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The objective of Italy's 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.

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1. International overview

The global economy is projected to grow at a similar pace as in 2023 during 2024-2025, with a steady decline in inflation, but medium-term prospects for global growth and trade remain the lowest in decades, particularly for middle- and lower-income countries.

Macroeconomic outlook

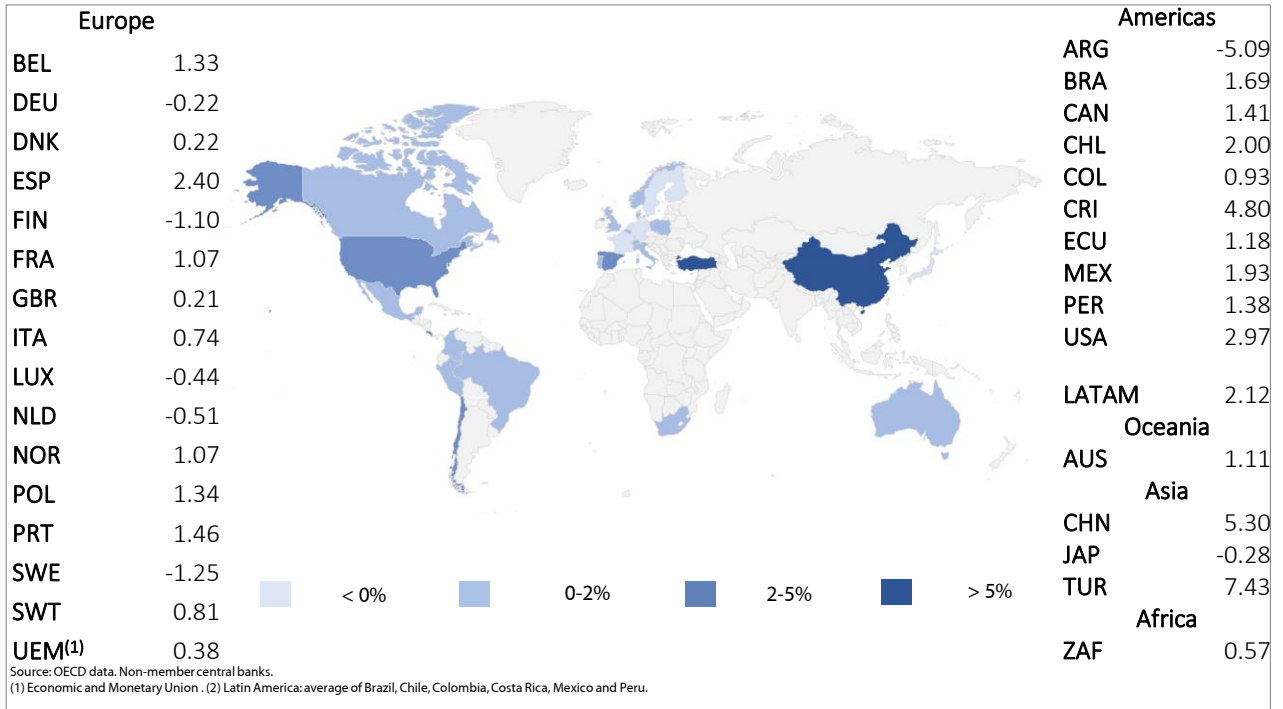
- ▶ The year-on-year growth of the eurozone was 0.38% in the first quarter of the year, an increase from the 0.07% of 4Q23, indicating moderate growth from previous quarters. GDP was negative in Germany, Finland, Luxembourg, the Netherlands, and Sweden. The average CPI dropped to 2.59%, continuing the decreasing trend. The region recorded an average unemployment rate of 6.50%, the same as the previous quarter.
- ▶ The U.S. and Canada slowed down YoY its GDP, with a decrease growth of 2.97% and 0.53% respectively (3.13% and 0.97% in 4Q23), while Latam⁽¹⁾ countries registered an increase in the rate of growth of 2.12%. Inflation in the U.S. continued by 3.24%, while the average of the Latam⁽¹⁾ countries was 3.49%, excluding Argentina, which had an inflation of 273.54%. Canada continued decreasing the inflation rate, experiencing a 2.85% growth during this quarter. In general, on the continent, the unemployment rates remained similar to the previous quarter, with the Latam average being 6.85%, the U.S. 3.80% and Canada 5.87%, but all of them showing an upwards trend.
- ▶ China recorded a growth of 5.30% this quarter in the Asian region, higher than the previous quarter (5.20% in 4Q23), while Japan recorded a negative rate compared to the previous periods of 2023, standing at -0.28%. China's inflation was negative for the third consecutive period. Meanwhile, Turkey grew at 7.43% during 1Q24, which meant 4.46 p.p. above the growth rate of 1Q23. However, inflation continued high and growing, with a 66.84% during 1Q24.
- ▶ For its part, Australia recorded a year-on-year growth of 1.11% (1.55% in 4Q23), continuing with its economic slowdown, with a stable unemployment rate around 3.89% and a declining inflation, which closed the first quarter of the year at 3.62%, after reducing it by 0.43 p.p. compared to the previous quarter (4.05% in 4Q23).
- ▶ South Africa, on the other hand, recorded a growth of 0.57% (compared to 1.26% of the previous quarter), with inflation that easing to 5.42% (5.63% in 4Q23) and a high level of unemployment, which reached 32.90%.
- ▶ The IMF forecasts a global growth of 3.2% for 2024 and 2025, matching the pace set in 2023. It is anticipated that global inflation will steadily decline, falling from 6.8% in 2023 to 5.9% in 2024, and then to 4.5% in 2025. Advanced economies are likely to achieve their inflation targets sooner than emerging markets and developing economies.
- ▶ According to the World Bank, economic growth in the Latin American region is forecasted to slow to 1.8% in 2024 but is expected to rise to 2.7% in 2025. Despite this increase, the region will still have the lowest growth rates compared to other regions globally. On a positive note, the World Bank projects improvements in reducing inflation, with the average regional inflation estimated to be lower than that of OECD countries.

