

BBVA

Corporate &
Investment Banking

Türkiye: Banking Sector Outlook

4Q 2023

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Garanti BBVA Research

Key messages

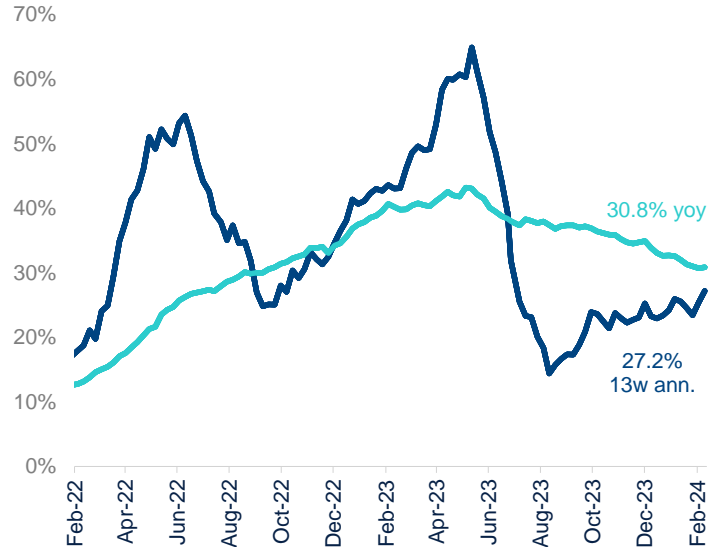
- Following the monetary tightening process, **loan growth has moderated** towards the end of 2023. This has been **followed by some limited acceleration** in the first weeks of 2024. Private banks grow mostly in **TL lending**, whereas public banks support their profitability from **FC lending**.
- Specifically, **growth in consumer credits has started to accelerate** mainly in private banks with GPLs and consumer credit cards, confirming still strong consumer demand.
- Despite the suppression in core NIM, **fees and commissions income, income from capital markets and FC transactions** supported profitability of the sector in 2023. We expect profitability to be **supported by mostly core banking business** in 2024.
- Although still limited, **pick-up in NPL ratios** have started to be observed, particularly in **retailer lending**.
- **The credit risk indicator, the share of Stage 2 and NPLs in gross loans**, decreased by 500 bps to 10% since 4Q21 for peer deposit banks, according to our calculations.
- **Regulatory capital ratios** remain above the regulatory thresholds, though with **increasing pressure in public banks**.
- **Profitability is the main element feeding into capital adequacy** which will be important for public banks in 2024 due to their lower core capital levels.
- **Financial institutions will start inflation accounting in 2025**, when the ones with higher non-monetary assets will be affected less. **We don't expect a major impact on the sector from the real sector's balance sheets** since many companies have built significant buffer with such non-monetary assets under high inflation environment.

01

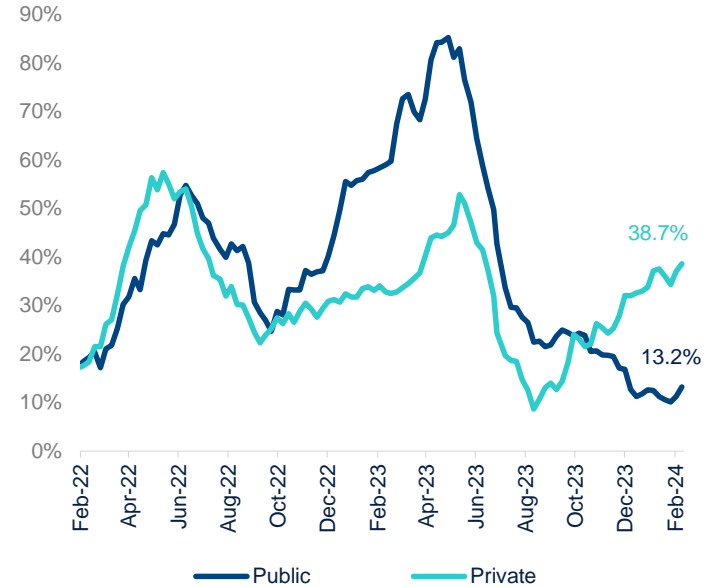
Turkish Banking Sector: Credit Developments

Monetary tightening that started in Jun23 led to a moderation in credit growth throughout 2H23; and 13-week trend rate ended the year at around 25%.

CREDIT GROWTH (FX ADJ)
YOY, 13-WEEK ANNUALIZED TREND

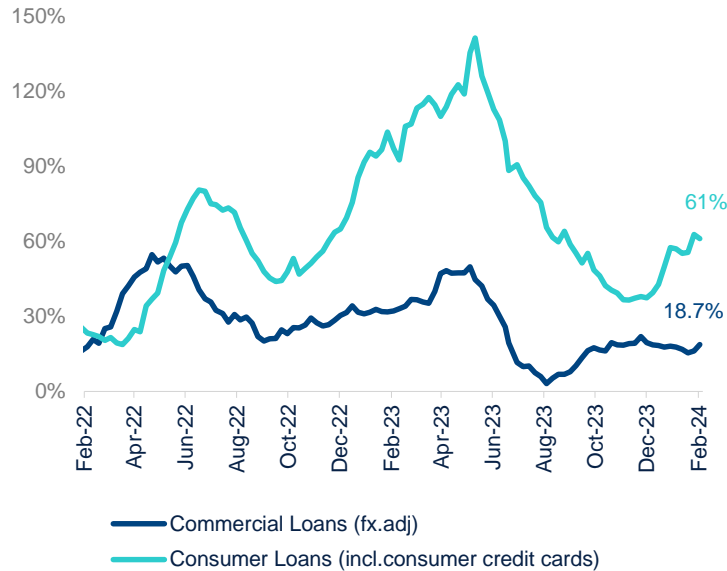


CREDIT GROWTH (FX ADJ)
13-WEEK ANNUALIZED TREND

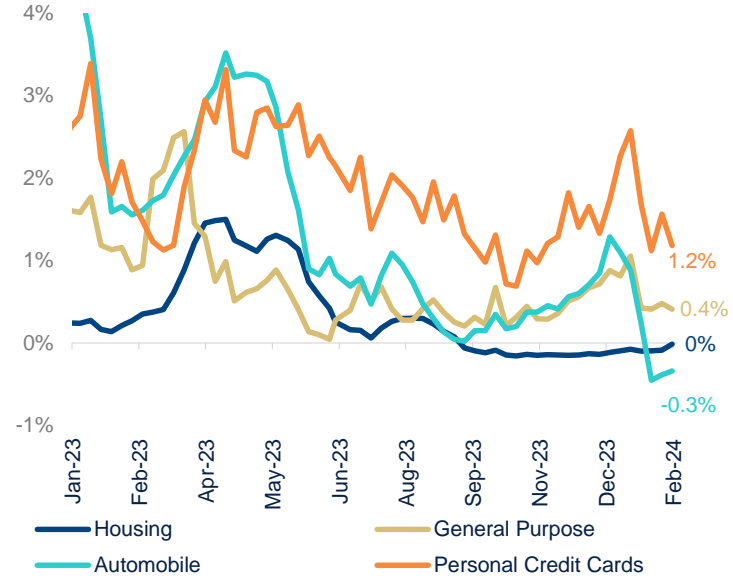


Loan growth in 1H23 was mainly driven by retailer lending since it faced fewer regulations. It adjusted thereafter but most recently it is again accelerating.

CREDIT GROWTH: COMMERCIAL VS CONSUMER*
13-WEEK ANNUALIZED TREND

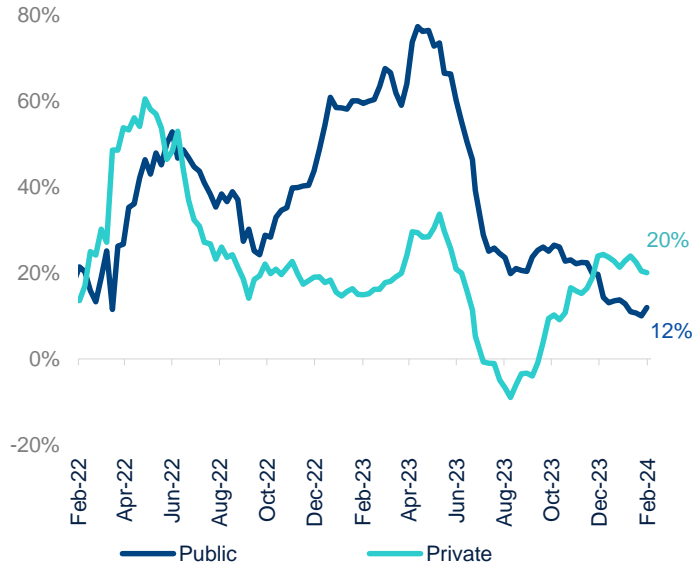


CREDIT GROWTH: CONSUMER ON SUBSEGMENTS
4-WEEK AVERAGE



Commercial credits were supported by mostly public banks in early 2023. Since public banks' lower capital levels, they remain muted on TL lending.

FX ADJ. COMMERCIAL CREDITS: PUBLIC VS PRIVATE BANKS
% 13 WEEK ANNUALIZED

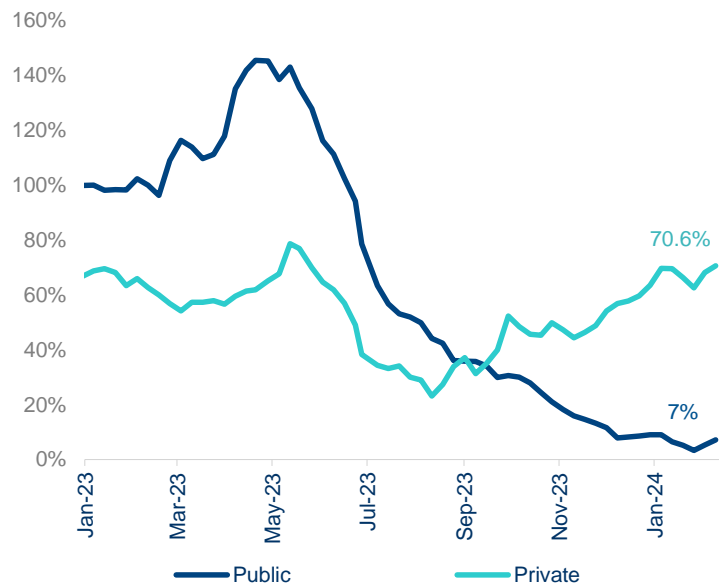


CONSUMER CREDITS: PUBLIC AND PRIVATE BANKS
%13 WEEK ANNUALIZED

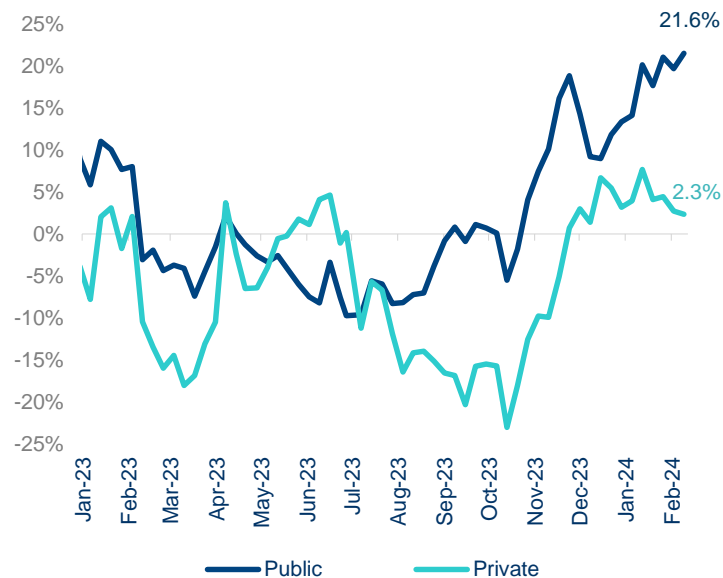


Following the sharp decline throughout 2023, FC credits gained back momentum since late 2023, mainly led by public banks.

TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS
% 13 WEEK ANNUALIZED

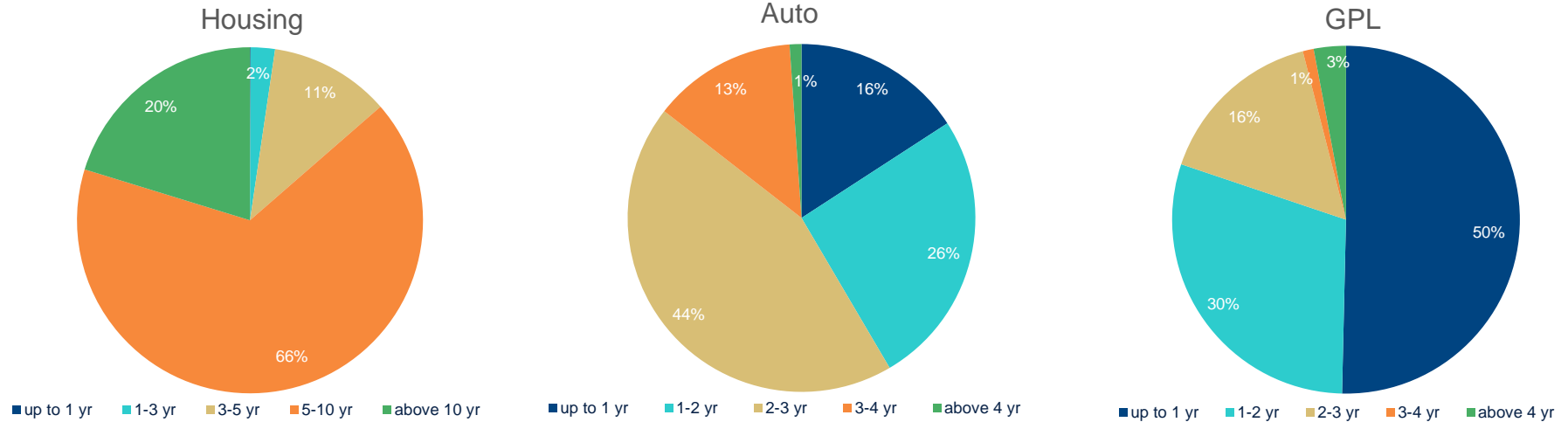


FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS
% 13 WEEK ANNUALIZED



General purpose loans which constitute 65% of consumer loans (excluding credit cards) are mostly concentrated in up to 1 year maturity bracket.

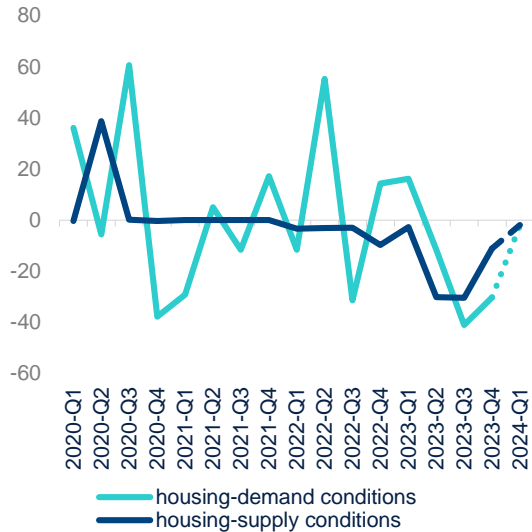
CONSUMER LOANS BY ORIGINAL MATURITY, FEB24



Both supply and demand conditions in consumer loans eased* somewhat in 4Q23. Decrease in demand for general purpose loans (GPL) is expected to accelerate in 1Q24.

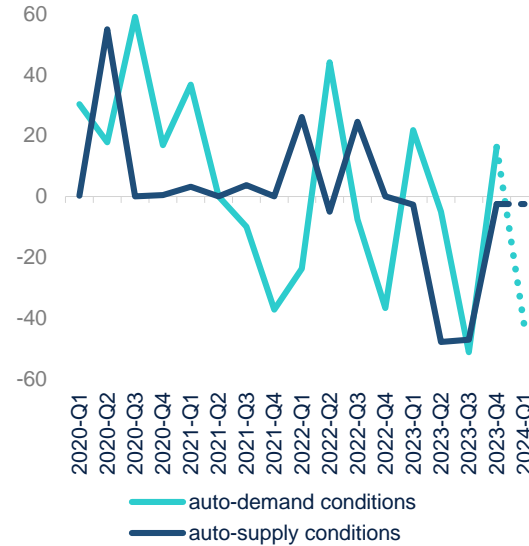
CREDIT CONDITIONS: HOUSING

Net balance



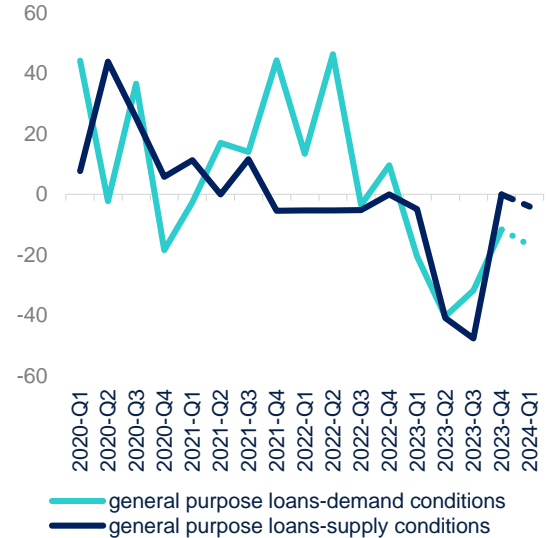
CREDIT CONDITIONS: AUTO

Net balance



CREDIT CONDITIONS: GPL

Net balance

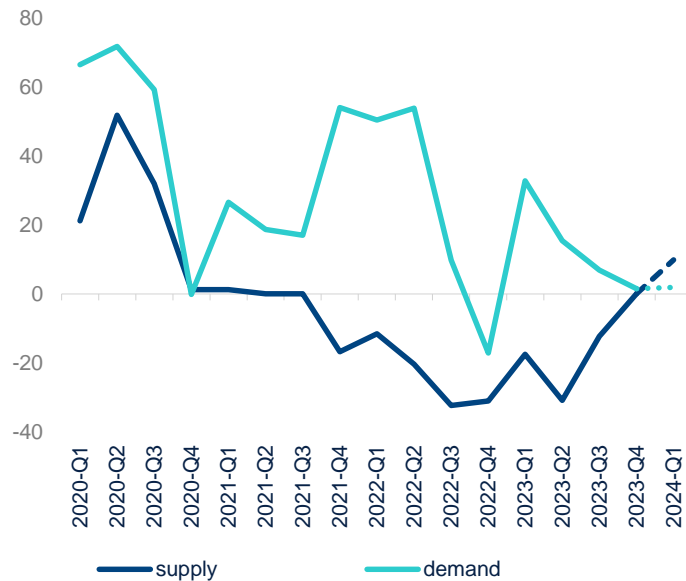


* >0 Easing; <0 Tightening

Rapid rise in the financing need of the real sector especially for debt restructuring in 4Q23. Demand for commercial credits is expected to remain flat in 1Q24 compared to easing in supply conditions.

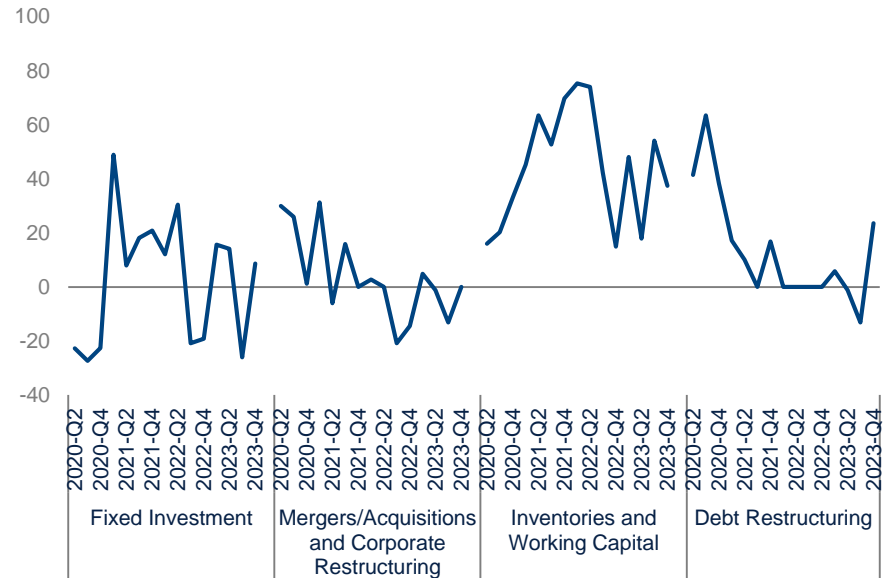
CREDIT CONDITIONS: COMMERCIAL

Net balance



FINANCING NEEDS OF THE REAL SECTOR FOR DIFFERENT PURPOSES

Positive= increase in demand, Negative=Decrease in demand

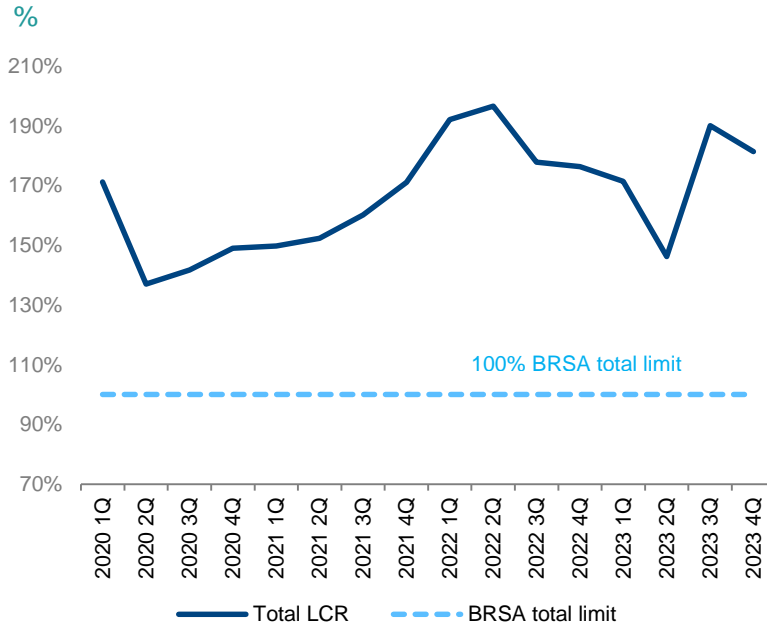


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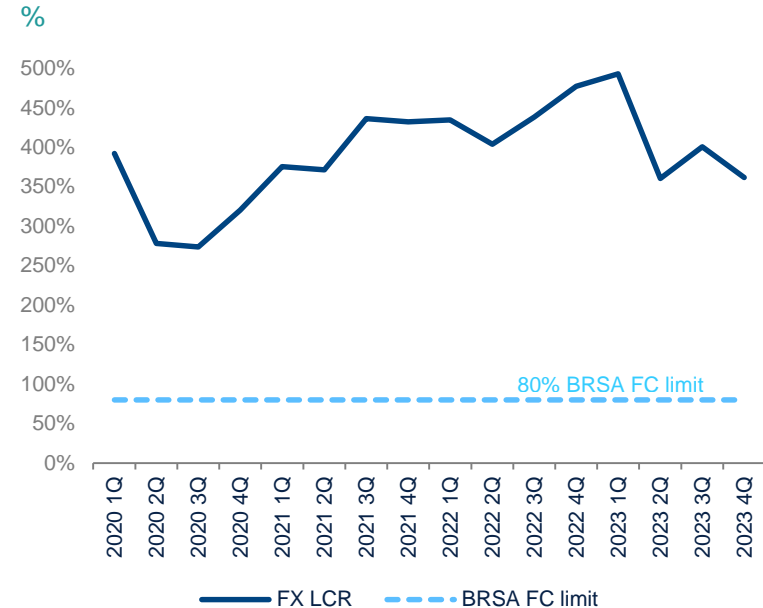
Turkish Banking Sector: Liquidity

Liquid assets of banks which declined in 2Q23, rose back to their historical averages in 4Q23.

