

Turkey Outlook report

Third quarter of 2024



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Index

The objective of Turkey quarterly report is to provide a comprehensive and summarized overview of the main indicators of the country's banking sector, as well as the macroeconomic situation at the end of each quarter.

1. International overview	4
2. Macroeconomic view	7
3. Banking sector	8
4. Glossary	9
5. Appendix	10

1. International overview

Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderating inflation supporting real income growth. Labour market pressures continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.

Macroeconomic outlook

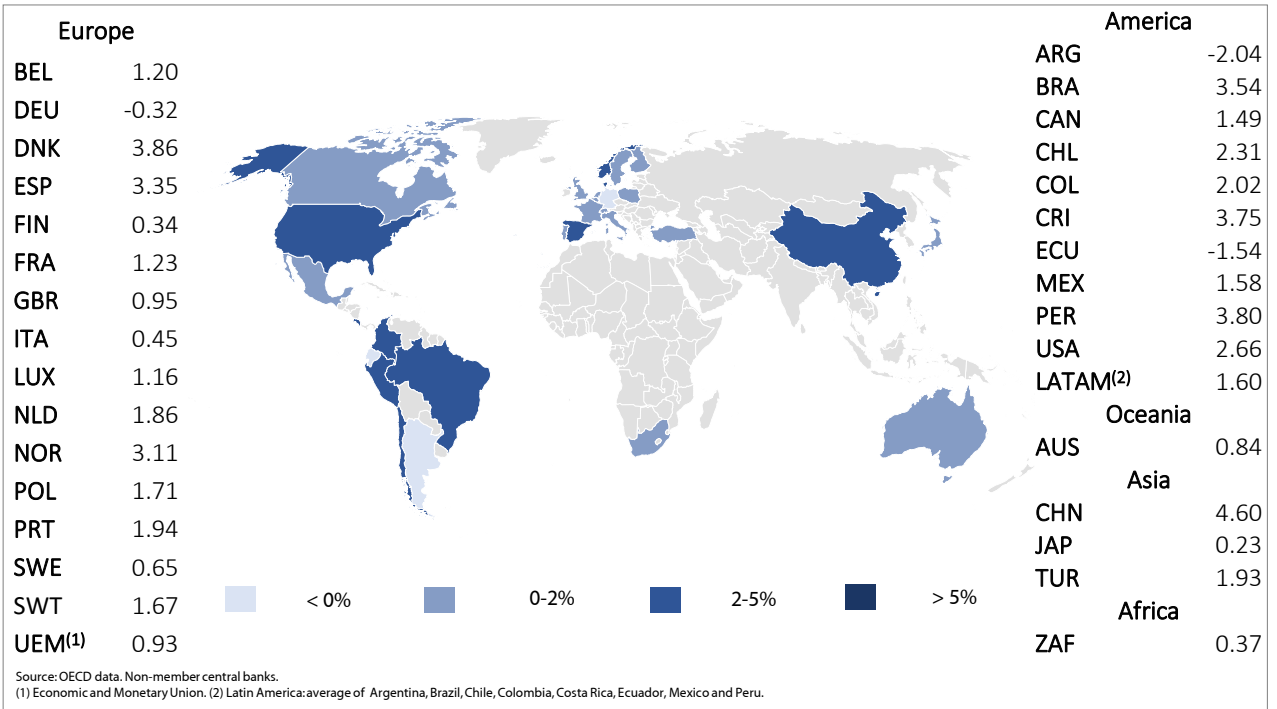
- ▶ In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to 3Q23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- ▶ In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- ▶ In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in 3Q23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to 3Q23.
- ▶ In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to 3Q23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to 3Q23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in 3Q23. Unemployment worsened significantly by 4.62 p.p. compared to 3Q23.
- ▶ According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August, but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- ▶ The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