Other indicators and main risks

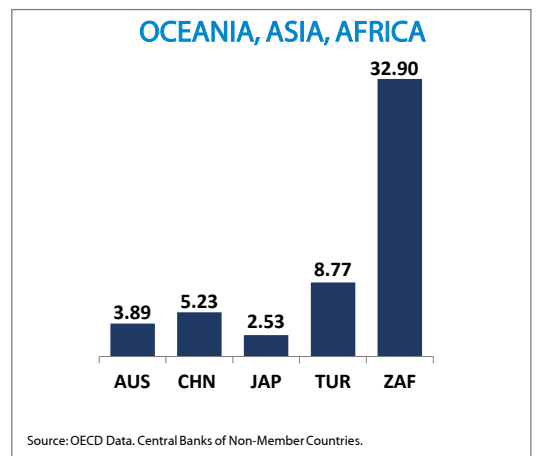
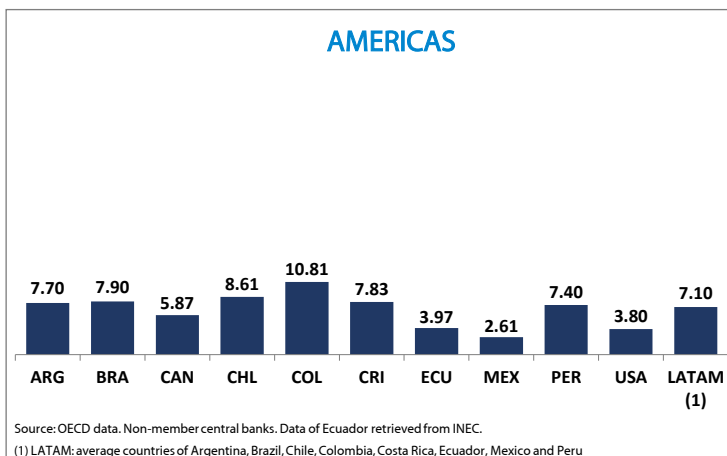
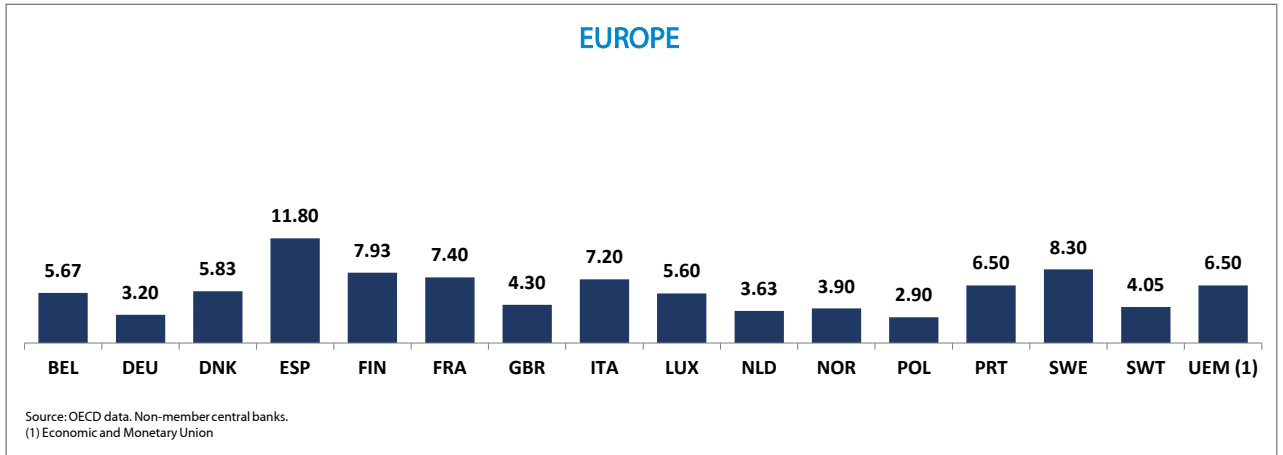
- ▶ After a significant decline at the end of 2023, the OECD showed that long-term government bond yields have increased since early 2024, reflecting market expectations of higher interest rates and risk premiums. Quantitative tightening programs are also contributing to this increase. However, corporate bond spreads have moderated despite the rise in corporate bankruptcies. Demand for tech-related stocks and resilient risk appetite have driven up stock prices, with China being a notable exception.
- ▶ The dollar has depreciated across the board during the first quarter of 2024, among other currencies against the euro, the pound, the Brazilian real and the yuan. However, the depreciation of the Argentine peso against the dollar is particularly notable, although by 2024 the Argentine peso is expected to appreciate by 58% compared to the first quarter of 2024.
- ▶ Despite the resilient global economic performance since October 2023, according to the IMF several risks remain, including potential commodity price spikes due to geopolitical conflicts, persistent inflation, financial stress, a faltering recovery in China, disruptive fiscal adjustments, debt distress, eroding trust in government, and intensifying geoeconomic fragmentation, all of which could negatively impact global growth. However, according to the World Bank, faster inflation moderation and stronger U.S. growth could offer some upside.