TOTAL LIQUIDITY COVERAGE RATIO*



FC LIQUIDITY COVERAGE RATIO



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

TL LTD ratios fell in both public and private banks, led by weaker loan generation compared to deposits. It recently turned upwards with the pick-up in credits.

LIRA LTD IN PUBLIC AND PRIVATE BANKS*

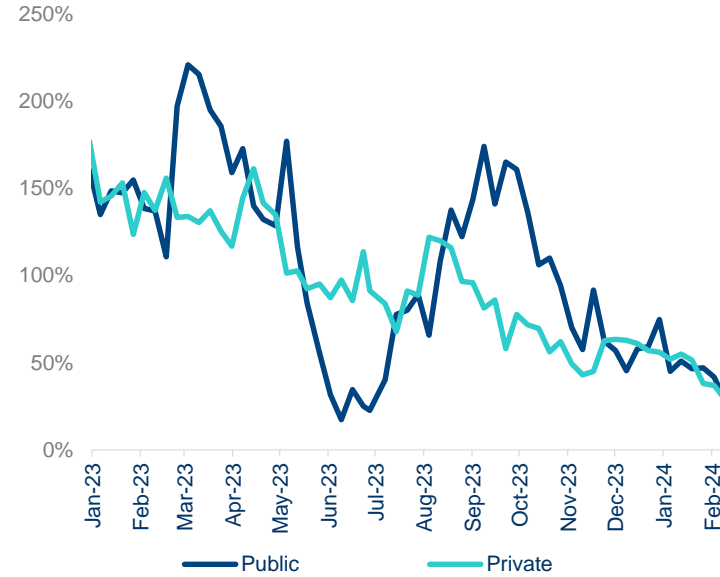
%



* Only deposit banks

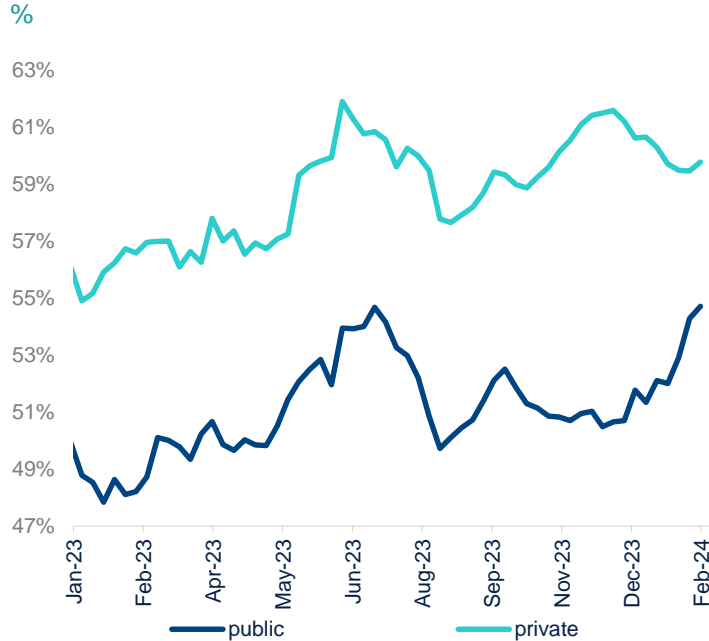
TL DEPOSIT GROWTH*

13-WEEK ANNUALIZED TREND



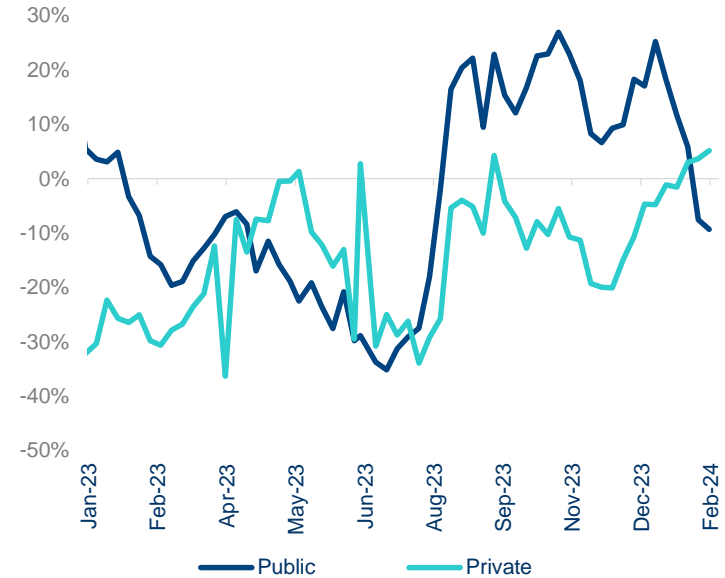
FX LTD ratios accelerate more in public banks due to more aggressive FX lending of public banks.

FX LTD IN PUBLIC AND PRIVATE BANKS*



FC DEPOSIT GROWTH*

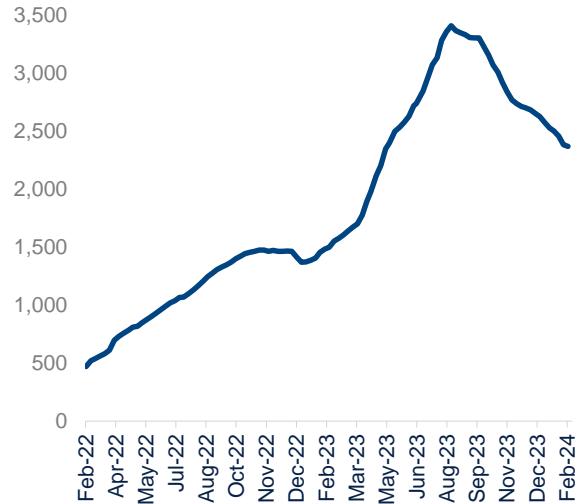
13-WEEK ANNUALIZED TREND



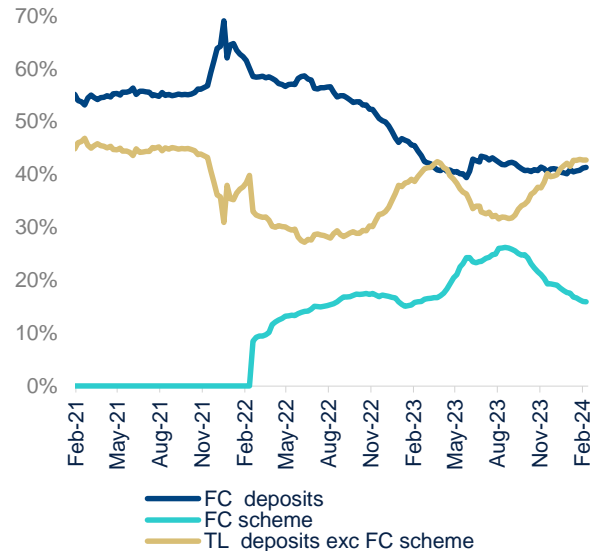
* Only deposit banks

Regulations incentivize banks to unwind the FX protected scheme accounts. The declining trend in the scheme continues, mainly flowing into TL time deposits. The tendency for FX deposits so far remains limited.

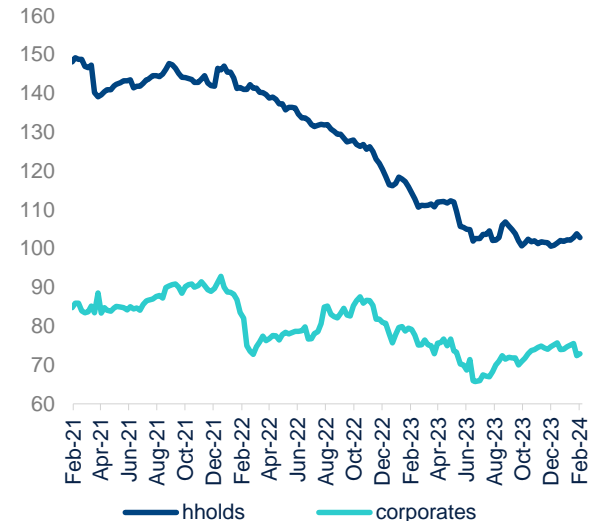
SIZE OF FC PROTECTED SCHEME
in bnTL



DISTRIBUTION AMONG DEPOSITS
% share in total

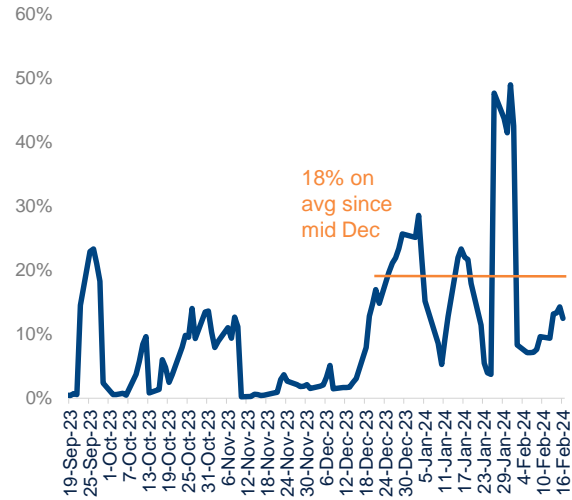


FC DEPOSITS OF RESIDENTS
bn USD

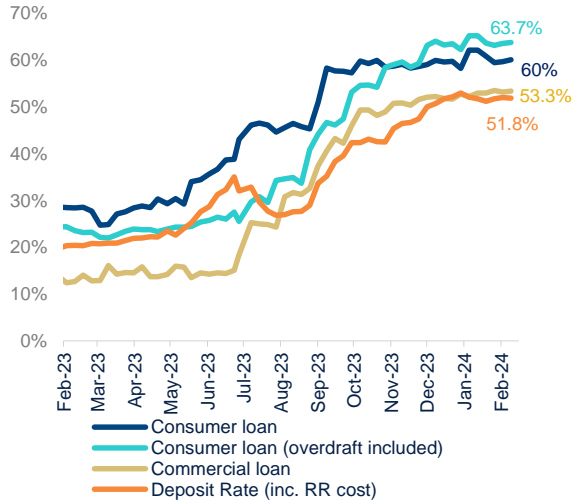


Stabilized lending rates, excess TL liquidity & renewal of ex-FC scheme deposits resulted in downside pressure on TL deposit rates, which is expected to reverse with recent RR decisions (remuneration according to deposit rules).