Other indicators and key risks

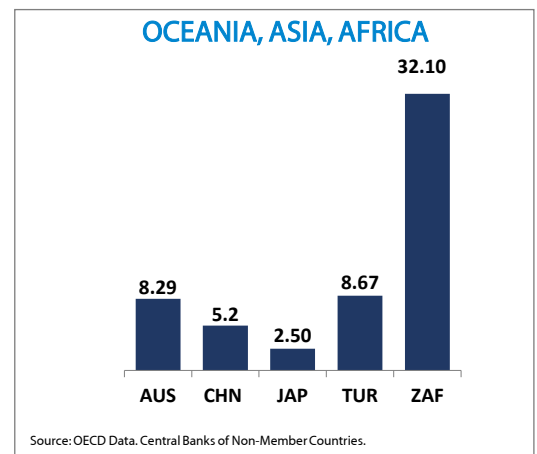
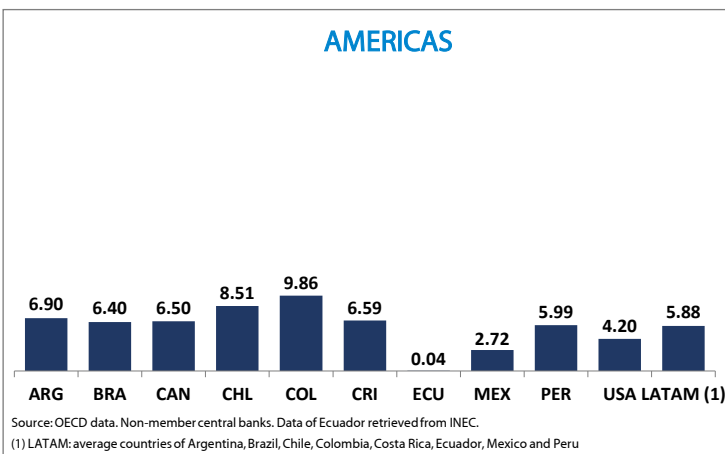
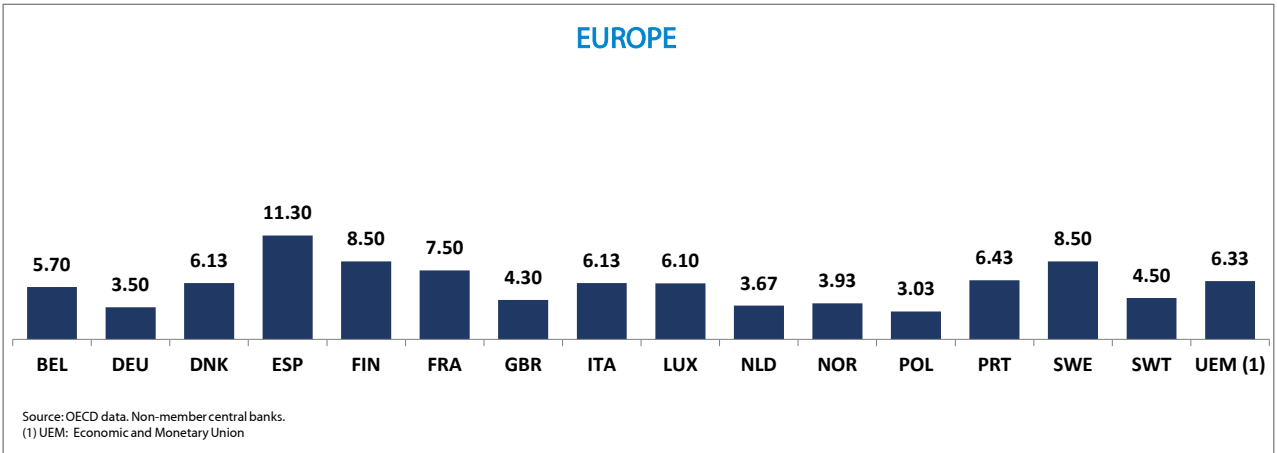
- ▶ The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- ▶ OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- ▶ The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

(1) The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

GDP (% , year-on-year growth)

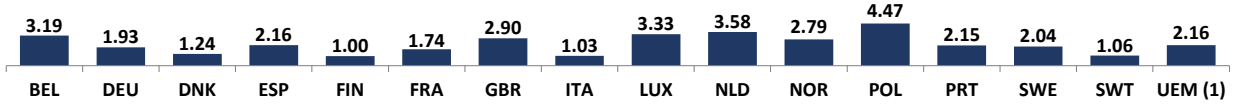


Unemployment rate (%)



