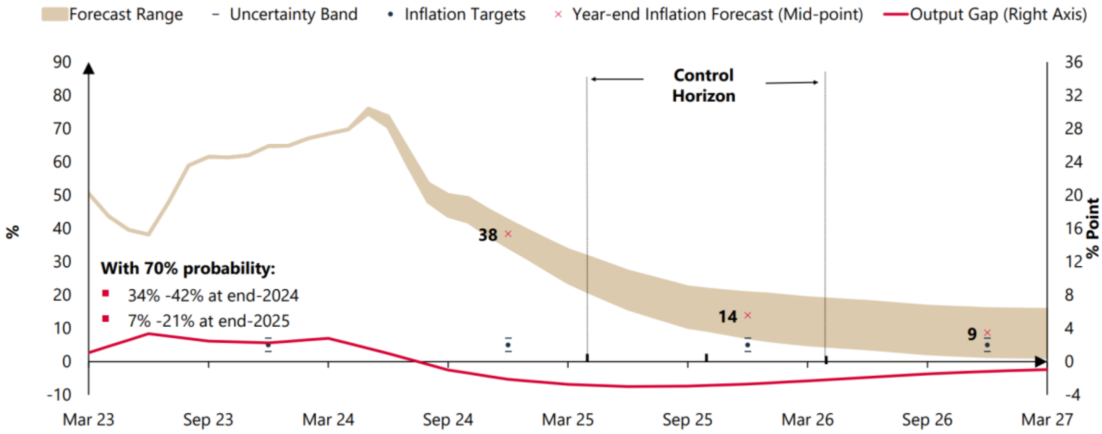
Macro: Disinflation path remained mostly intact

1. Forecasts

In the 2024-II Inflation Report, the CBRT updated its 2024 year-end inflation forecast from 36% to 38%, while keeping its 2025 and 2026 year-end forecasts unchanged at 14% and 9%, respectively (Chart 1). The uncertainty band around the year-end forecast was set as 34%-42% for 2024 and 7%-21% for 2025.

Chart 1. 2024-I Inflation and Output Gap Forecasts



Sources of forecast revision: According to the 2024 year-end inflation forecast, the main source of the revision is the realization of inflation in the February-April period, which was about 4 points above the forecast path, and the stronger-than-expected demand conditions. Changes in the assumptions for both TL-denominated import prices and administered prices contributed 0.2 points to the forecasts downwards, while the change in the food assumption contributed 0.2 points upwards.

Table 1. Revisions to Inflation Forecast for 2024

	2024
IR 2024-I Year End Forecast (%)	36
IR 2024-II Year End Forecast (%)	38
Forecast Revision as Compared to IR 2024-I Period (% Point)	**2**
Sources of Forecast Revisions (% Point)	
Underlying Trend of Inflation	+1.8
Import Prices in Turkish Lira	-0.2
Output Gap	+0.4
Food Prices	+0.2
Administered Prices	-0.2

2. Assumptions

External demand: The assumption for the export-weighted global growth index was slightly raised from 2.0% to 2.1% for 2024, while external demand conditions in 2025 were assumed to be in line with the previous Report and to improve compared to 2024. Expected growth rates are below the historical average.

Food prices: The assumption for food inflation in 2024 was revised up by 0.9 points to 35.5%, while the assumption for 2025 was kept unchanged at 15% (Table 2). The assumption for the food group still remains optimistic. In fact, in the first 4 months of the year, food prices followed a more unfavorable course than non-food items and increased cumulatively by 17.3% in seasonally adjusted terms, implying a higher annualized year-end inflation.

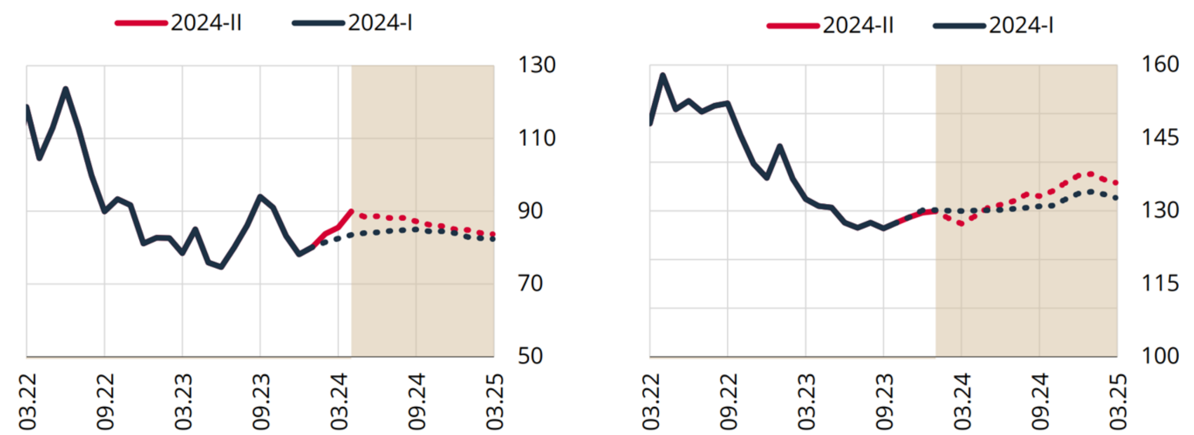
Table 2. Assumption Updates*

		IR 2024-I	IR 2024-II
Global Production Index* (Average Annual % Change)	2024	2.0	2.1
	2025	2.3	2.3
Oil Prices (USD, Annual Average)	2024	83.6	86.4
	2025	81.2	82.3
Import Prices (USD, Average Annual % Change)	2024	-0.1	0.8
	2025	0.7	2.6
Food Prices (Year-End % Change)	2024	34.6	35.5
	2025	15.0	15.0

* Based on the growth rates and export shares of 110 countries to which Türkiye exports.