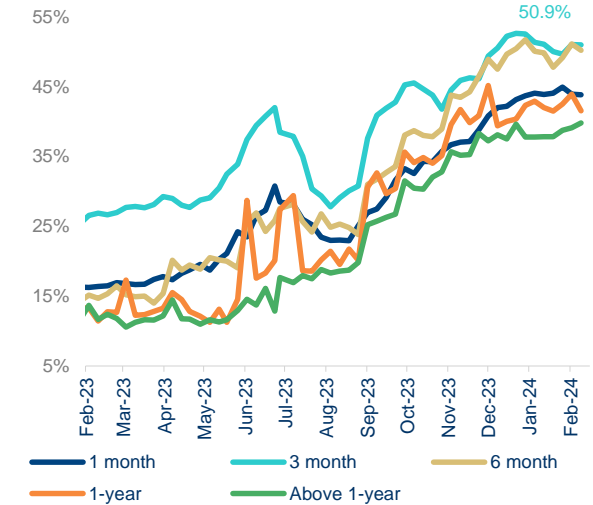
CBRT STERILIZATION / TOTAL FUNDING %



CONSUMER & TL COMMERCIAL RATES % , flow, sector



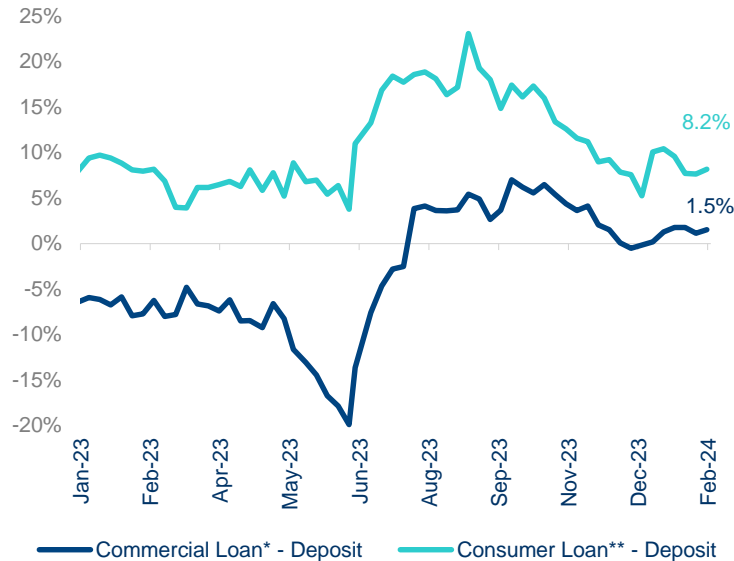
TL DEPOSIT INTEREST RATES % , flow, sector, without RR cost



Spreads recovered with the increase in lending rates. However, they are still negatively affected by the higher reserve requirements.

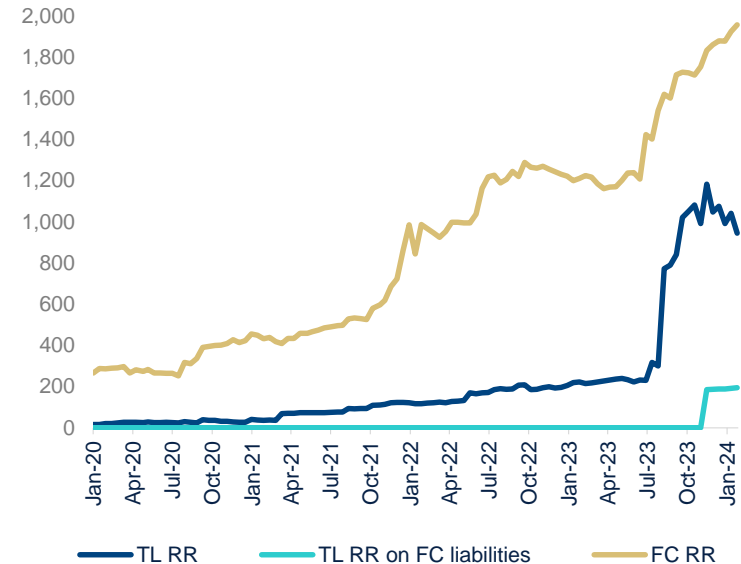
TL INTEREST RATE SPREAD

%, including RR cost



RESERVE REQUIREMENT VOLUME

mn TL

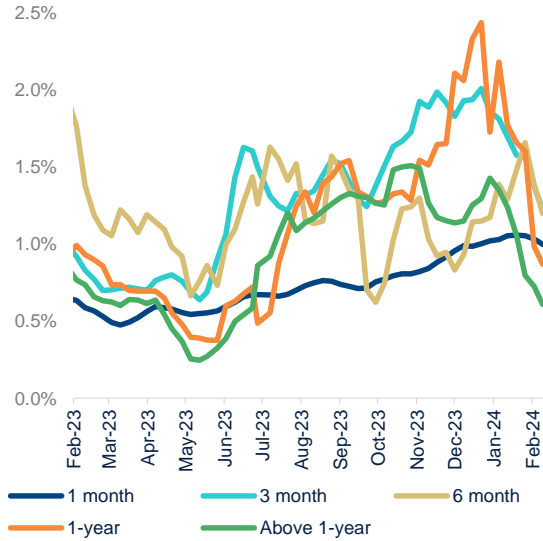


* excludes corporate overdraft account rates and corporate credit card rates. ** excludes other consumer overdraft account rates.

FC deposit rates are higher at up to 1yr and up to 6 months brackets.

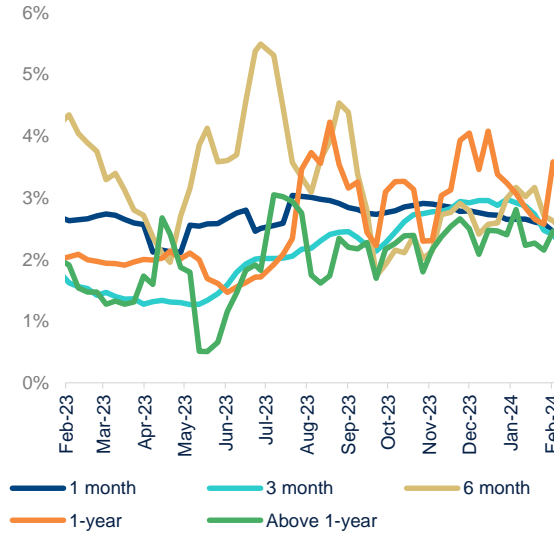
EURO DEPOSIT RATES

%, 4-week avg flow, sector



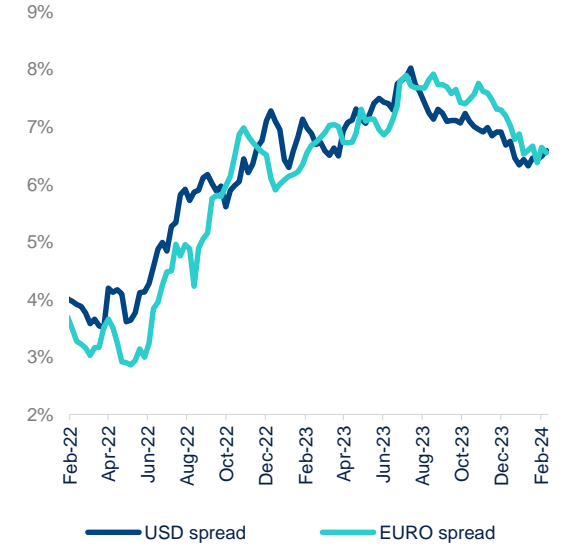
USD DEPOSIT RATES

%, 4-week avg flow, sector



FC INTEREST RATE SPREAD

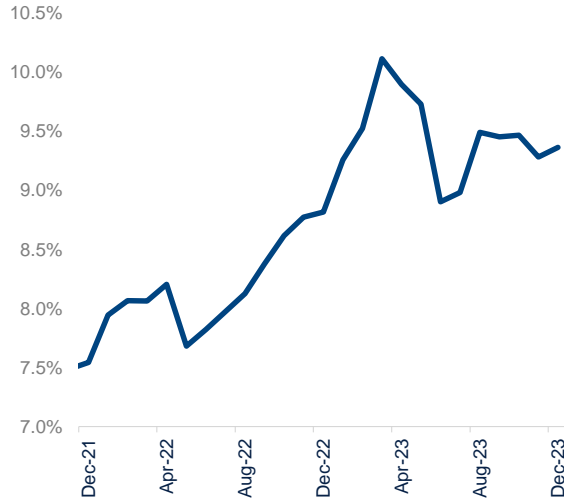
%, 4-week avg flow, sector



Regulations on LT TL security maintenance have started to ease and share of TL securities remained rather flat in 4Q23.

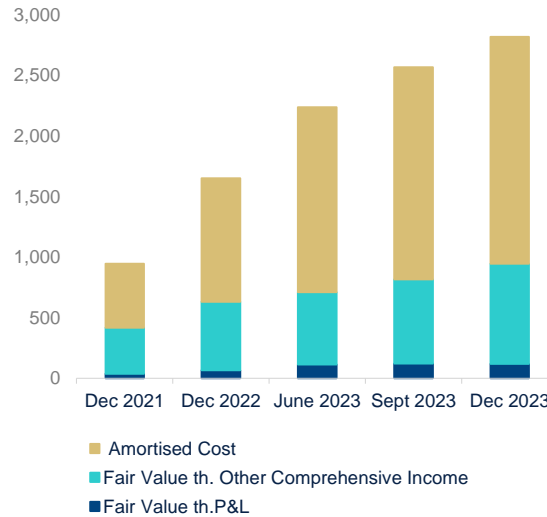
SHARE OF TL SECURITIES IN ASSETS

%



TL SECURITIES IN GROUPS

mn TL



COMPOSITION IN TL SECURITIES

mn TL

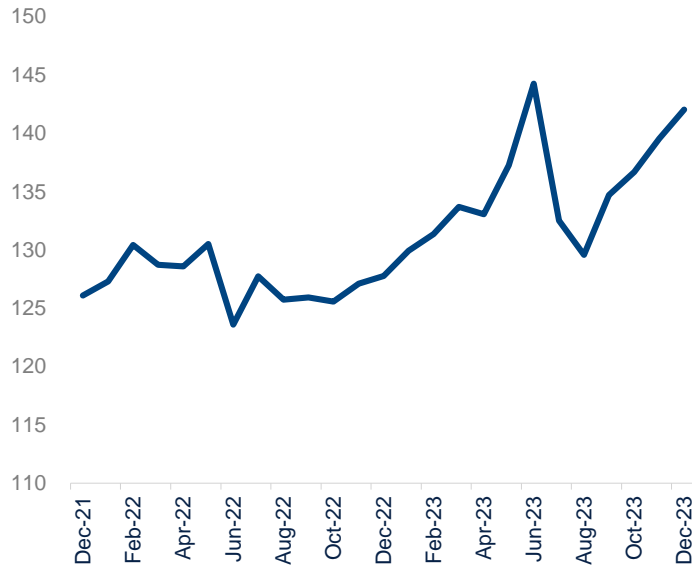


03

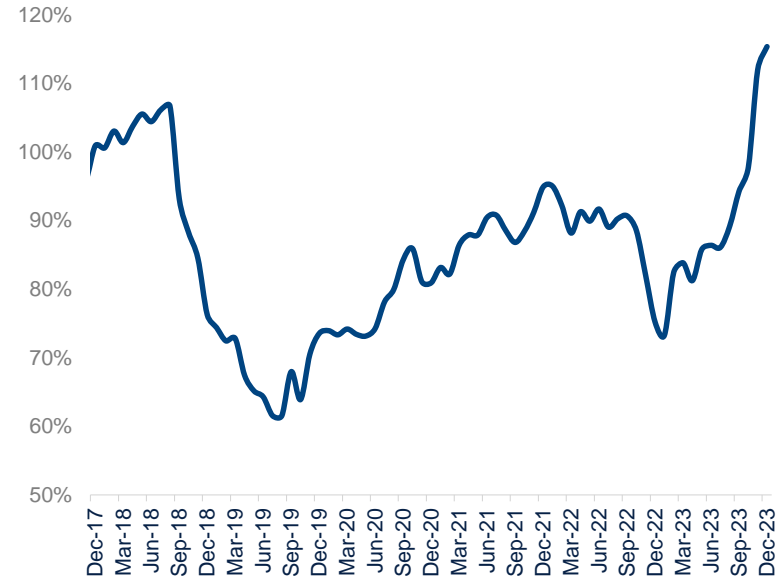
Turkish Banking Sector: External Debt & FC Liquidity

Banks' external credits started to increase again with solid roll-over ratios.

