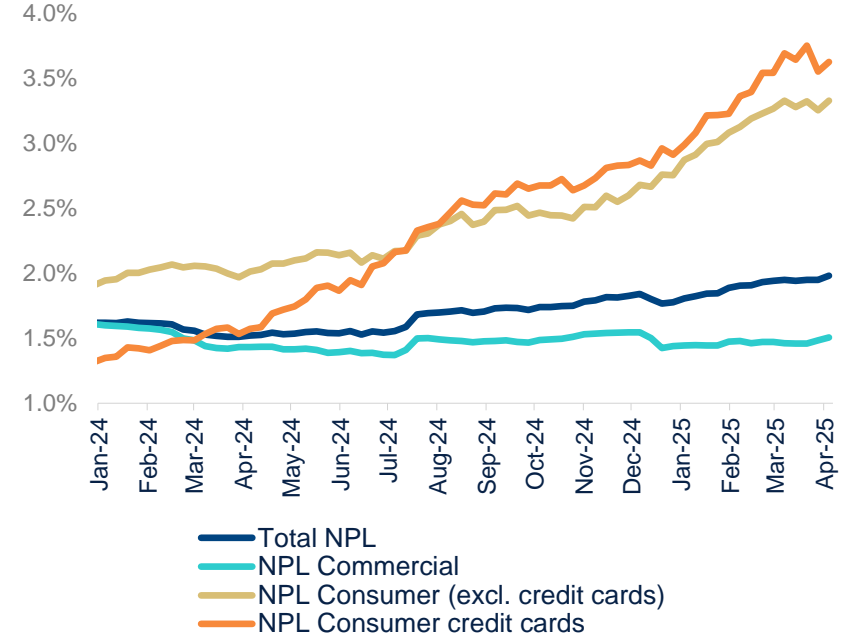
NPL RATIO

%



NPL RATIO IN SUB-SEGMENTS

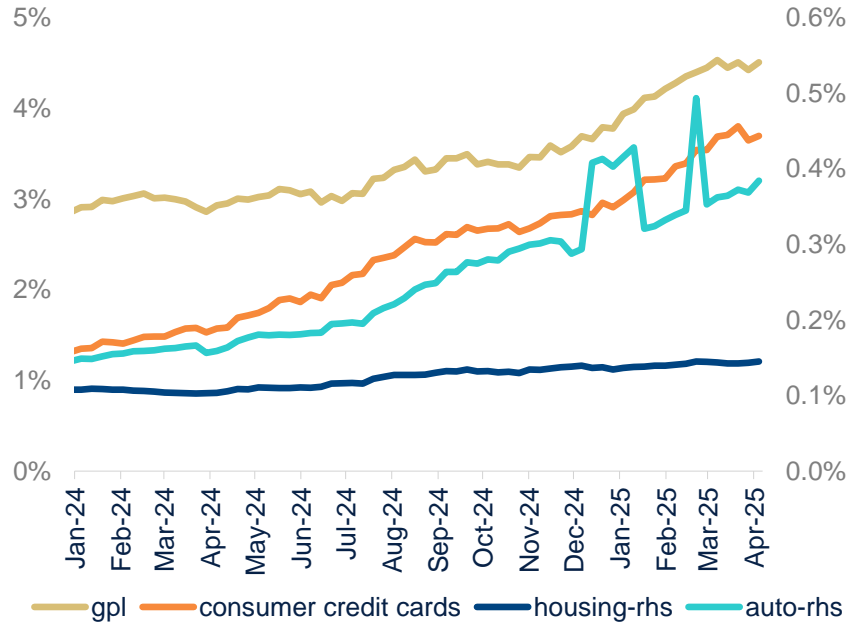
%



SMEs, credit cards and GPLs stay as the critical sectors for new NPL formation. NPL ratio in consumer credit cards converges to 4% and in GPLs to 5%