(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)

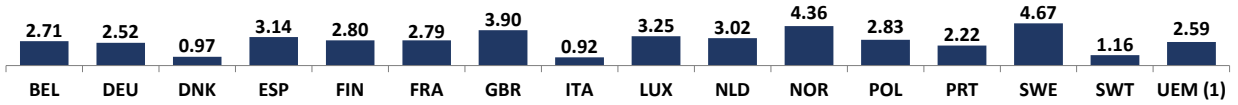


Unemployment rate (%)



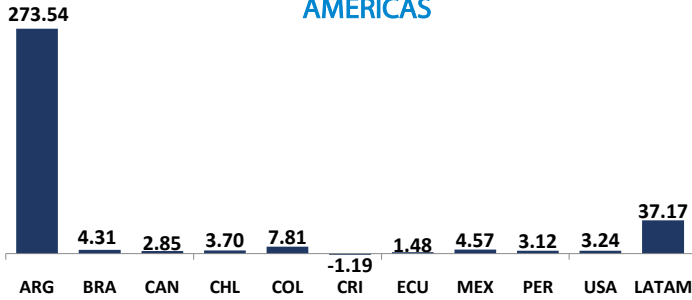
Inflation rate (%)

EUROPE



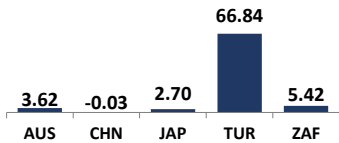
Source: OECD Data, Central Banks of Non-Member Countries.
(1) Monetary and Economic Union

AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC. (1)
(1) LATAM: average of Argentina, 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 1Q24

	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	B3	B	B
AMERICAS			
ARG	Ca	CCC▲	C▲
BRA	Ba2	BB	BB-
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	B1	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB	BBB
USA	Aaa	AA+	AAA

▲ Increased from 4Q23

▼ Decreased from 4Q23

Source: Investing

EXCHANGE RATES 1Q24 (\$1)