BANKS' TOTAL EXTERNAL DEBT
BN USD



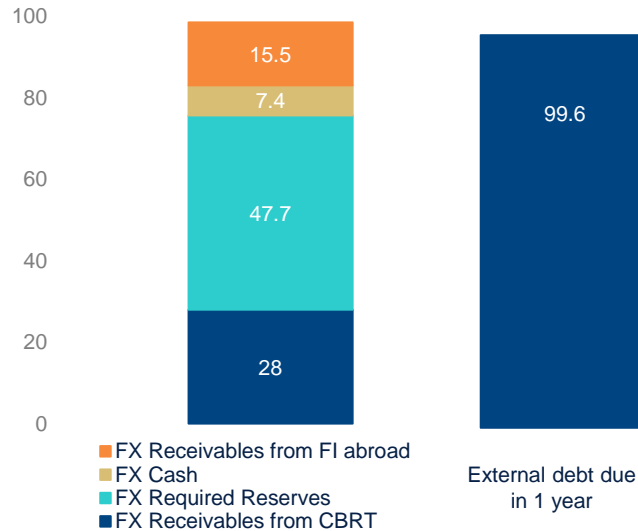
BANKS' EXTERNAL CREDITS ROLL-OVER RATIO
12M Rolling, %



Foreigners' FX deposits in the banking sector make up USD 32bn by end 2023. Given the significantly above 100% credit roll-over rates most recently, banks are quite comfortable on compensating their ST FX needs.

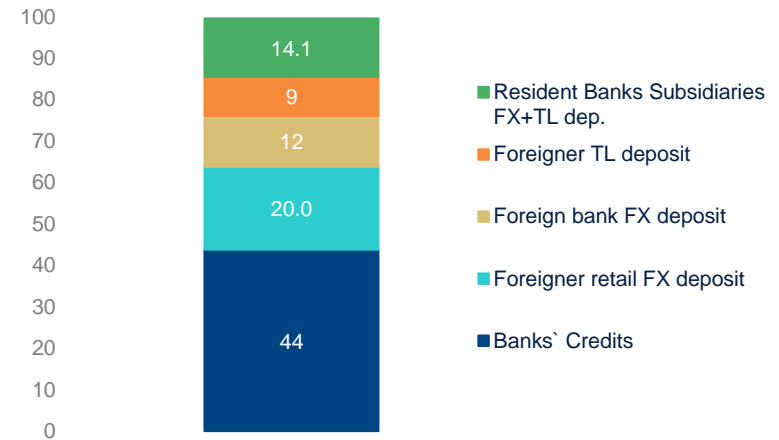
SELECTED FX LIQUID ASSETS* OF BANKS

bn USD, Dec23



TURKEY: BANKS' EXTERNAL DEBT DUE ONE YEAR

bn USD, Dec23



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

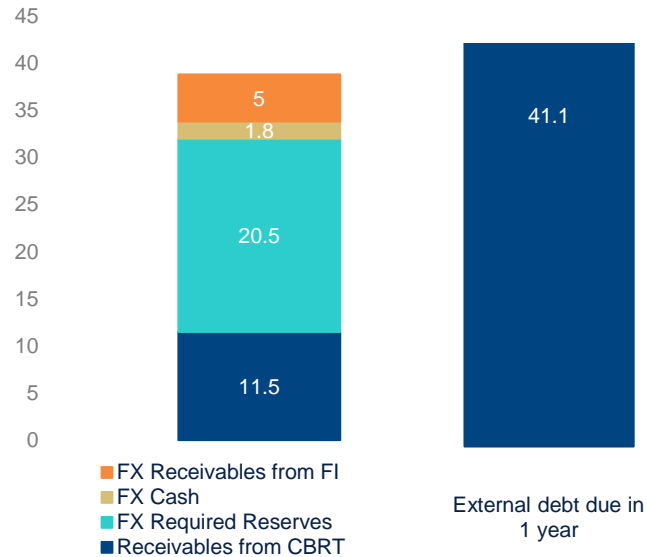
See: <http://www.tcmbblog.org/wps/wcm/connect/blog/en/main+menu/analyses/the+turkish+banking+systems+fx+liquidity+shield>

Source: CBRT, BRSA and Garanti BBVA Research

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

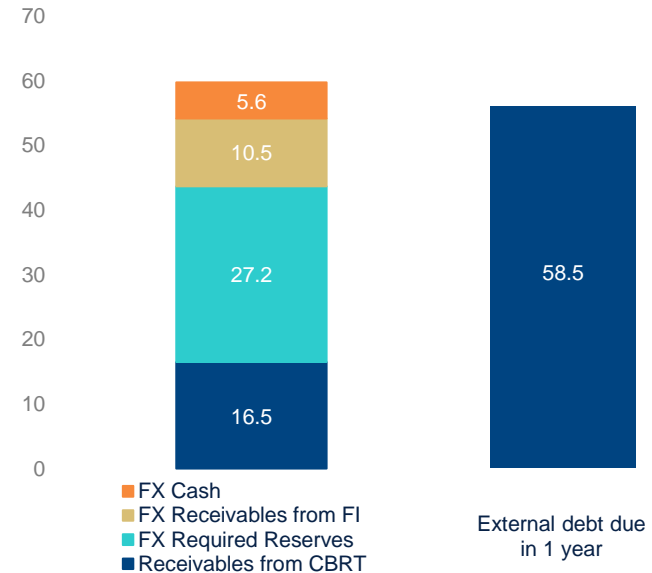
FX LIQUID ASSETS* OF PUBLIC BANKS

bn USD, Dec23



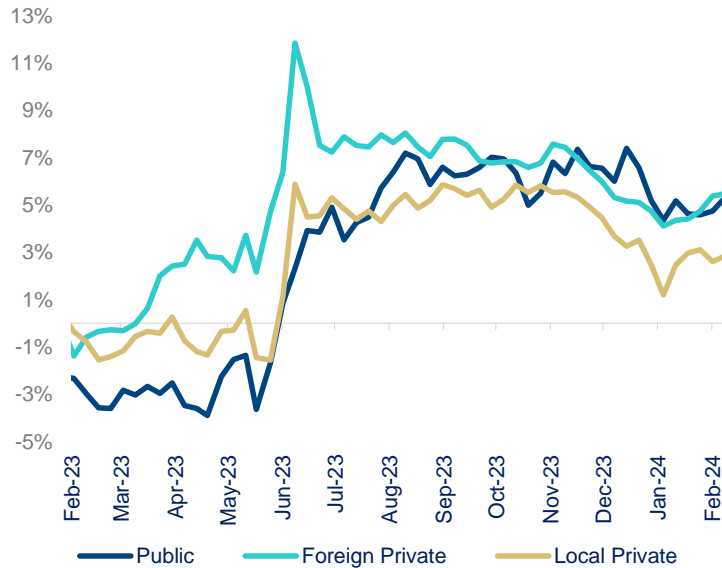
FX LIQUID ASSETS* OF PRIVATE BANKS

bn USD, Dec23

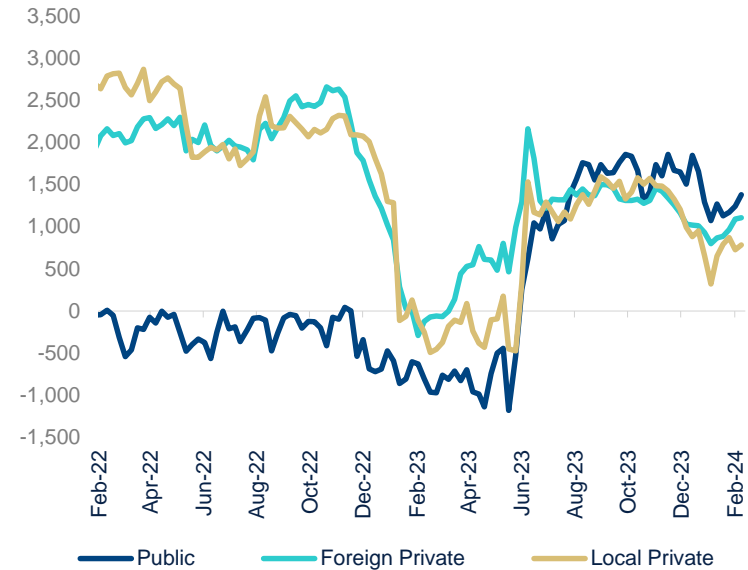


FX NGP/capital ratio remained at 4.4%, within the legal limit. The recent pick-up in FC credits might further support banks' on-balance sheet FX assets.

RATIO OF FX POSITION TO REGULATORY CAPITAL
%



FX NET GENERAL POSITION OF BANKS
level, mn USD



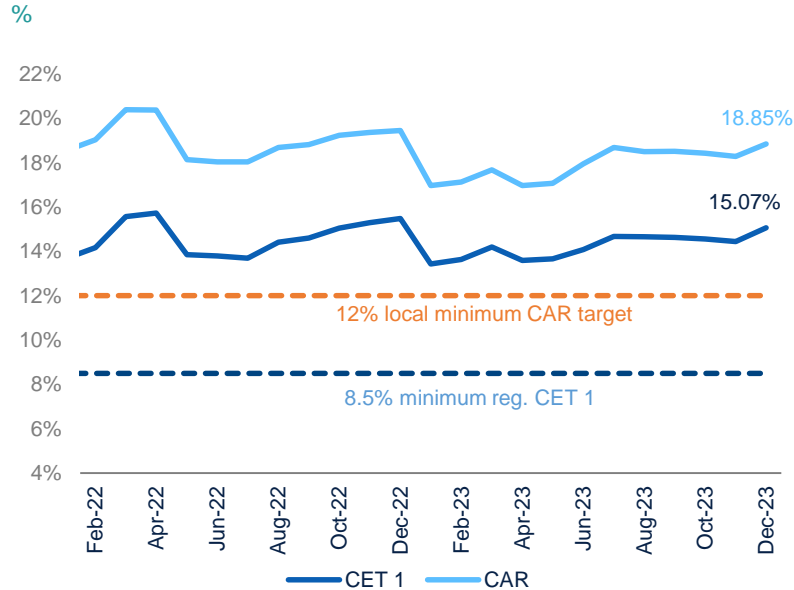
*The regulatory limit for the FXNGP/capital ratio, which was formerly 20%, was decreased to 5% with an amendment that took effect on 9 January 2023, but raised to 10% on 9 March 2023.

04

Turkish Banking Sector: Solvency and Capital Adequacy

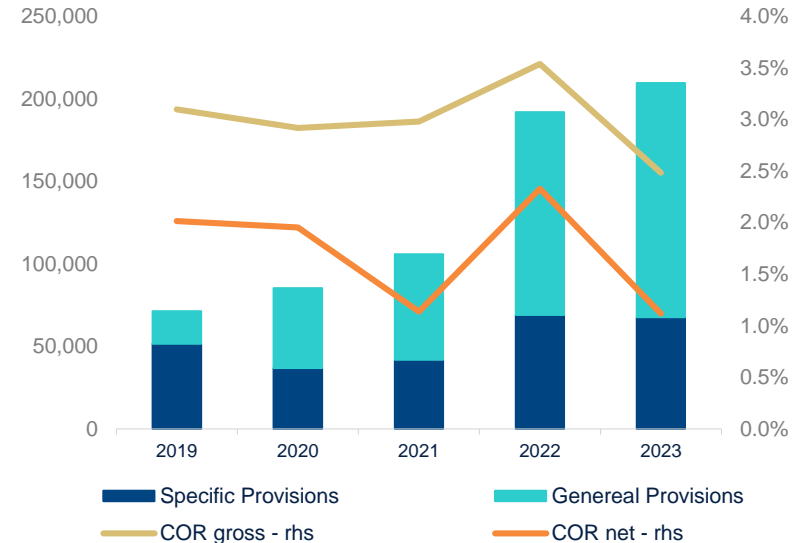
Capital ratios keep their strong levels. The BRSA's forbearance measures regarding CAR calculations remain implemented but to a lower extent.

CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO*



COST OF RISK (COR)**

LOAN LOSS PROVISIONS/AVERAGE NET LOANS



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

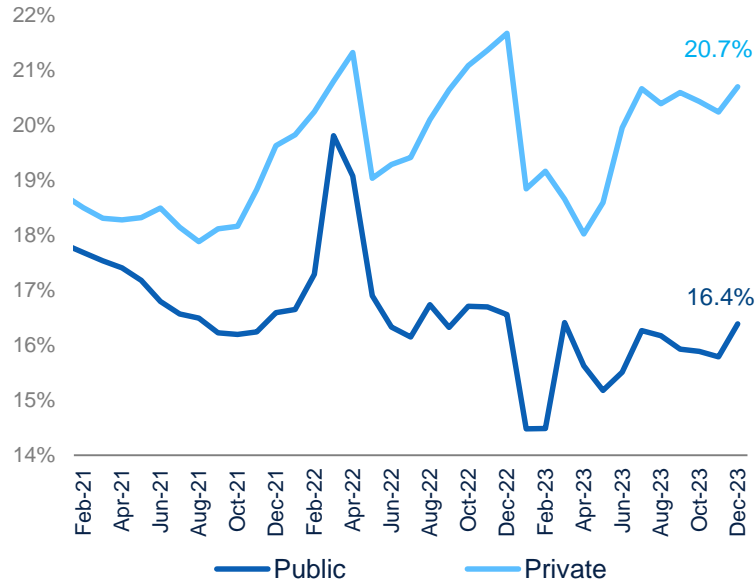
* Common Equity Tier 1

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

CET 1 ratio started to improve also in public banks.

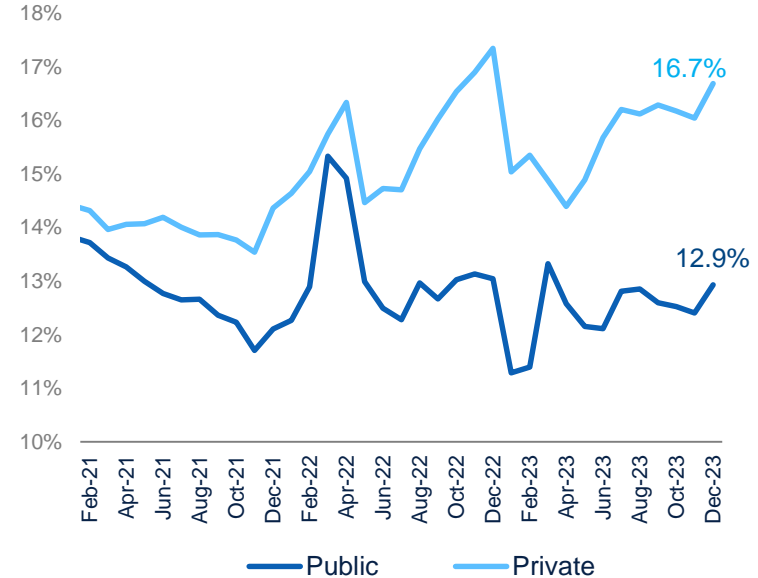
CAPITAL ADEQUACY RATIO: PUBLIC AND PRIVATE BANKS

%



CET 1* RATIO BY PUBLIC AND PRIVATE BANKS

%



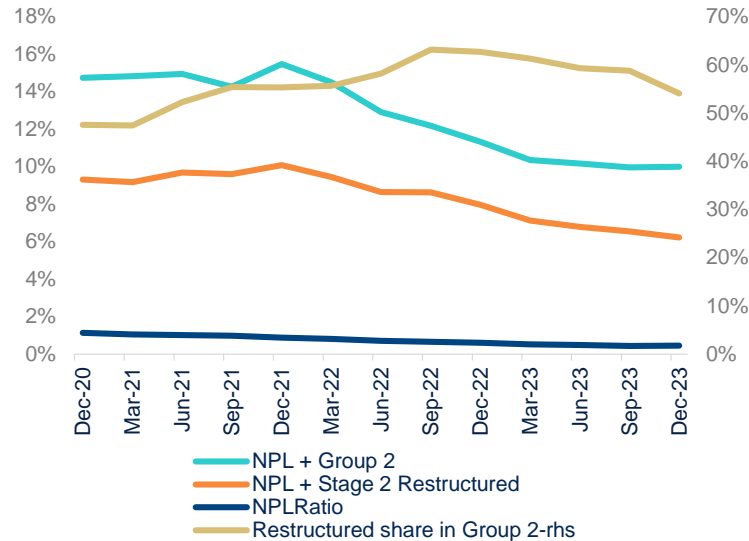
* Common Equity Tier 1

05

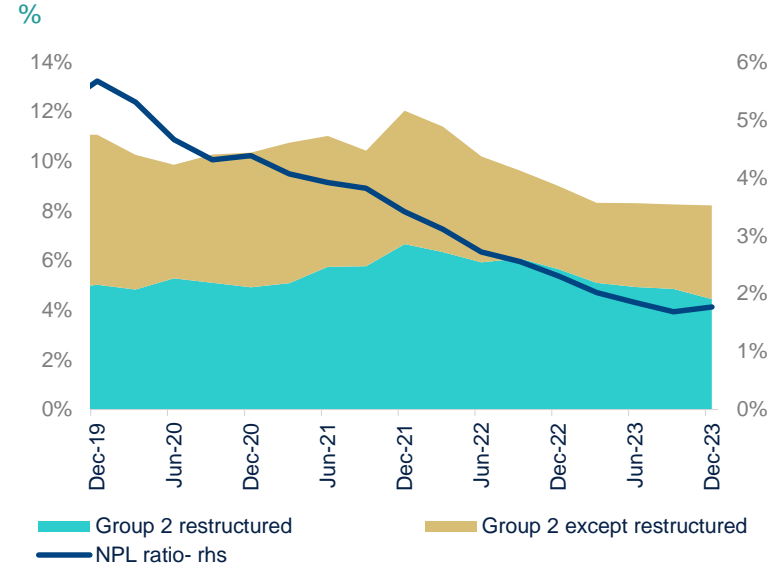
Turkish Banking Sector: Asset Quality

The share of restructured loans to gross loans in peer deposit banks fell to 4.4% in Dec23 from 6.7% in Dec21. The share of Stage 2 and NPLs* declined by 500 bps to 10% since 2021.

ASSET QUALITY OUTLOOK: PEER DEPOSIT BANKS**



SHARE OF STAGE 2 LOANS & RESTRUCTURED LOANS

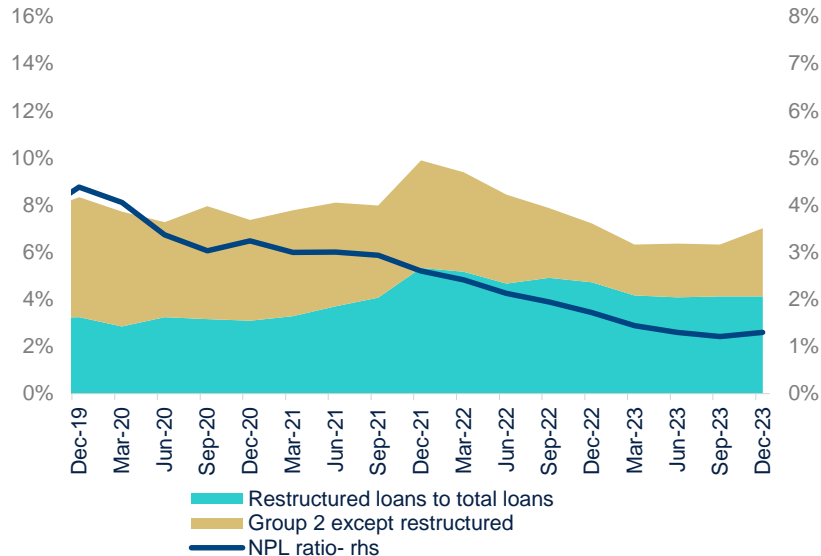


* According to the definition of the CBRT Financial Stability Report, the share of the sum of Stage 2 and NPLs in gross loans is taken into account as total credit risk. Of restructured loans, 91% are monitored under Stage 2; 8% are monitored under NPL and a limited portion under the Stage 1 group (CBRT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

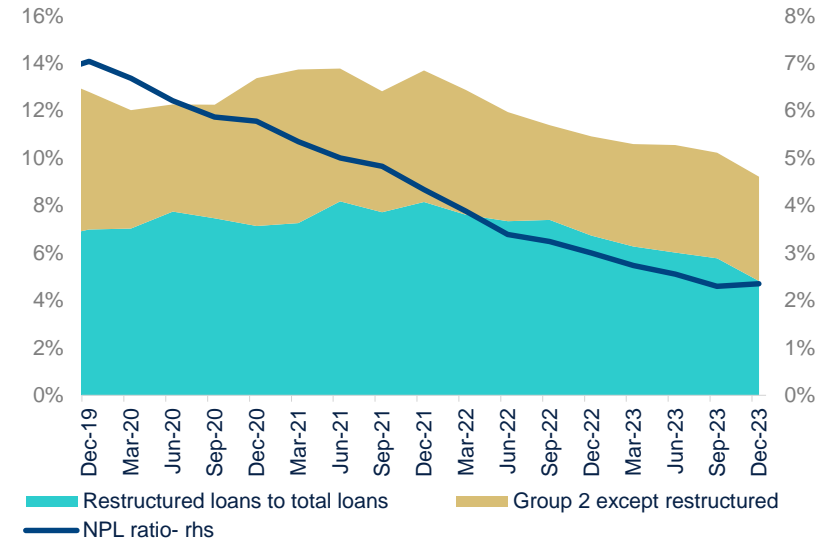
** All indicators are proportioned to gross loans. Data includes peer banks among private and public banks.

The share of restructured loans to gross loans declined to 4.8% in Dec23 from 8.2% in Dec21 for private peers; and to 4.1% from 5.3% for public peers.

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



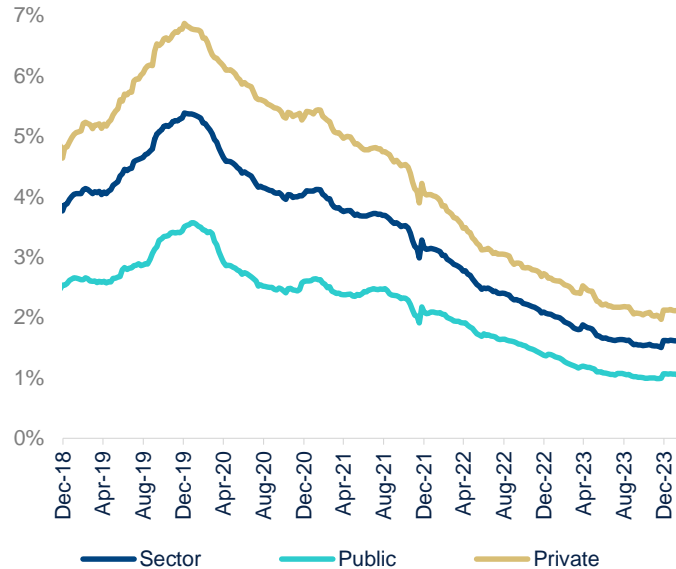
RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS: PRIVATE DEPOSIT BANKS



Led by financial repression, NPL volumes continued to fall since 2022. However, since Dec23, the ratio started to move upwards but still very limitedly.