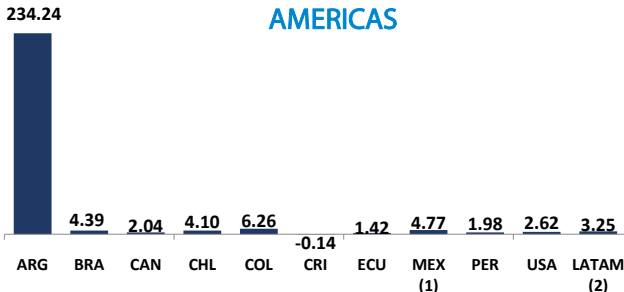
Inflation rate (%)

EUROPE



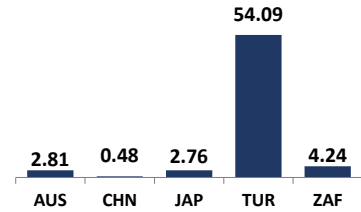
Source: OECD Data, Central Banks of Non-Member Countries.
(1) Monetary and Economic Union

AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.
(1) Data from 2Q24. 3Q24 data not available.
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries

Global Ratings and Exchange Rates

LONG-TERM RATES 3Q24

	MOODY'S	S&P	Fitch
EUROPE			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA-	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
AFRICA			
ZAF	Ba2	BB-	BB-
OCEANIA			
AUS	Aaa	AAA	AAA
ASIA			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
AMERICAS			
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q24 ▼ Decreased from 2Q24

Source: Investing

EXCHANGE RATES 3Q24 (\$¹)

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing, OECD projections, December 2024.

(1) The base currency used is the U.S. dollar against each local currency quoted

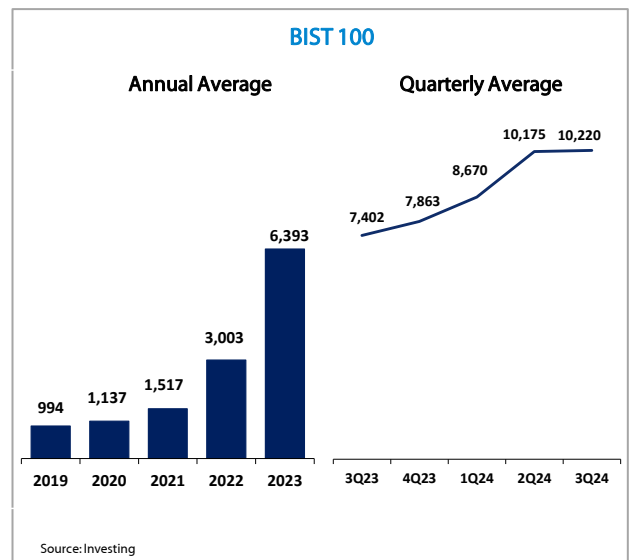
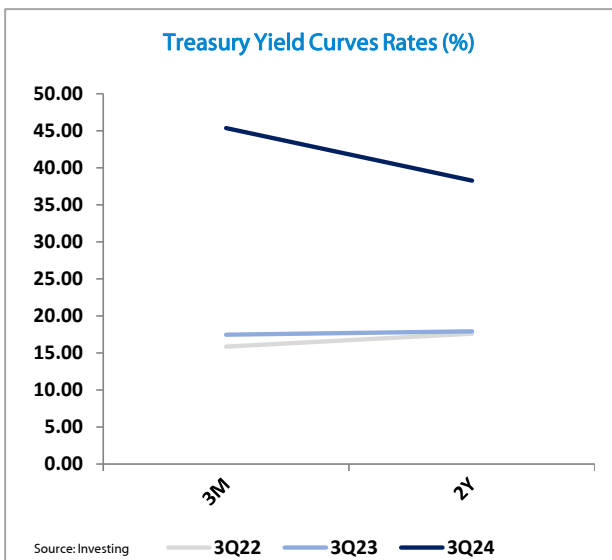
2. Macroeconomic view

In the third quarter of 2024, Turkey experienced an economic slowdown, with lower consumption, investment, and exports. GDP slowed compared to the previous quarter, while inflation decreased significantly. The labour market improved compared to 3Q23, though employment growth experienced a slight slowdown.