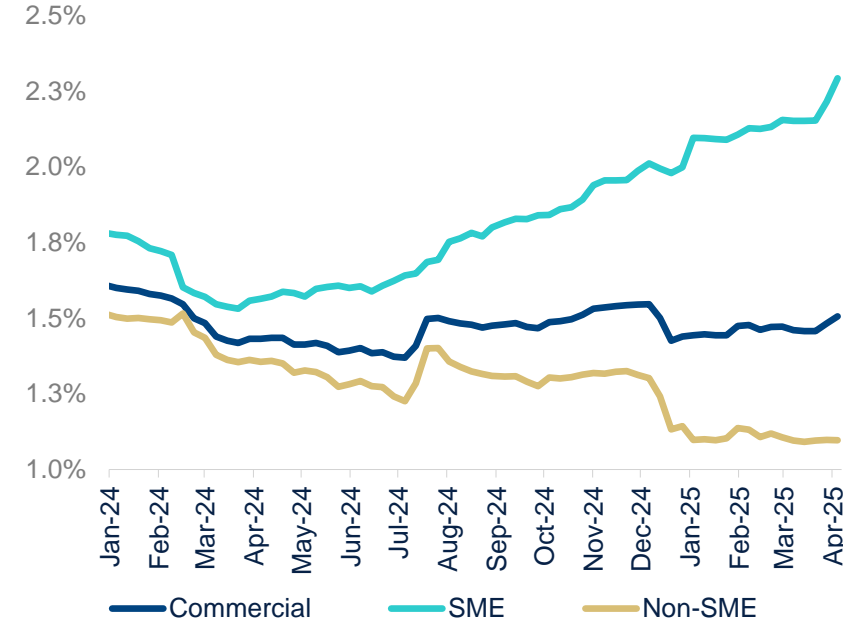
NPL RATIO IN CONSUMER LOANS

%



NPL RATIO IN COMMERCIAL LOANS

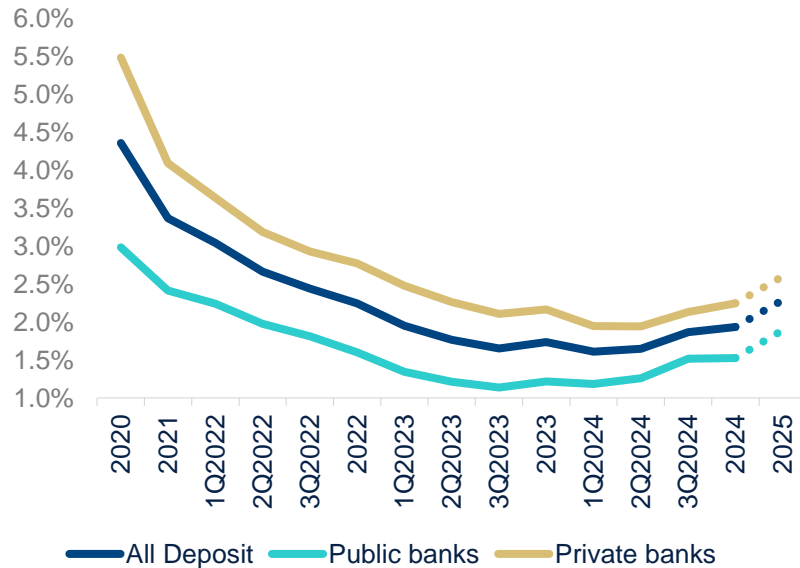
%



With the expected increase in NPLs, we estimate the currency adjusted cost of risk (CoR) to be 150-200 bps in 2025