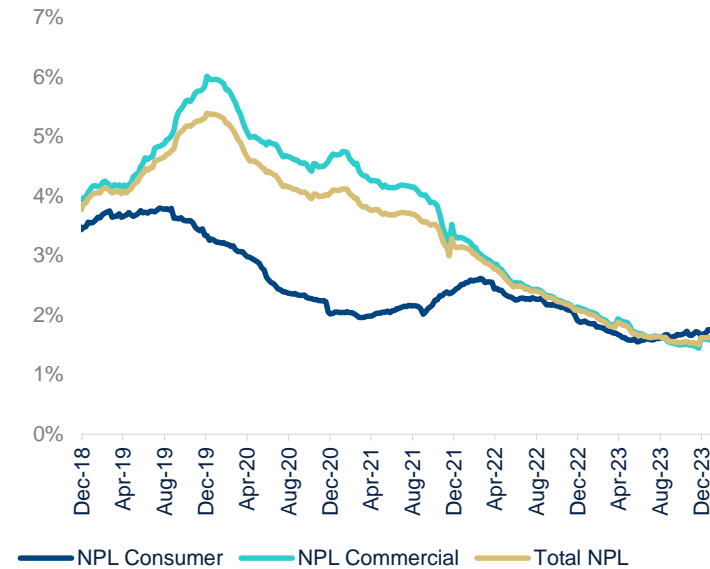
NPL RATIO BY SECTORS

%



NPL IN SUB-SEGMENTS*

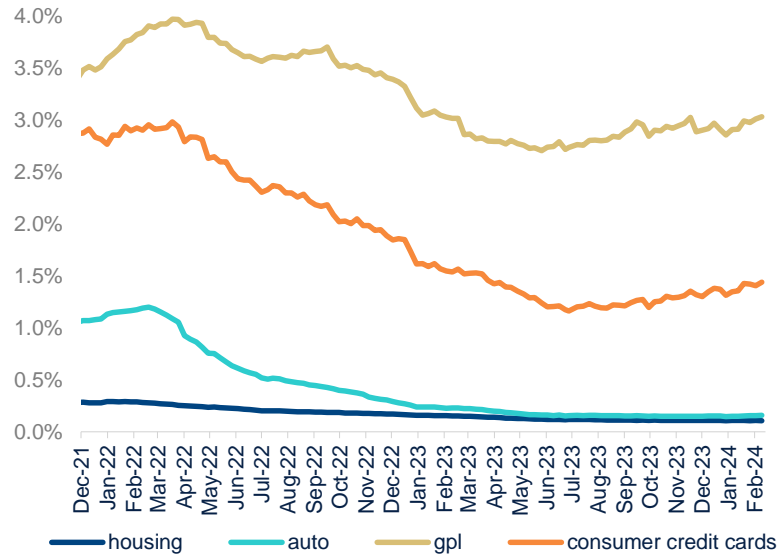
%



NPL ratios of housing and auto loans remained below the historical averages whereas of general purpose loans and credit cards started to increase.

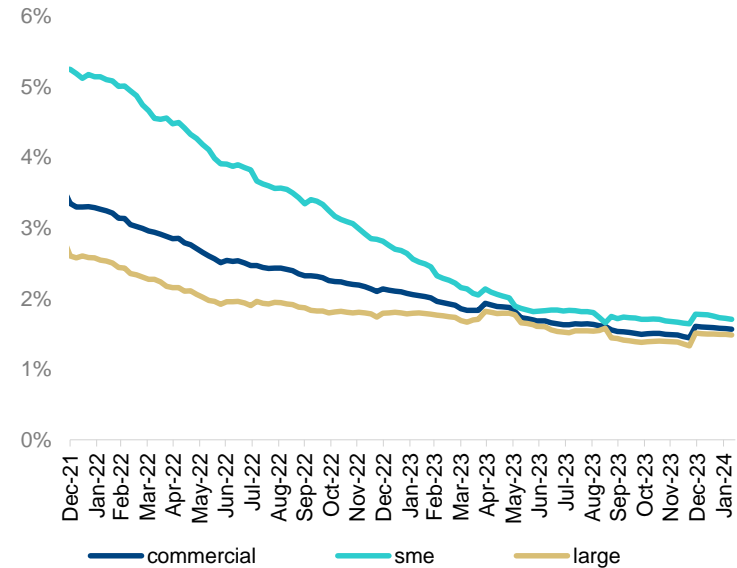
NPL IN CONSUMER LOANS

%



NPL IN COMMERCIAL LOANS SUBSEGMENTS

%



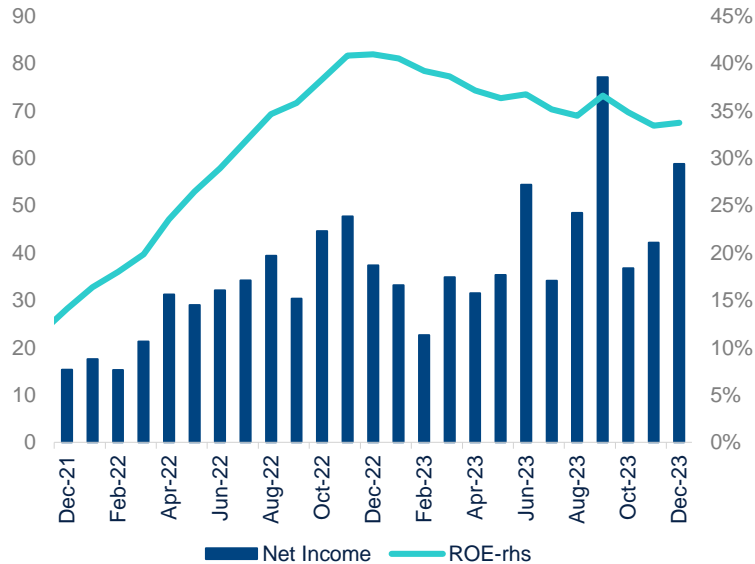
06

Turkish Banking Sector: Profitability

The downward trend in ROE and ROA levels seem to have reversed. Deposit banks' ROE reached almost 34% as of end of 2023.

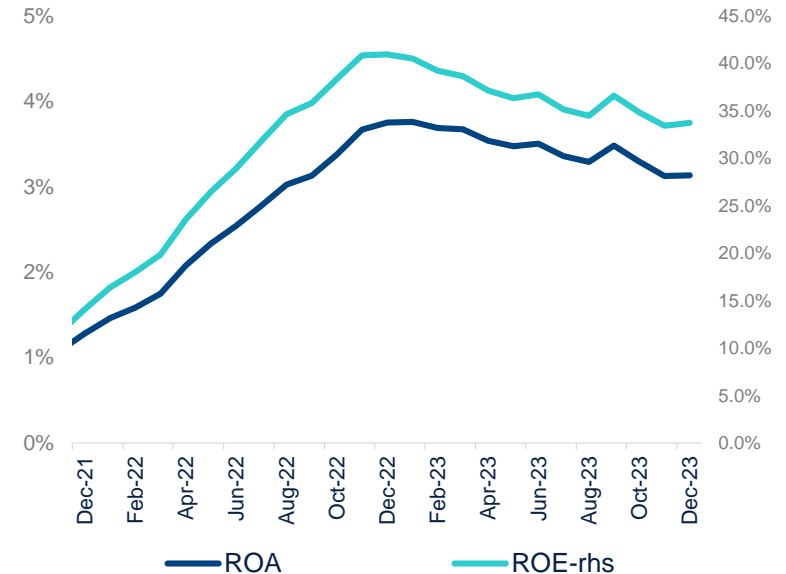
RETURN ON EQUITY (ROE)

12M cumulative bn TL, %



RETURN ON ASSETS (ROA)

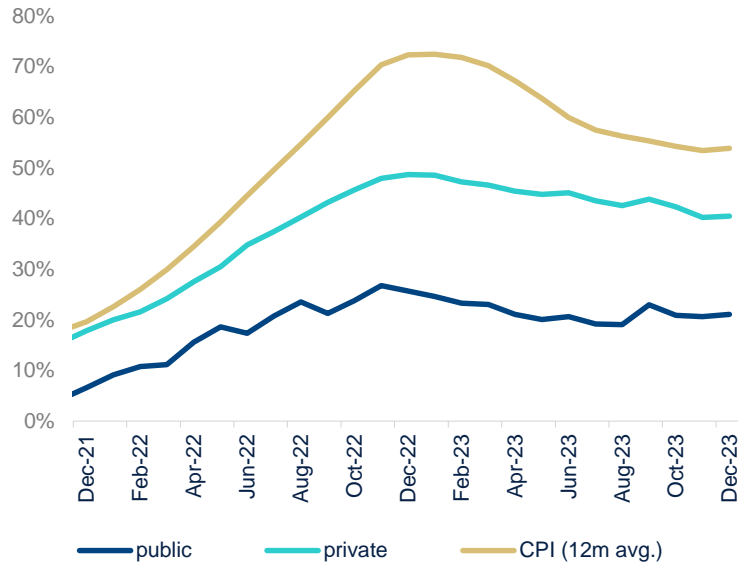
12M cumulative, %



ROE levels are well below the CPI level for both public and private banks.

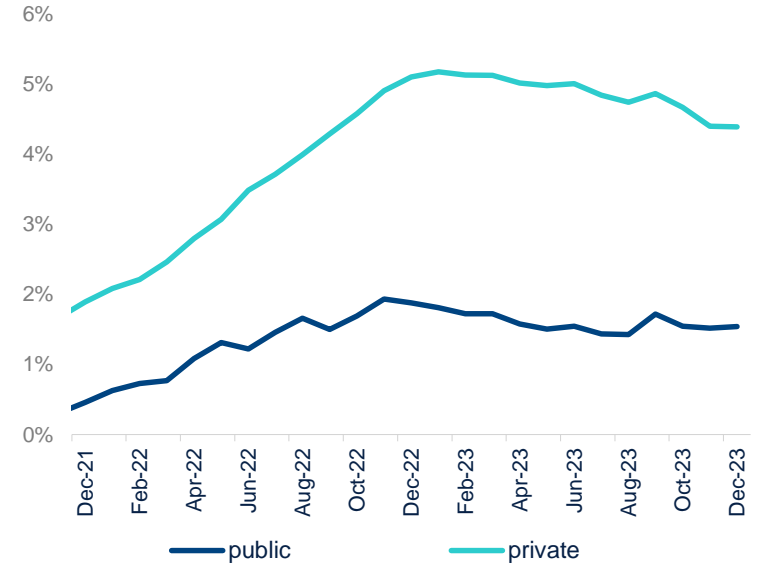
RETURN ON EQUITY (ROE)

12M cumulative, %



RETURN ON ASSETS (ROA)

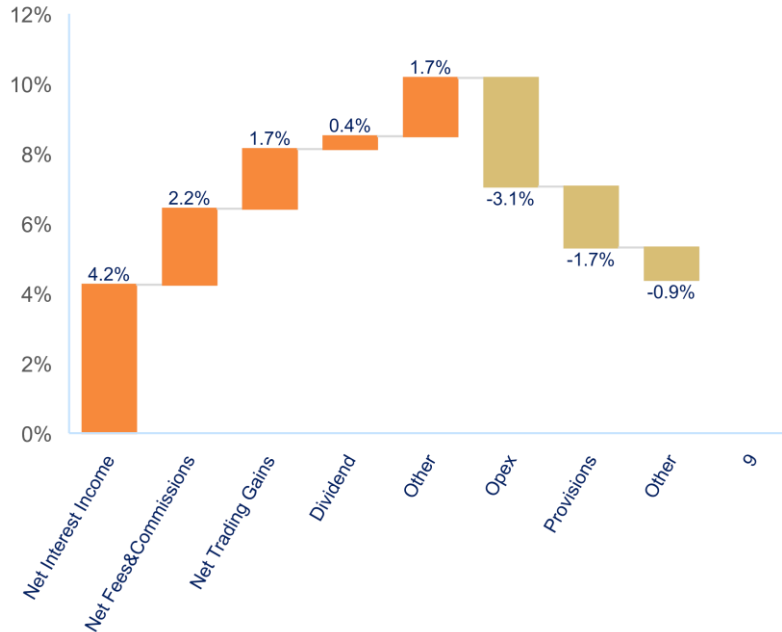
12M cumulative, %



Although net interest income being the main driver of ROA, profits from fees & commissions and from capital market and FX transactions significantly contributed to the profitability in 2023.

