I. Overview

The downward trend in household indebtedness, which is quite low in Türkiye compared to peer countries, continues. The fact that the majority of household financial debts belong to wage earners with low income volatility reduces households-driven credit risk in the banking system. While the share of TL-denominated assets and non-deposit financial instruments in the households' financial assets continues to increase, the deposit liraization rate also tends to rise. The motivation of banks to reach their liraization target in deposits indicates that this trend may continue. Households diversify their savings by increasing their investments in non-deposit financial assets such as equity securities, mutual funds, and pension systems.

While the financial debt/financial asset ratio of the corporate sector has declined to the lowest level of the last 10 years, the positive trend in the liquidity, profitability and debt service indicators of firms continues. While the share of TL in the sector's liabilities has increased, firms are mainly borrowing in TL. The share of TL-denominated assets in the asset composition of firms is also increasing, and the improvement trend in the total and short-term FX positions are preserved.

While the downward trend in the number of firms using FX loans continues, the firms' capacity to meet their FX debt through export revenues is increasing. These factors, which reduce the FX risk of firms, also limit the exchange rate risk of the corporate sector. In this period, TL loan utilization among net exporting companies and SMEs is on the rise due to targeted loan policies. Corporate balance sheets, with their strong liquidity base, keep their resilience against possible shocks. While the profitability indicators of the firms listed on the BIST are above their historical averages, amid the decline in their financing costs, their repayment capacity has also strengthened significantly.

As a result of the targeted loan policy implemented to support potential growth and the current account balance at sustainable levels, the loan composition has changed as intended. The share of targeted loans such as SME, trade, agriculture, export and investment loans within TRY commercial loans rises further. This contributes to the increase in the share of sustainable components in the growth composition and decline in the structural current account deficit. While it is of great importance that loans feed into economic activity in a way to support investment, exports and potential growth, the effects of the measures taken are closely monitored. Following the inclusion of general-purpose loans in the securities maintenance regulation, the growth in general-purpose loans has started to slow down.

The banking sector's asset quality indicators are improving further. Owing to the flat course of the NPL balance coupled with the TRY loan growth, the NPL ratio is declining further, which is apparent across all subcategories of loans and sectors. In addition to the NPL ratio, the ratio of loans under close monitoring (Stage 2) and restructured loans also declined in the current Report period. A significant portion of Stage 2 loans consists of loans that are not in default. Having increased during the pandemic due to the prudence of banks, loan provision ratios are still on the rise, limiting the impact of asset quality risks on profitability and capital adequacy ratios.

The banking sector has strong FX liquidity buffers. While the share of external debt in the funding composition of banks has declined to historically low levels, the share of deposits in funding continues to increase. In addition to the deposit-dominated funding structure, the increase in the share of TL in the balance sheets supports the liquidity outlook of the sector. As a matter of fact, the positive outlook in short-term liquidity indicators such as the liquidity coverage ratio, and the loan/deposit ratio, which is an indicator of stable funding, is preserved.

Banks have resilient balance sheet structures. While the share of fixed-rate loans in banks' balance sheets decreased, the appetite towards long-term fixed-rate securities continued. On the other hand, banks' TL asset-liability maturity difference has not shown a significant change compared to the previous reporting period. With the strengthening of depositors' tendency towards TL deposits, the decrease in banks' on-balance sheet short positions continues. Banks keep their FX positions well below the legal ratios.

Banking sector profitability continues to support capital. Throughout 2022, the returns of CPI-indexed securities and moderate funding costs supported the profitability of the sector through the net interest margin channel. The net interest margin has flattened due to the rise in TL deposit rates in the recent period. However, banks have strengthened their capital positions and maintained their capital ratios above legal thresholds. The excess capital held above the legal ratios and free reserves ensure that the banking sector is in a strong position against possible risks.