Commodity prices: Oil prices have increased since the last reporting period due to geopolitical developments. The average oil price assumption for 2024 was raised from \$83.6 to \$86.4, while that for 2025 was revised from \$81.2 to \$82.3 (Table 2 and Chart 2).

Chart 2. Oil (left panel) and Import Price (right panel) Assumptions



Source: Bloomberg, CBRT
* Shaded areas Show the forecast horizon

Economic activity: Output gap forecasts were revised upwards (Chart 1).

- According to the output gap forecasts, demand conditions, which were expected to cool down in the first quarter, have been stronger than expected. In other words, it is confirmed that the economy continued to heat up in the first quarter.
- We estimate that the presented output gap path in the 2024-II Inflation Report implies a growth forecast of around 2.6% for 2024. In the previous report, we had calculated the implied growth rate for 2024 at around 2.0%.
- CBRT forecasts a quarter-on-quarter contraction (negative quarterly growth) both in Q2 and Q3. A sharp slowdown in Q2 may not be possible due to the strong momentum of the

economic activity in Q1. We assess that such a weakening is more likely in Q3 if the fiscal stance, including the wage policy, is tightened.

- When converting output gap to growth forecasts, the potential growth assumption is important. Table 3 presents the growth forecasts implied by the output gap under different quarterly potential growth assumptions:

Table 2. Growth Forecasts Implied by Output Gap Forecasts (%)

	Quarterly Potential Growth (%)		
	0.8	**1.0**	**1.2**
2024	1.6	2.1	2.6
2025	0.3	1.1	2.0
2026	4.4	5.3	6.1

Exchange rate: Although not explicitly shared in the inflation reports, the fact that while USD-denominated commodity price assumptions are revised upwards, contribution of TL-denominated import prices to inflation revised upwards indicates that the CBRT has revised the exchange rate assumption downwards.

3. Our Evaluations

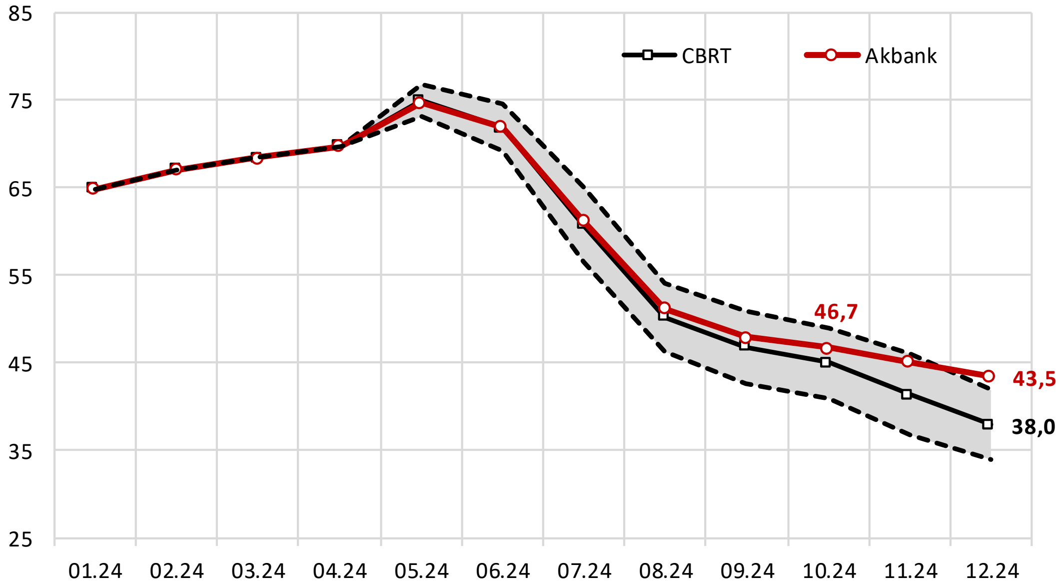
The forecasts are broadly in line with our forecasts for the first half of the year (Chart 3). Afterwards, the inflation trend improves rapidly in the second half.

- CBRT expects inflation to enter a downward trend after peaking at around 75% in May.
- Regarding the disinflation path, monthly average inflation is assumed to be 2.5% in July-September and slightly below 1.5% in October-December. In the previous report, the average forecast for Q3 was also 2.5%, while the average for Q4 was given as 1.5%. Therefore, in the new forecast path, there is a stronger slowdown in the underlying trend in the last quarter.
- The stronger-than-anticipated demand conditions and inflation trend since the last report necessitated a more valuable TL to achieve the current inflation target. We estimate that the USD/TL exchange rate implied by forecast accounting has been revised from 36 to around 34 for the year-end.
- We find it positive that the upper band remained unchanged at 42%. In this way CBRT gives the message that there is no compromise in the fight against inflation.

There are fiscal stance and administered prices-related risks on the likelihood that inflation will be within the forecast band at the end of the year.

- We consider the amount and timing of electricity and natural gas price adjustments for the second half of the year as the biggest uncertainty factor on the inflation path.
- Based on these risks, our year-end inflation forecast is 43.5%.

Chart 3. Annual Inflation Forecasts



Source: CBRT, Akbank.
Note: CBRT forecast path is derived from the Chart in the Inflation Report by ourselves.

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