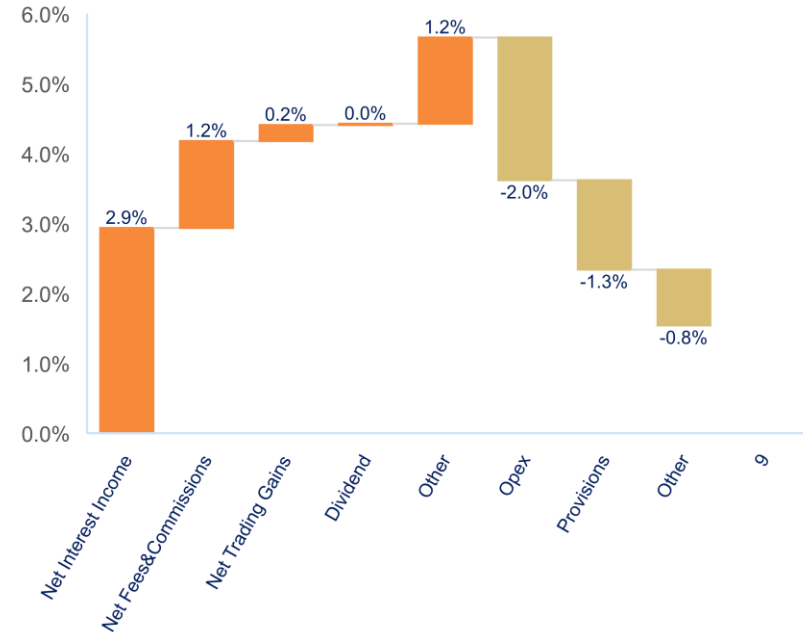
COMPONENTS ON RETURN ON ASSETS

Private deposit banks, %



COMPONENTS ON RETURN ON ASSETS

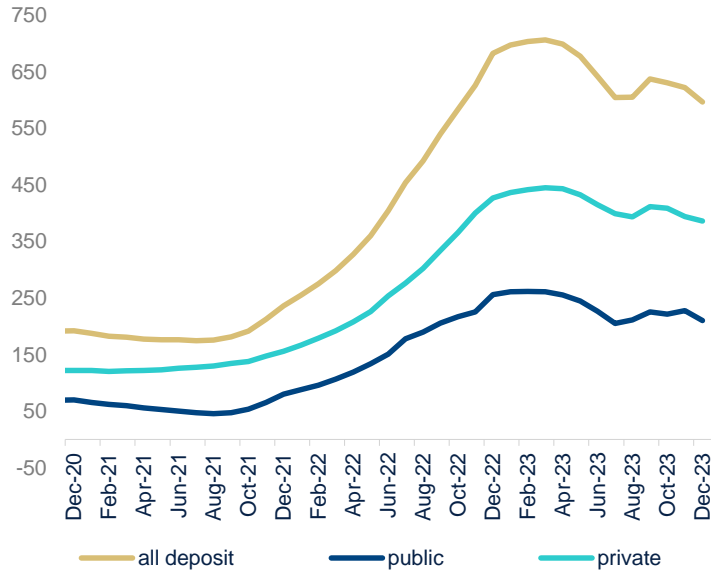
Public deposit banks, %



Interest income from loans and securities contributed positively to net interest margin in 2023.

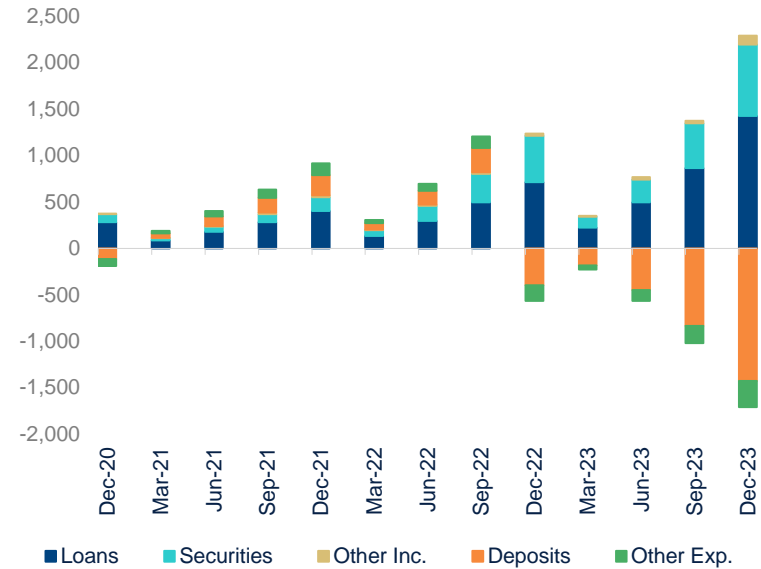
NET INTEREST INCOME

12M cumulative, bn TL



COMPONENTS OF NET INTEREST INCOME

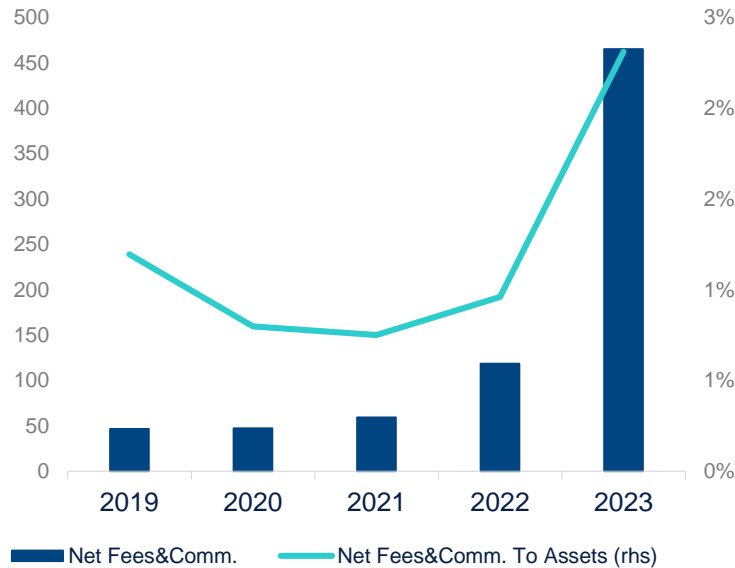
12M cumulative, bn TL



The ratio of net fees & commissions and banking services revenues to assets rose significantly in 2023.

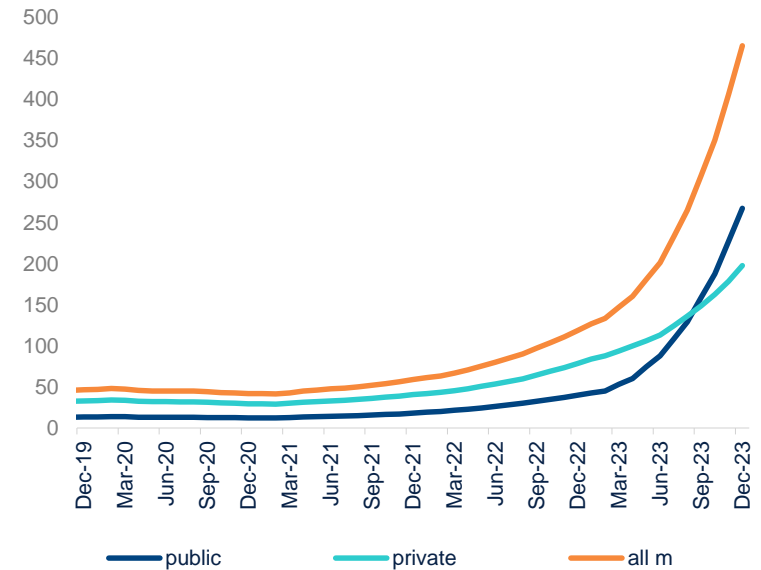
NET FEES & COMM & SERVICES INCOME

12M cumulative, bn TL, %



NET FEES & COMM & SERVICES INCOME

12M cumulative, bn TL



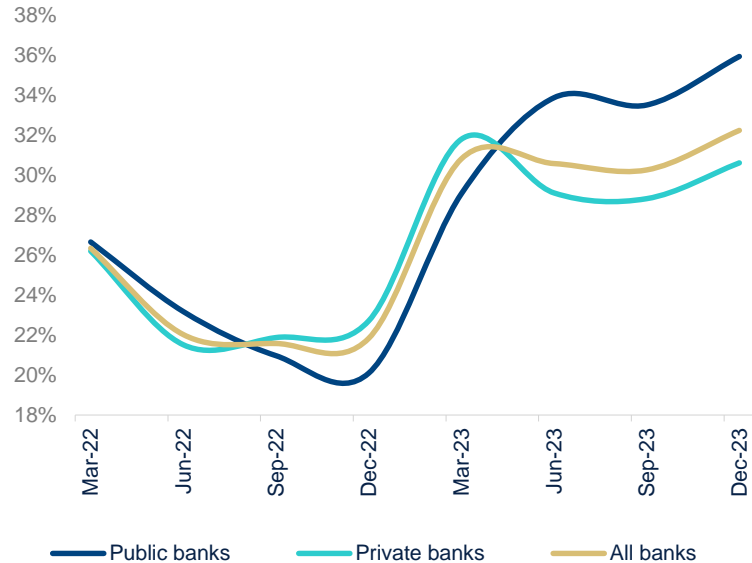
07

Turkish Banking Sector: Efficiency

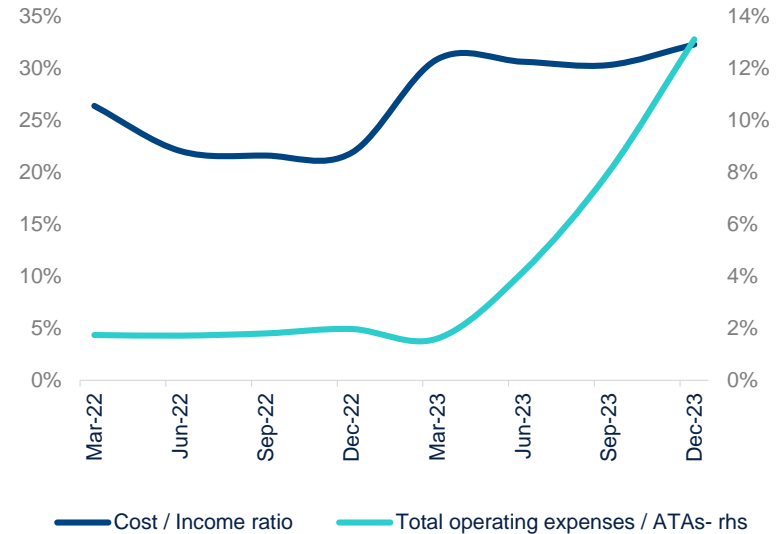
Cost to income ratio is higher in public banks due to their higher share of operational expenses.

COST TO INCOME RATIO

%



COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS



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