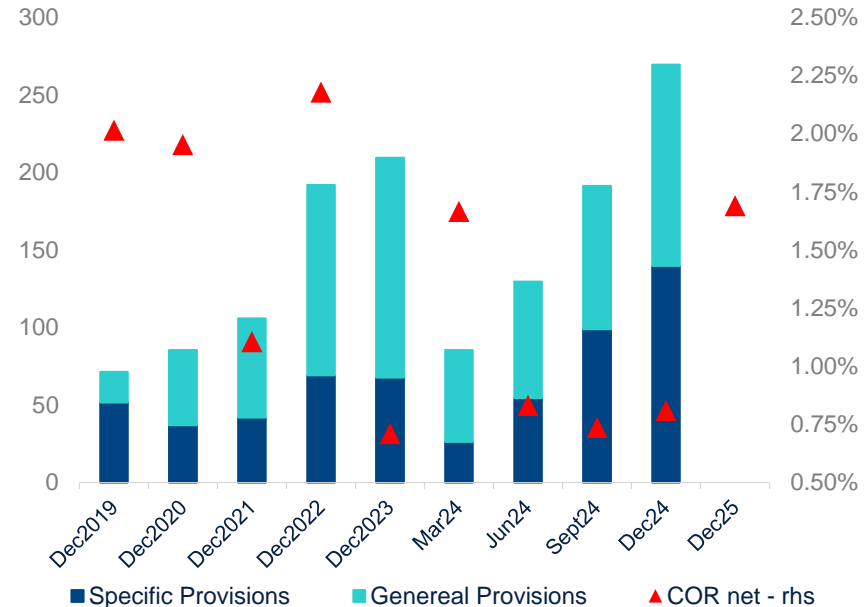
NPL RATIO FORECASTS

%



COST OF RISK (COR)* IN DEPOSIT BANKS

BN TL & LOAN LOSS PROVISIONS / AVERAGE NET LOANS



* Adjusted from the currency effects

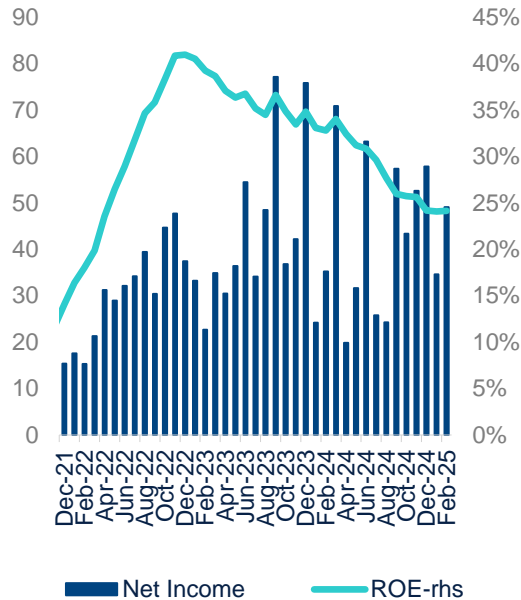
06

Turkish Banking Sector: Profitability

Deposit banks' net income rose by 41% in Feb25 on y-o-y terms. On a monthly basis, it also rose by 42%

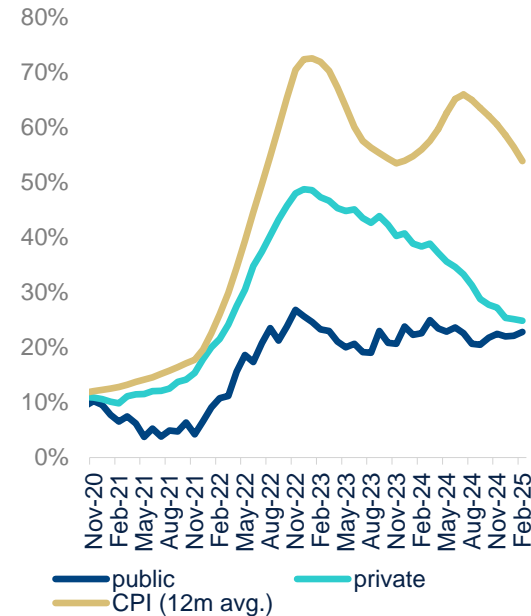
NET INCOME & RETURN ON EQUITY (ROE)