EUROPE	1Q23	2Q23	3Q23	4Q23	1Q24	2024
EUR	0.93	0.92	0.92	0.93	0.92	0.94
CHF	1.08	1.11	1.13	1.13	1.14	0.90
DKK	6.91	6.85	6.85	6.93	6.87	6.98
NOK	10.27	10.81	10.48	10.81	10.51	11.11
SEK	9.58	10.63	10.81	10.65	10.39	10.91
GBP	0.82	0.80	0.79	0.81	0.79	0.82
PLN	4.36	4.15	4.14	4.10	3.99	4.14
AMERICAS						
ARG	197.70	239.22	334.66	443.71	833.91	349.98
BRL	5.10	4.94	4.89	4.96	4.95	4.92
CLP	805.80	805.20	839.20	895.36	945.96	917.10
COP	4,725.30	4,438.83	4,043.78	4,064.32	3,913.15	4,016.91
PER	3.79	3.66	3.66	3.77	3.74	3.80
MXN	18.38	17.59	17.06	17.54	16.97	17.48
AFRICA						
ZAR	17.76	18.94	18.64	18.73	18.87	18.75
OCEANIA						
AUS	1.47	1.51	1.53	1.54	1.52	1.57
ASIA						
RMB	6.85	7.09	7.24	7.22	7.19	7.29
TRY	18.94	22.09	26.81	28.55	30.90	28.51

Source: Investing, OECD projections, May 2024.

(1) The base currency used is the US dollar against each local currency quoted

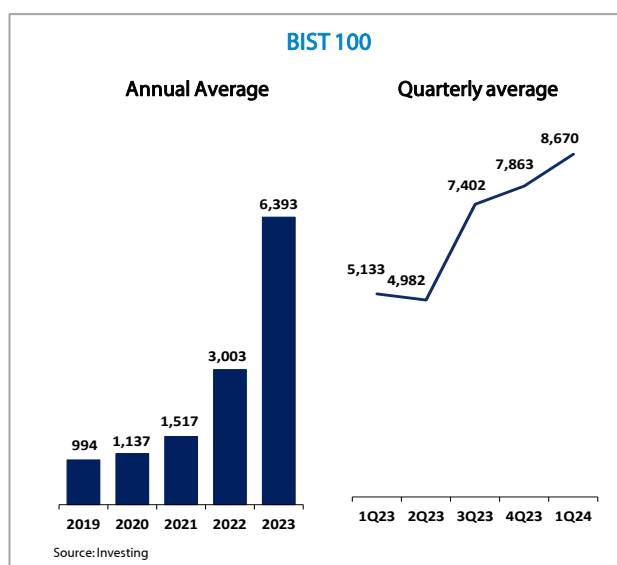
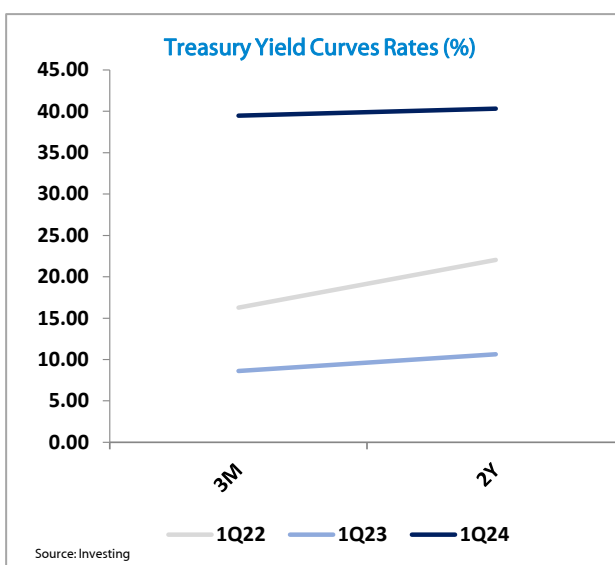
2. Macroeconomic View

As of the first quarter of 2024, Turkey's macroeconomic landscape showcases robust growth amid ongoing challenges. GDP has accelerated significantly, while inflation remains alarmingly high and continues to rise, and the labor market exhibits modest improvements.

Main Macroeconomic Indicators (%)									
ACTIVITY	1Q23	2Q23	3Q23	4Q23	1Q24	Var. p.p.4Q23	Var. p.p.1Q23	2024	2025
GDP	2.97	5.20	4.95	4.75	7.43	2.68	4.46	3.38	3.25
DOMESTIC DEMAND									
HOUSEHOLD CONSUMPTION	15.61	16.75	10.32	8.61	n.a.	n.a.	n.a.	3.89	1.74
PUBLIC CONSUMPTION	0.28	0.33	3.25	2.30	4.10	1.80	3.82	1.89	2.02
CAPITAL FORMATION	3.73	7.21	10.70	9.80	10.11	0.31	6.38	4.76	4.11
EXTERNAL DEMAND									
EXPORTS	11.31	6.28	4.96	3.24	3.85	0.61	-7.46	2.35	3.74
IMPORTS	6.13	2.82	-1.36	-2.37	1.96	4.33	-4.17	1.10	1.42
INFLATION									
CPI	54.34	40.43	56.20	62.72	66.84	4.12	12.50	55.45	28.95
LABOUR MARKET									
UNEMPLOYMENT RATE	9.87	9.67	9.23	8.80	8.77	-0.03	-1.10	9.32	10.04
EMPLOYMENT ⁽¹⁾	4.44	2.78	2.92	1.86	3.33	1.47	-1.11	1.33	0.80

(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 June 3rd, 2024. The series for the other quarters have also been updated to the database as of June 3rd, 2024, to gain consistency. Projections OECD May 2024.

