

Bank Outlook 2023: it has been a strong year for Turkish banks. Will the momentum continue?

Leading Turkish banks have delivered stellar earnings growth this year. With such a high comparative base, beating or matching these levels will be more difficult in 2023. We are also mindful of the growing degree of regulation of the sector in 2022, which may continue to increase further next year, restricting future earnings growth



Strong earnings growth for Turkish banks in 2022

While the year is not over yet, the country's top banks, and the Turkish banking sector overall, are set to achieve strong earnings growth in 2022. According to Banking Regulation and Supervision Agency (BDDK) data, during the first eight months of the year, the system-wide earnings growth was 420% year-on-year. We have observed a similar picture for the top Turkish banks as they have been reporting their third-quarter 2022 numbers. We expect that this cumulative earnings momentum will be sustained for the remainder of this year. Such earnings growth is powered by strong Turkish lira loan growth momentum (+58% year-to-end August), higher net interest margins (net interest income after provisions were up 230% YoY during the first

eight months of the year) and supplemented by healthy growth in fees and commissions (up 81% YoY during the first eight months of the year). In effect, the Turkish banking sector has benefited from the more contained funding costs relative to the loan rates and securities income (in particular, from the CPI linkers).

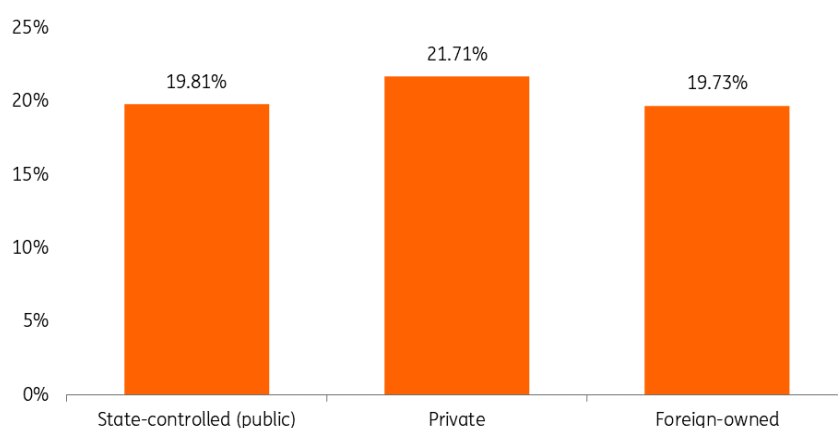
Asset quality holding up for now

The Turkish banking sector has maintained a modest level of non-performing loans of 2.38% as of end-August 2022, according to the BDDK calculations. This represents a reduction relative to 3.15% at YE21 and 4.08% at YE20. We note that these headline numbers are somewhat lower than for the leading private commercial banks, which reported higher non-performing loans (NPL) ratio levels on the order of 3.0-3.5% for 2Q/3Q 2022. We also note that the Turkish banking sector is fairly well-provisioned relative to these NPL levels (at 83.3% according to BDDK as of end-August 2022). Given the current relatively low headline NPL ratio, we fear that the risks are to the upside in the coming year. Among the individual sectors, at the system-wide level, construction, utilities (electricity, gas and water resources, as defined by the regulator), retail and hotels represent the highest NPL ratio levels. Among borrower categories, small and medium-sized enterprise (SME) NPL ratio levels are higher versus those of larger commercial borrowers and consumer loans.

Capital buffers still healthy for top banks

Despite the sharp devaluation of the Turkish lira year-to-date in 2022, the strong growth in earnings allowed the Turkish bank sector to preserve its capital adequacy ratio (CAR) at a high level, well above the regulatory requirements. We hasten to add that the headline numbers continue to benefit from the continued regulatory forbearance when calculating the ratio. Specifically, the Turkish sector CAR was 18.69% according to the BDDK as of the end of August 2022, up slightly from 18.39% at YE21 but down from 20.38% at the end of March. CAR levels are even higher among the country's private banks as can be seen from the chart below. On balance, we believe that top Turkish banks will have adequate capital buffers entering 2023.

Turkish Bank Sector CAR (March 2022)



Source: BDDK

FX maturities should not pose near-term risks, but foreign borrowing is shrinking

We note that the top Turkish banks we follow currently have sufficient FX liquidity buffers relative to the respective near and medium-term foreign currency maturities. We also have observed a lack of Turkish bank Eurobond issuance this year, in spite of some of the maturities and repayments taking place. As a result, the curves of the Turkish Eurobonds have been shrinking. We may observe the same phenomenon with the FX syndicated loans which may not be rolled over to the full extent during the next six to 12 months.

Earnings outlook less certain for 2023

Against such a strong current backdrop, matching or exceeding earnings next year will pose a greater challenge, in particular, if the earnings momentum becomes diluted by the regulatory measures. However, we would not expect an imminent earnings implosion either as some of the drivers underpinning the growth in 2022 will still be present next year, at least, at the beginning of it. We also hope that the government oversight of the sector will be balanced with the commercial interests of the banking sector.

Author

Olivia Grace

Editor

olivia.grace@ing.com**Julian Geib**

Junior Economist, Global Trade

julian.geib@ing.de**Zoltán Homolya**

Economic research trainee

zoltan.homolya@ing.com**Amrita Naik Nimbalkar**

Economist, Global Macro

amrita.naik.nimbalkar@ing.com**Mateusz Sutowicz**

Senior Economist, Poland

mateusz.sutowicz@ing.pl**Alissa Lefebvre**

Economist

alissa.lefebvre@ing.com**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Michiel Tukker

Senior UK & Eurozone Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Chief Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com