BN TL MONTHLY, % 12M CUMULATIVE



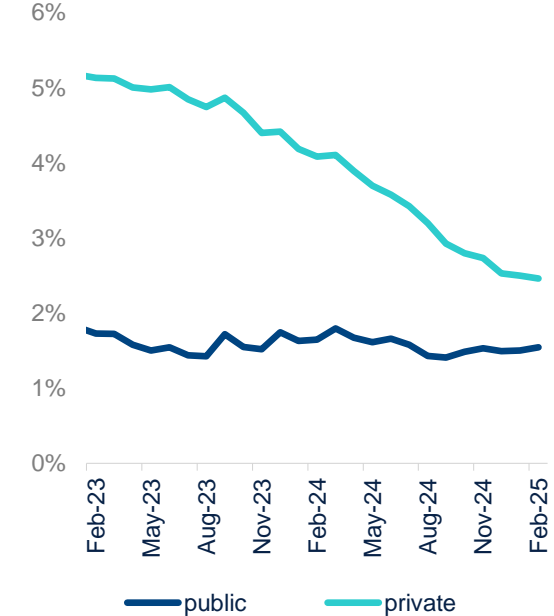
RETURN ON EQUITY (ROE)

%12M CUMULATIVE



RETURN ON ASSETS (ROA)

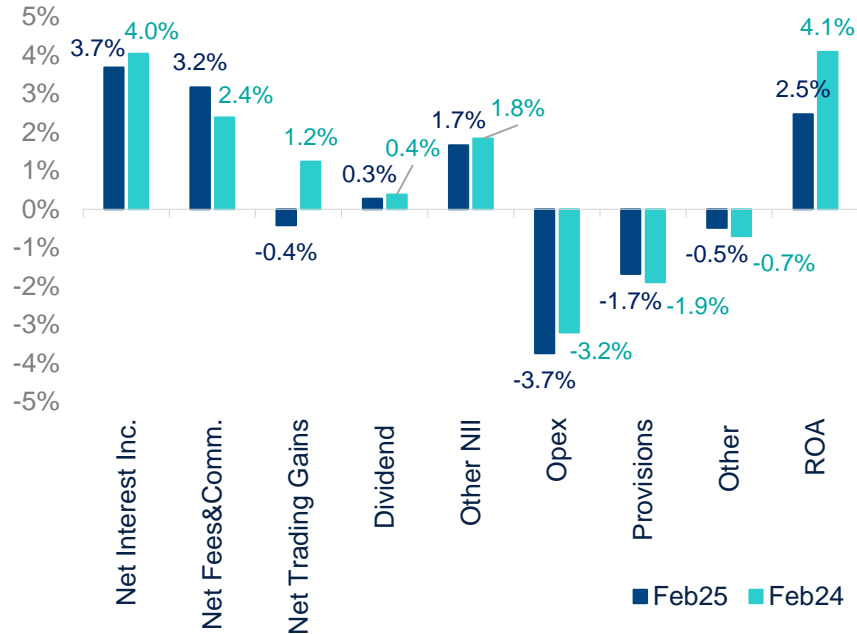
%12M CUMULATIVE



In the last year up to Feb25, public and private banks differentiated in terms of income from interest spread, fees & commissions, trading gains and provisions

