I. Overview

Following monetary tightening as well as the supportive measures of selective credit and quantitative tightening, loan growth has begun to be rebalanced. In response to the simplification steps taken in macroprudential policies, commercial loans have shown a steady growth, and the commercial loan composition has been improving on the back of the increase in the share of export and investment loans. The retail loan growth has markedly slowed down.

The financial debt ratio of the corporate sector continues to decline, while the positive outlook for financial indicators of firms is maintained. The financial leverage ratio of corporate sector firms has improved significantly thanks to the decline in financial liabilities in proportion to GDP. The publicly traded companies' profitability and debt payment performances are strong and above historical averages, which limits the risks stemming from the rise in financing costs.

Net FX short position of corporate sector continues to fall due to the decrease in their FX cash loans. While FX indebtedness continues to fall, the number of firms with FX debt is also declining. Firms have strong balance sheets that can cover their short-term FX liabilities thanks to their abundant FX liquidity. Despite tight global financial conditions, companies' financing from abroad has been increasing and the external debt rollover ratio remains robust.

Household indebtedness is quite low in Türkiye compared to peer countries. Indicators such as per capita debt and debt-to-income ratio continue to decrease. Weakening retail loan growth stemming from rising interest rates and the tightening in macroprudential regulations has contributed to the sustainability of lower level of household indebtedness.

The resilient outlook of banking sector's asset quality has been preserved. The NPL ratio continued to fall until late June and flattened due to the slowdown in credit growth after the monetary policy tightening process. The NPL ratio remained below historical averages across all credit segments. The closely-monitored (Stage 2) loan ratio of companies continued to improve, while that of retail loans increased slightly. A significant portion of Stage 2 loans are not due. Out of prudence, banks have sustained their high provisioning policy.

After the simplifications steps taken in macroprudential policies, the decline in the KKM balance has accelerated, while the increased TL liquidity in the system has been sterilized through required reserves. Despite the tightening in global financial conditions and heightened geopolitical risks, the significant improvement in the country risk premium is having a positive impact on banks' external funding opportunities. The syndicated loan renewals undertaken during the last quarter of this year were at high levels, whilst Eurobond issuances are also reviving.

The downward trend in the banking sector's profitability has been halted thanks to the rebound in net interest margin during the third quarter of this year. In the aftermath of simplification steps taken in macroprudential regulations, net interest margin has improved. Although the asset quality-related risks against profitability performance remained present, fees and commissions income as well as income from capital markets and foreign exchange transactions has supported profitability.

Capital ratios remain above regulatory thresholds. The banking sector's strong capital position is capable of absorbing unexpected losses. In addition to capital buffers, free provisions held by banks ensure that banks are better prepared against potential risks. Moreover, prudently determined credit risk weights stand as an additional buffer against unexpected losses.

Banks have a strong balance sheet structure to manage interest rate and maturity risk. The sector's TL loan-deposit interest rate spread has shifted to the positive territory following the simplification in regulations. This development has contributed positively to banks' interest rate risk management. Although the FX net general position to capital ratio is within the legal limits, the number of banks carrying a long FX position has increased across the sector.