Main Macroeconomic Indicators (%)									
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	5.55	5.57	6.70	2.38	1.93	-0.45	-3.62	3.54	2.59
DOMESTIC DEMAND									
HOUSEHOLD CONSUMPTION	11.25	8.92	6.65	1.75	3.42	1.67	-7.83	3.58	1.29
PUBLIC CONSUMPTION	0.05	-1.23	1.45	-0.42	-1.14	-0.72	-1.19	2.41	1.09
CAPITAL FORMATION	13.55	9.00	8.38	1.67	-1.12	-2.79	-14.67	0.70	1.72
EXTERNAL DEMAND									
EXPORTS	0.28	0.09	4.47	1.50	0.39	-1.11	0.11	-0.12	2.05
IMPORTS	12.20	3.06	-2.84	-6.49	-9.07	-2.58	-21.27	-4.68	-0.25
INFLATION									
CPI	56.20	62.72	66.84	72.27	54.09	-18.18	-2.11	58.30	30.67
LABOUR MARKET									
UNEMPLOYMENT RATE	9.20	8.80	8.77	8.77	8.67	-0.10	-0.53	8.76	9.01
EMPLOYMENT ⁽¹⁾	3.00	1.73	3.38	3.30	3.29	-0.01	0.29	3.17	1.06

(1) The employment variable represents the year-on-year change in employment growth. Source: TÜİK
Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December 9th, 2024. The series for the other quarters have also been updated to the database as of December 9th, 2024, to gain consistency. Projections OECD December 2024.

- ▶ In 3Q24, Turkey's macroeconomic indicators reflected a slowdown in its growth. GDP slowed to 1.93%, mainly due to a decline in consumption and investment. External demand remains a challenge for Turkey's economy. Exports decreased slightly by 1.11 p.p., showing a slowdown, while imports dropped significantly by -9.07%. Projections for Turkey's main trading partners, such as the Eurozone and the U.S., have improved, suggesting a positive outlook for Turkish exports.
- ▶ Despite a decrease in CPI, inflationary pressures continue to be a significant concern. Geopolitical risks and fluctuations in commodity prices remain threats to the global disinflation process. However, restrictive monetary policies and the normalization of supply conditions are expected to help mitigate inflation.
- ▶ Although the unemployment rate remains stable, the slight slowdown in employment growth suggests that the labour market still faces challenges in generating enough job opportunities.
- ▶ Overall, Turkey's economic outlook is moderately optimistic, with growth driven by the services sector and supported by restrictive monetary policies and improving supply conditions.



3. Banking sector

During 3Q24, the Turkish banking sector experienced a decrease in the year-on-year growth rate of total loans and deposits, compared to 3Q23. Additionally, the cost to income ratio, GM/ATAs ratio and OE/ATAs ratio worsened on an annual basis. Solvency ratios also declined year-on-year. The interest rate remained steady at 50.00%.

BUSINESS	BANKING SECTOR CONTEXT 3Q24 (%)				3Q24	Var. p.p.2Q24	Var. p.p.3Q23
	3Q23	4Q23	1Q24	2Q24			
TOTAL LOANS⁽¹⁾	55.30	53.87	53.68	40.70	42.74	2.04	-12.56
TOTAL DEPOSITS⁽¹⁾	67.72	68.66	58.99	43.18	36.40	-6.78	-31.32
LTD RATIO	81.73	80.20	84.66	84.80	85.54	0.74	3.81
EFFICIENCY							
COST TO INCOME RATIO	37.58	38.72	46.66	49.34	49.56	0.22	11.98
GM/ATA	8.15	7.53	7.71	6.59	6.28	-0.31	-1.87
OE/ATA	3.06	2.92	3.60	3.25	3.11	-0.14	0.05
SOLVENCY							
TOTAL CAPITAL RATIO	18.32	18.91	16.95	16.99	18.18	1.19	-0.14
LEVERAGE RATIO	9.18	9.35	9.07	8.90	8.75	-0.15	-0.43
LCR	188.48	185.03	187.87	172.10	185.11	13.01	-3.37
BANK OF TURKEY INTEREST RATES							
INTEREST RATES	30.00	42.50	50.00	50.00	50.00	0.00	20.00