- ▶ As of the first quarter of 2024, Turkey's macroeconomic landscape showcases significant growth amid complex dynamics. GDP growth accelerated to 7.43%, up from 4.75% in the previous quarter. This robust expansion is driven by a substantial rise in capital formation to 10.11% and a stable increase in public consumption at 4.10%.
- ▶ External demand indicators present a mixed performance. Export growth moderated to 3.85%, while imports rebounded to a positive 1.96%, suggesting a more balanced trade environment but highlighting vulnerabilities in global demand for Turkish goods.
- ▶ Inflation remains a critical concern, with the CPI surging to 66.84%, up from 62.72% in 4Q23, posing risks to economic stability and purchasing power.
- ▶ In the labor market, the unemployment rate improved slightly to 8.77%, and employment growth rebounded to 3.33%. This indicates a strengthening job market driven by increased economic activity.



3. Banking sector

During the 1Q24, the Turkish Banking sector showed an increase in total loans year-on-year growth rate, while total deposits growth rate decreased in the same comparison. In terms of efficiency the cost to income ratio improved annually. CET 1 and leverage ratios decreased quarterly and annually. The interest rate increased to 50.00%.

BANKING SECTOR CONTEXT 1Q24 (%)

BUSINESS	1Q23	2Q23	3Q23	4Q23	1Q24	Var p.p. 4Q23	Var p.p. 1Q23
TOTAL LOANS ⁽¹⁾	51.23	57.13	55.30	53.87	53.68	-0.19	2.45
TOTAL DEPOSITS ⁽¹⁾	67.61	74.72	67.72	68.66	58.99	-9.67	-8.62
LTD RATIO	87.59	86.29	81.73	80.20	84.66	4.46	-2.93
EFFICIENCY							
COST TO INCOME RATIO	48.49	40.76	37.58	38.72	46.66	7.94	-1.83
GM/ATA	9.59	8.38	8.15	7.53	7.71	0.18	-1.88
OE/ATA	4.65	3.41	3.06	2.92	3.60	0.68	-1.05
SOLVENCY							
CET 1	17.65	17.82	18.32	18.91	16.95	-1.96	-0.70
LEVERAGE RATIO	10.36	9.04	9.18	9.35	9.07	-0.28	-1.29
LCR	179.29	179.29	188.48	178.54	185.75	7.21	6.46
BANK OF TURKEY INTEREST RATES							
INTEREST RATES	8.50	15.00	30.00	42.50	50.00	7.50	41.50

Source: Türkiye Bankalar Birliği

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

- ▶ During 1Q24, total loans growth rate was 53.68%, which means a quarterly decrease of 0.20 p.p. and a y-o-y increase of 2.44 p.p. The growth rate of total deposits declined both quarterly and annually, standing at 58.99%. The LTD ratio was 84.66% in 1Q24.
- ▶ In terms of efficiency, the cost to income ratio reached 46.66% in 1Q24. This implies a slight improvement in comparison with 1Q23 as it represents a variation of 1.83 p.p. and a decrease of 7.94 p.p. compared to 4Q23.
- ▶ The GM/ATA ratio was 7.71% during the first quarter of 2024, it improved 0.18 p.p. compared to the previous quarter but worsened by 1.88 p.p. compared to 1Q23. By contrast operating expenses/average total assets ratio recorded 3.6% during the first quarter of the year, representing a worsening of 0.68 p.p. compare to the previous quarter, and an improvement of 1.05 p.p. if we compare it with the 1Q23.
- ▶ In terms of solvency, the CET1 ratio and the leverage ratio decreased when compared to the same quarter of the previous year, by 0.70 p.p. and 1.29 p.p., respectively. Moreover, both also worsened compared to the previous quarter. On the other hand, the LCR increased by 7.21 p.p. compared to the previous quarter and 6.46 p.p. compared to 1Q23.
- ▶ The Central Bank of Turkey raised interest rates to 50.00%, which represents an increase of 41.5 p.p. compared to 1Q23.

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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