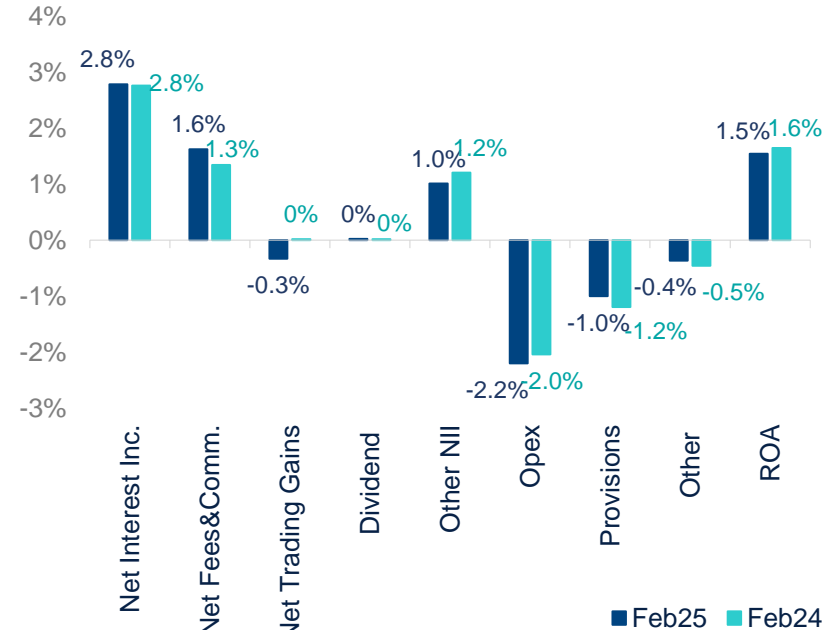
ROA COMPONENTS PRIVATE BANKS

12M CUMULATIVE AS OF JAN 2025 VS JAN 2024



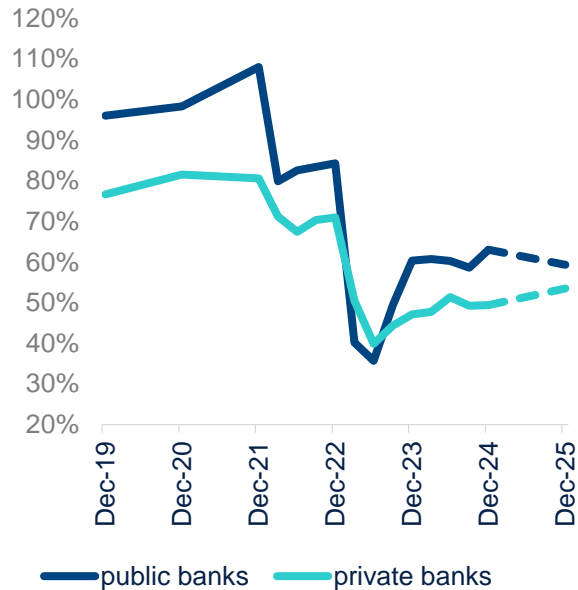
ROA COMPONENTS PUBLIC BANKS

12M CUMULATIVE AS OF FEB 2025 VS FEB 2024

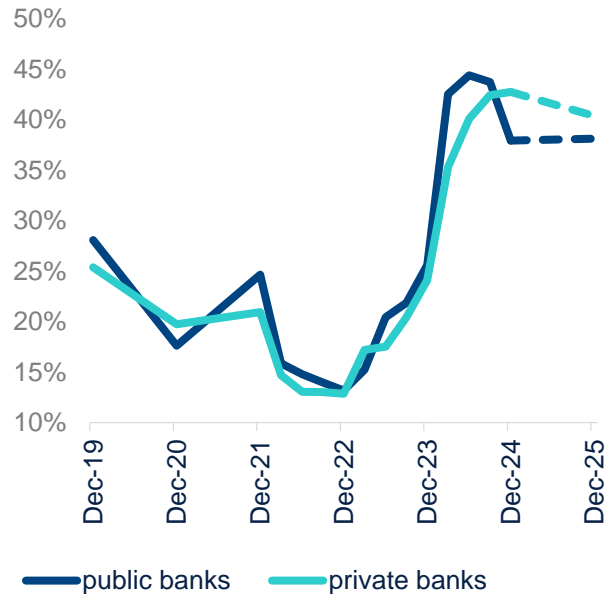


The contribution from trading and FX gains, fees and commissions started to normalize compared to previous quarters and expected to do so in 2025

