

Macro: Higher inflation and tighter monetary stance expected

In the April survey, the effects of the developments in financial markets in March and the steps taken in response to these developments were observed. Exchange rate and inflation expectations were revised upwards across all maturities, while a tighter monetary stance is expected from the CBRT. On the other hand, the changes in expectations for growth and current account balance remained limited. This situation signals that the possible effects of the recently announced reciprocal tariffs on global growth, commodity prices and exchange rates have not yet been reflected in growth and current account balance forecasts. In the coming months, we may observe more significant changes in growth and current account balance forecasts depending on the data flow.

The details of the Survey is as follows:

- **Exchange Rate (\$/TL):** Exchange rate expectations increased compared to the previous survey period. Following the 4%+ increase in the \$/TL exchange rate in March, survey participants raised their year-end exchange rate expectations for 2025 by only 1.9%, from 42.8 to 43.6 (Table 1). The fact that the exchange rate movement was not directly reflected in the year-end forecasts implies that the participants expect the CBRT to continue its measures to reduce exchange rate volatility for a while longer. Based on the current value ($\approx 38,1$), the exchange rate is expected to increase by 14.6% (monthly average: $\approx 1.7\%$) until the end of the year. The 2025 year-end pricing in the futures market is 49.6, well above the values in the expectations survey.
- **Inflation:** March inflation came in at 2.46%, slightly higher than the March survey expectations. In addition, expectations for April and May were revised upwards following the exchange rate developments. Monthly inflation expectations for April rose to 3.07% from 2.25% and for May to 2.20% from 1.87%. June monthly inflation expectation was 1.7%. According to these monthly inflation forecasts, annual inflation, which will be almost flat in April, will fall to 36.5% in June.

The year-end inflation expectation was revised up by 2 points to 30.0%. In addition to the revision in short-term inflation forecasts, the rise in expectations for the second half of the year also played a role in this revision. In sum, the rise in inflation expectations was mainly due to the exchange rate pass-through. We think that the impact of the recently announced energy price adjustments and possible further adjustments remained limited.

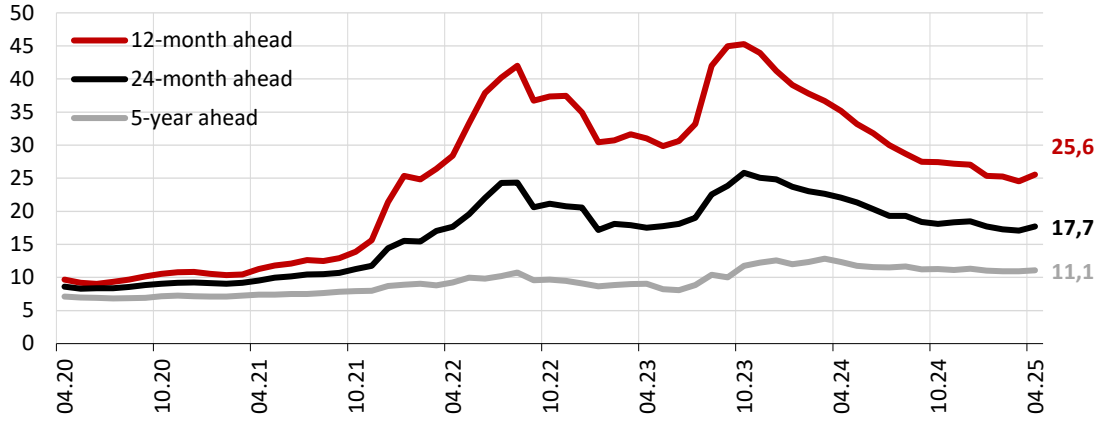
Inflation expectations also increased in other maturities. The year-end inflation expectation for 2026 increased by 1.2 points to 20.3%, the expectation for 24 months ahead increased by 0.6 points to 17.7% and the expectation for 5 years ahead increased by 0.1 points to 11.1%.

- **Policy Rate:** Following the tightening steps taken against the recent volatility in financial markets, participants expect CBRT to pause interest rate cuts. In fact, while the policy rate for the current month remained unchanged at 42.5%, no change is expected in the overnight lending rate (46%) too. The 3-month ahead interest rate expectation is 39.2%, indicating that interest rate cuts are expected to resume after April.

Survey participants' 12 and 24-month ahead policy rate expectations are 29.4% and 20.3%, respectively, above last month's survey. The fact that the increase in policy rate expectations

is stronger than the increase in inflation expectations indicates that CBRT is expected to adopt a tighter stance in real terms during the forecast period.

Chart 1. Inflation Expectations (%)



Source: CBRT

- Growth:** Growth expectations for 2025 and 2026 decreased slightly to 3.0% and 3.8%, respectively. Market participants' growth expectation for 2025 is above the growth implied by CBRT's output gap projection (2.5%) and below the growth expectation for 2026, while expectations for both years are below the MTP forecasts (4.0% and 4.5%, respectively). The main downside risk factors for growth in the upcoming period will be the impact of the expected slowdown in global growth due to the recently announced reciprocal tariffs on the Turkish economy and the extent to which tightening financial conditions will limit domestic demand.
- Current Account Balance:** Current account deficit expectations inched down to \$19.1 billion for 2025 and \$24.1 billion for 2026. The limited change in expectations signals that the possible effects of the recently announced reciprocal tariffs on global growth, commodity prices and exchange rates have not yet been reflected in the forecasts. In the coming months, we may observe more significant changes in current account balance forecasts depending on the data flow on this issue.

Table 1. Results of the Survey

	Apr.25	Mar.25	Feb.25	Jan.25
CPI (Monthly Inflation, %)				
Current month	3.07	2.27	3.2	4.1
Next month	2.20	2.25	2.3	2.7
2-month ahead	1.70	1.87	2.2	2.2
CPI (Annual Inflation, %)				
End of current year	30.0	28.0	28.3	27.1
12-month ahead	25.6	24.6	25.3	25.4
End of next year	20.3	19.1	19.1	18.7
24-month ahead	17.7	17.1	17.3	17.7
5-year ahead	11.1	11.0	11.0	11.0
Policy Rate (%)				
Current month	42.5	42.5	45.0	45.0
3-month ahead	39.2	37.7	40.0	40.9
12-month ahead	29.4	27.6	28.9	29.1
24-month ahead	20.3	19.3	20.2	20.2
Exchange Rate (\$/TL)				
Current month	38.4	37.0	36.4	35.8
End of current year	43.60	42.79	42.9	43.0
12-month ahead	45.9	44.4	44.0	43.8
Current Account Balance (Million \$)				
Current year	-19.1	-19.4	-18.8	-17.4
Next year	-24.1	-24.5	-24.6	-22.5
Growth (%)				
Current year	3.04	3.14	3.0	3.1
Next year	3.80	3.95	3.9	3.9
Source: CBRT				

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