Source: Türkiye Bankalar Birliği

Note: (1) The values of total loans and total deposits are expressed as the interannual growth rate

- ▶ During 3Q24, the total loan growth rate stood at 42.74%, reflecting a quarterly increase of 2.04 p.p., but a year-on-year decline of 12.56 p.p. The growth rate of total deposits declined both quarterly (6.78 p.p.) and annually (31.32 p.p.), settling at 36.40%. The loan-to-deposit (LTD) ratio stood at 85.54% in 3Q24, increasing by 3.81 p.p. compared to the same quarter of the previous year.
- ▶ In terms of efficiency, the cost to income ratio reached 49.56% in 3Q24, showing a deterioration compared to both 2Q24 and 3Q23, with a quarterly increase of 0.22 p.p. and an annual rise of 11.98 p.p.
- ▶ The gross margin to average total assets (GM/ATA) ratio was 6.28% during the third quarter of 2024, representing a deterioration of 0.31 p.p. and 1.87 p.p. compared to 2Q24 and a 3Q23, respectively. In contrast, the OE/ATA ratio recorded 3.11% during the same period, showing an improvement of 0.14 p.p. quarter-on-quarter, but a slight deterioration of 0.05 p.p. year-on-year.
- ▶ In terms of solvency, the total capital ratio and the leverage ratio declined year-on-year by 0.14 p.p. and 0.43 p.p., respectively. Additionally, the leverage ratio worsened by 0.15 p.p. compared to the previous quarter. However, the liquidity coverage ratio (LCR) improved by 13.01 p.p. quarter-on-quarter but worsened by 3.37 p.p. compared to 3Q23.
- ▶ The Central Bank of Turkey maintained interest rates at 50.00% since March 2024, this represented an increase of 20.00 p.p. compared to 3Q23.

4. Glossary

- ▶ **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period of time.
- ▶ **COST TO INCOME:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio is.
- ▶ **EQUITY:** Total equity represents the value resulting from subtracting total assets from total liabilities.
- ▶ **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- ▶ **GM:** Gross Margin.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LCR (Liquidity Coverage Ratio):** this ratio measures a bank's liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- ▶ **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **TOTAL CAPITAL:** total regulatory capital divided by total risk-weighted assets
- ▶ **NPL RATIO:** The non-performing loans ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity.
- ▶ **OE:** Operating Expenses.
- ▶ **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- ▶ **OECD:** Organization for Economic Cooperation and Development.
- ▶ **p.p.:** percentage points.
- ▶ **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- ▶ **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.

5. Appendix

MACROECONOMIC OVERVIEW

- ▶ Organisation for Economic Co-operation and Development, (OECD):
<https://www.oecd.org/>

BANKING SECTOR

- ▶ Banking System
tbb.org

ACRONYMS

▶ DEU - Germany	▶ LUX - Luxembourg	▶ TUR - Turkey	▶ ECU - Ecuador	▶ ZAF - South Africa
▶ BEL - Belgium	▶ NLD - Netherlands	▶ ARG - Argentina	▶ MEX - Mexico	▶ UEM- European Monetary Union
▶ DIN - Denmark	▶ NOR - Norway	▶ BRA - Brazil	▶ PER - Peru	
▶ ESP - Spain	▶ POL - Poland	▶ CAN - Canada	▶ USA- United States	
▶ FIN - Finland	▶ PRT - Portugal	▶ CHL - Chile	▶ AUS - Australia	
▶ FRA - France	▶ GBR- United Kingdom	▶ COL - Colombia	▶ CHN - China	
▶ ITA - Italy	▶ SUE - Sweden	▶ CRI - Costa Rica	▶ JAP - Japan	

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