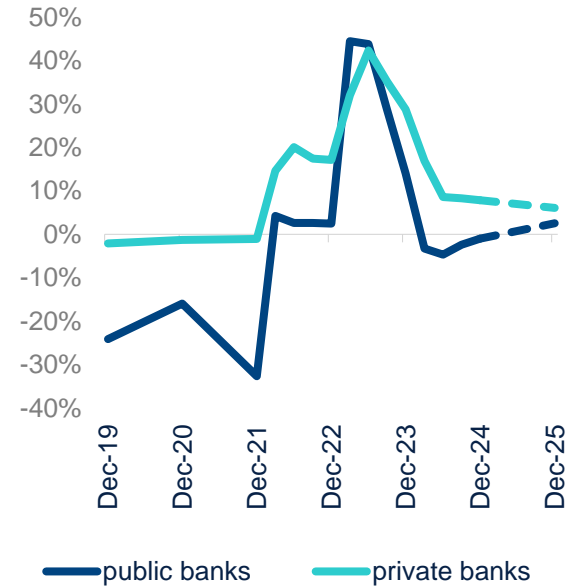
NET INTEREST REVENUE / TOTAL REVENUE, %



FEES & COMMISSION REVENUE / TOTAL REVENUE, %



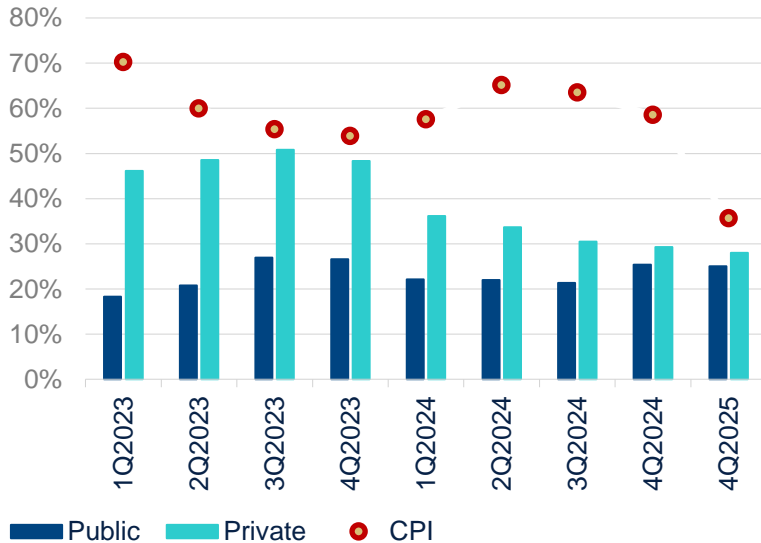
TRADING & FX GAINS / TOTAL REVENUE %



Given the latest shocks, we updated our ROE expectations on higher funding costs and slower NIM recoveries, where the ROE can stay below inflation by end 2025

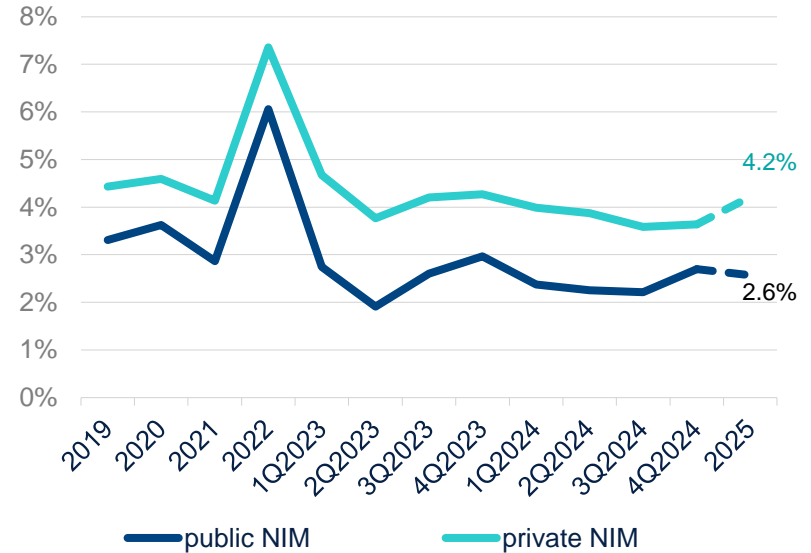
ROE

Annualized % with average annual CPI



NIM

Annualized %



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Türkiye: Banking Sector Outlook

Deniz Ergun
Garanti BBVA Research

March 2025