

Macro: No further interest rate hike expected from the Central Bank

Although the deterioration in inflation expectations came to a halt in April following the higher-than-expected rate hike in March, the levels in all maturities (2024: 43.2%, 2025: 26.3%) remain above the CBRT's inflation path (2024: 36%, 2025: 14%, 2026: 9%). Despite this outlook, participants do not expect a further rate hike from the CBRT. However, the increase in the 12-month ahead policy rate expectation indicates that the CBRT is expected to move on a tighter path compared to last month.

The policy rates implied by the OIS curve for May and June is 53.5%-54.0%, which are above the expectations in the Survey. However, the flexibility in operational framework achieved by widening the interest rate corridor to 300 bps in the last MPC decision may allow for a tightening close to OIS pricing without any additional rate hike.

The details of the Survey is as follows:

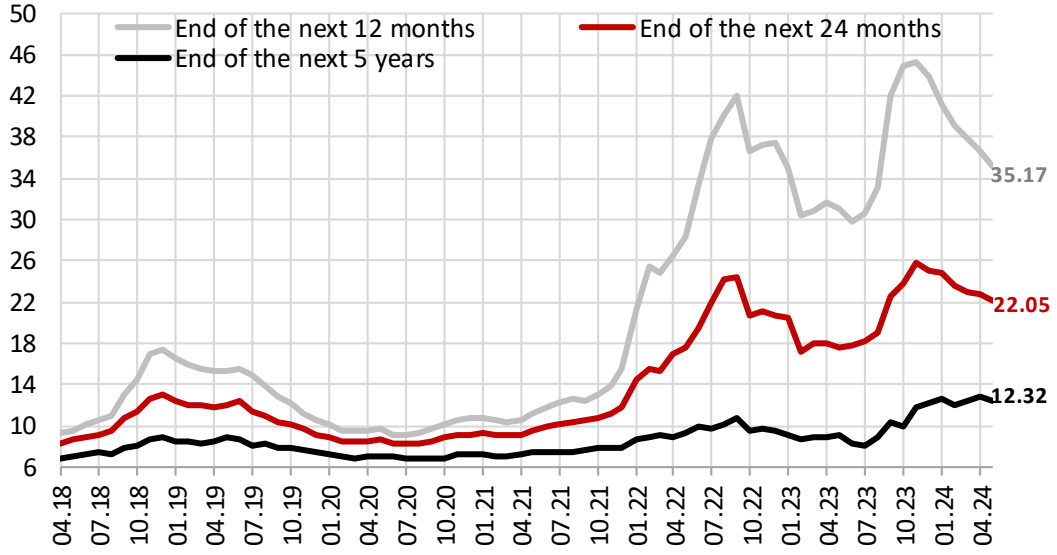
- **Exchange Rate (\$/TL):** The limited appreciation of the TRY in nominal terms at the beginning of April seems to have led the year-end exchange rate expectation to decline from 40.5 to 40.0. This implies that as of today (≈ 32.6), the exchange rate is expected to increase by around 23% until the year-end. Respondents expect a more valuable TRY compared to the pricing (43.5) in the futures. Nevertheless, current exchange rate expectations are still above the levels consistent with the CBRT's 36% inflation forecast ($\approx 36-36.5\%$).
- **Inflation:** Despite the fact that March inflation was 0.27 points lower than the expectation in March survey (3.43%), the CBRT's higher-than-expected interest rate hike and the decline of around 1% in the year-end exchange rate expectation, the year-end inflation expectation for 2024 remained unchanged at 44.2%. Rising oil prices due to recent geopolitical developments may have played a role in keeping the expectation unchanged.

The 12-month-ahead inflation expectation decreased from 36.7% to 35.2%, while the 2025 year-end inflation expectation remained unchanged at 26.3%. The 5-year-ahead annual inflation expectation, on the other hand, fell by 0.5 points to 12.3%, the level of the February survey (Chart 1). Therefore, inflation expectations continue to remain above the forecast path (2024: 36%, 2025: 14%, 2026: 9%) that the CBRT announced in its Inflation Report.

- **Policy Rate:** After the CBRT's tightening step in March, which was beyond the market expectations ([Macro: CBRT seems determined and target-oriented, policy rate 50.0%](#)), there seems to be full consensus among the respondents again on the short-term course of the policy rate, as in February. Survey participants expect the policy rate to remain unchanged at 50% for the next 3 months. The increase in the 12-month ahead policy rate expectation of the survey participants from 36.96% to 38.18% indicates that CBRT is expected to move on a tighter path compared to last month.

On the other hand, the policy rates implied by the OIS curve for May and June is 53.5%-54.0%, which are above the values in the expectations survey. However, the flexibility in operational framework achieved by widening the interest rate corridor to 300 bps in the last MPC decision may allow for a tightening close to OIS pricing without any additional rate hike. Finally, when the policy rate expectation is evaluated together with the inflation expectation, the positive *ex-post* real interest rate expectation for 12-months ahead has strengthened compared to the previous survey period (38.2 vs. 35.2).

Chart 1. Inflation Expectations (%)



Source: CBRT

- Growth:** The growth expectation for 2024 was 3.3%, unchanged from last month's survey, while the expectation for 2025 fell by 0.1 percentage points to 3.7%. As we emphasised in our March macro note ([Macro: Expectations for further tightening against deteriorating CPI outlook](#)), the growth expectation for 2024, which is lower than the 4% MTP growth projection led by the expansionary fiscal stance, continues to hover above the growth (2.0%) consistent with the CBRT's output gap projection.
- Current Account Balance:** Current account deficit expectations for 2024 decreased from \$33.3 billion to \$32.1 billion and for 2025 from \$31.8 billion to \$30.7 billion. For 2024, when we analyse the exchange rate and growth expectations together, we evaluate that the current account deficit expectation is still too high in terms of internal consistency. As of February, the 12-month cumulative current account deficit has already fallen below this expectation with \$ 31.8 billion, while the trend of the current account balance in the first quarter implies a deficit of \$16.8 billion for 2024. In this regard, we think that the current account deficit in 2024 will be much lower than the market expectations ([Macro: Partial deterioration in current account balance due to foreign trade](#)).

Table 1. Results of the Survey of Market Participants

	Apr.24	Mar.24	Feb.24
CPI (Monthly Inflation, %)			
Current month	3.25	3.43	3.80
Next month	3.00	3.42	3.17
2-month ahead	2.54	2.82	3.28
CPI (Annual Inflation, %)			
End of current year	44.16	44.19	42.96
12-month ahead	35.17	36.70	37.78
End of next year	26.29	26.29	25.20
24-month ahead	22.05	22.67	23.05
5-year ahead	12.32	12.84	12.33
Policy Rate (%)			
Current month	50.00	45.00	45.00
3-month ahead	50.00	46.85	45.00
12-month ahead	38.18	36.96	36.62
24-month ahead	24.98	24.43	23.89
Exchange Rate (\$/TL)			
Current month	32.92	32.63	31.16
End of current year	40.01	40.53	40.02
12-month ahead	42.47	42.79	41.15
Current Account Balance (Million \$)			
Current year	-32,113	-33,287	-34,606
Next year	-30,658	-31,842	-32,907
Growth (%)			
Current year	3.29	3.32	3.28
Next year	3.71	3.78	3.83

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