

Macro: Improving exchange rate expectations did not improve inflation expectations

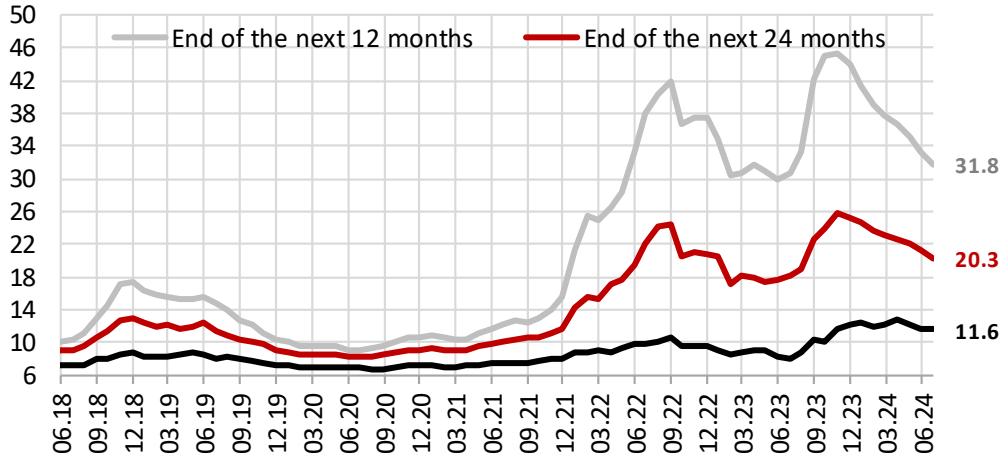
The recent stability has led to a downward adjustment in exchange rate expectations, which decreased to 37.8 from 38.8 for the year-end, and to 41.4 from 41.8 for the next-12 months. Expectations regarding the monetary policy stance and economic growth remained unchanged from last month. Yet, there was no significant change in inflation expectations. Year-end inflation expectations for 2024 and 2025 decreased by 0.1 points to 43.5% and 25.5%, respectively. The lack of a significant improvement in the underlying trend of inflation despite the recent flat course of the exchange rate appears to have had a negative impact on the participants' assessments of the underlying trend of inflation for the rest of the year. The fact that inflation expectations remain above the CBRT's inflation path (2024: 38%, 2025: 14%) and the upper band of the path indicates that monetary tightness should be maintained for the foreseeable future.

The details of the Survey is as follows:

- **Exchange Rate (\$/TL):** The downward revision of exchange rate expectations continues due to the stable course of the exchange rate since the end of March. Expectations for the exchange rate by the end of the year have fallen from 38.8 to 37.8, while expectations for the exchange rate in the next 12 months have fallen from 41.8 to 41.4. This puts the implied depreciation rate for the year ahead at around 17%. Last month, it was 21%. Since the last survey, year-end exchange rate expectations in the forward market have also declined to 39.5. Although market participants' exchange rate expectations are lower than the forward rates, they remain above the USD/TL exchange rate (approximately 34.0) implied by the CBRT's inflation forecast in the last Inflation Report.
- **Inflation:** Despite the improvement in exchange rate expectations, year-end inflation expectations for 2024 and 2025 declined only slightly (Table 1). The lack of a significant improvement in the underlying trend of inflation despite the recent flat course of the exchange rate seems to have had a negative impact on participants' assessment of the underlying trend in inflation for the rest of the year. On the other hand, 12-month-ahead and 5-year-ahead inflation expectations were 31.8% and 11.6%, respectively (Chart 1). Overall, inflation expectations remain above the forecasts in the CBRT's inflation report (2024: 38%, 2025: 14%, 2026: 9%).
- **Policy Rate:** The consensus on the short-term course of the policy rate has been maintained for three months. Survey participants expect the policy rate to remain unchanged at 50% for the next three months. Survey participants' 12-month ahead policy rate expectation declined to 35.9%. Considering the policy rate expectation together with the inflation expectation, the positive ex-post implication for the 12-month ahead real interest rate has strengthened compared to the previous survey period.
- **Growth:** The outlook for growth in 2024 and 2025 remained unchanged from the May survey at 3.3% and 3.7%, respectively. The growth expectation for 2024 is below the MTP forecast of 4% but above the growth implied by the CBRT's output gap projection (2.5%).
- **Current Account Balance:** The expectations for current account deficit have declined from \$30.5 billion to \$29.0 billion for 2024 and from \$28.7 billion to \$28.4 billion for 2025. However, when we assess the exchange rate and growth outlook for 2024 together, we find that the current account deficit outlook remains high in terms of internal consistency. Despite the

deterioration in the February-April period, the main trend of the current account balance as of May implies a lower deficit than market expectations for 2024 ([Current account balance deteriorated further in April; but will improve again in May](#)).

Chart 1. Inflation Expectations (%)



Source: CBRT

Table 1. Results of the Survey of Market Participants

	Jun.24	May.24	Apr.24
CPI (Monthly Inflation, %)			
Current month	2.52	3.04	3.25
Next month	2.41	2.56	3.0
2-month ahead	2.16	2.34	2.54
CPI (Annual Inflation, %)			
End of current year	43.52	43.64	44.16
12-month ahead	31.79	33.21	35.17
End of next year	25.51	25.61	26.29
24-month ahead	20.33	21.33	22.05
5-year ahead	11.56	11.78	12.32
Policy Rate (%)			
Current month	50.00	50.00	50.00
3-month ahead	50.00	50.00	50.00
12-month ahead	35.90	37.11	38.18
24-month ahead	23.22	23.57	24.98
Exchange Rate (\$/TL)			
Current month	32.64	32.62	32.92
End of current year	37.75	38.78	40.01
12-month ahead	41.41	41.80	42.47
Current Account Balance (Million \$)			
Current year	-28,993	-30,530	-32,113
Next year	-28,442	-28,744	-30,658
Growth (%)			
Current year	3.33	3.32	3.29
Next year	3.66	3.67	3.71

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