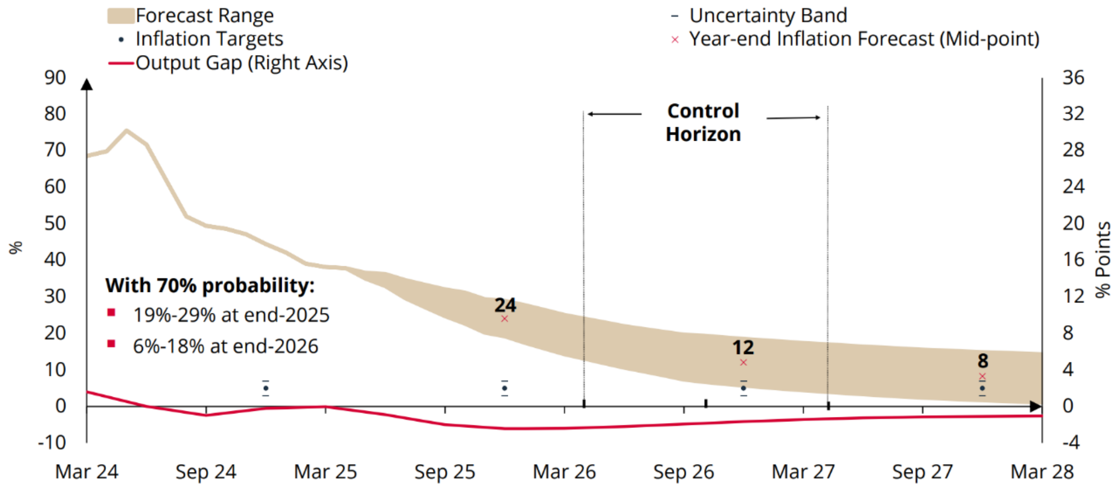
Macro: Inflation forecasts remain the same; patience and prudence are what we need

1. Forecasts

The CBRT maintained its year-end inflation forecasts unchanged at 24% for 2025, 12% for 2026, and 8% for 2027 (Chart 1). The uncertainty band remained unchanged due to the increased recent volatility: 19%-29% for 2025 and 6%-18% for 2026.

Chart 1. 2025-II Inflation and Output Gap Forecasts



Sources of forecast revision: The year-end inflation forecast for 2025 remained unchanged as the opposing effects balanced each other out. Higher food inflation assumption, stronger-than-envisaged demand conditions, exchange rate developments and initial conditions had an upward impact on the inflation forecast. However, lower import prices (in $ terms) and the partial reversal of the January increase in SUT examination co-payments in February pulled the inflation forecast down.

Table 1. Revisions to Inflation Forecasts

	2025
IR 2025-I Year-end Forecast (%)	24.0
IR 2025-II Year-end Forecast (%)	24.0
Forecast Revision as Compared to IR 2025-I Period (% Points)	**0**
Sources of Forecast Revision (% Points)	
Food Prices	+ 0.5
Output Gap	+0.3
Import Prices in Turkish Lira	+0.1
Initial Conditions / Underlying Inflation	+0.1
Administered Prices	-1.0

2. Assumptions

External demand: The assumption for external demand growth was revised downwards. The assumption for export-weighted global growth was revised down from 2.2% to 1.9% for 2025 and from

2.4% to 2.1% for 2026 due to the increased uncertainty surrounding international trade amid the US tariffs and the weakening outlook for global growth (Table 2).

In its latest World Economic Outlook Report, the IMF lowered its global growth forecast from 3.3% to 2.8% for 2025 and from 3.3% to 3.0% for 2026. Ongoing negotiations on tariffs and short-term postponements are causing uncertainty over the outlook for external demand.

Food prices: The food inflation assumption for 2025 was revised up by 2 percentage points to 26.5% (Table 2), primarily due to the unfavorable trend in unprocessed food prices.

Although annual food inflation remained below the headline inflation at 36.1% in April, the average monthly food inflation over the last 3 months is quite strong at 40% in annualized terms, and points to a higher inflation trend than headline inflation. The CBRT's upside risks on fresh fruit and vegetable prices, particularly the effect of frost, have become apparent

On the other hand, the food inflation assumption for 2026 remained unchanged at 13.5%.

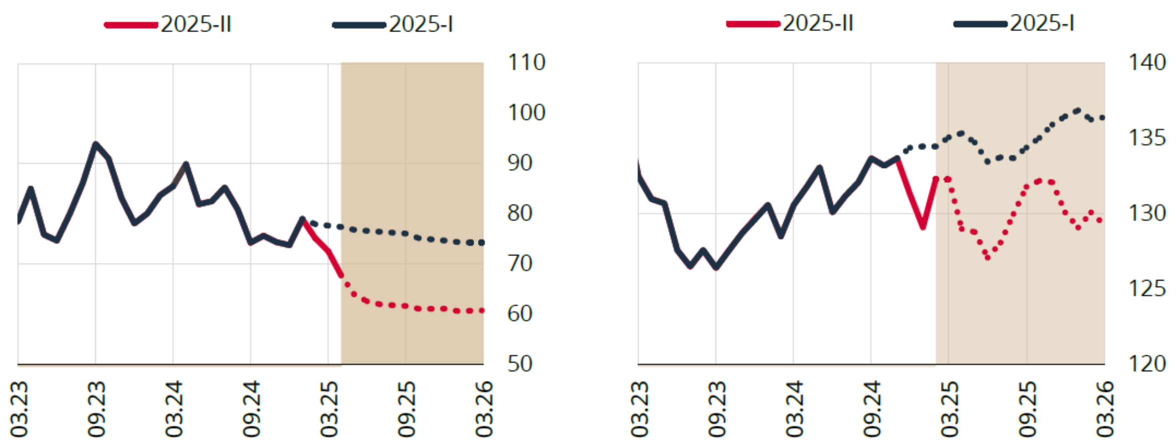
Table 2. Assumptions*

	2025	2026
Export-weighted Global Growth (Annual % Change)	1,9 (2,2)	2,1 (2,4)
Oil prices (Average, USD)	65,8 (76,5)	60,6 (74,0)
Import prices (USD, Annual Avg. % Change)	-1,1 (2,6)	-1,3 (0,6)
Food Annual Inflation (Year-end, %)	26,5 (24,5)	13,5 (13,5)

* Numbers in the parentheses show the assumptions in the previous Inflation Report

Commodity prices: Oil prices hovered significantly below the assumption in the previous reporting period due to the deteriorating global growth outlook (Chart 2). Consequently, the average oil price assumption for 2025 was lowered from $76.5 to $65.8 (Table 2). The 2026 oil price assumption was revised from $74.0 to $60.6. Accordingly, the import price assumption was also revised downwards.

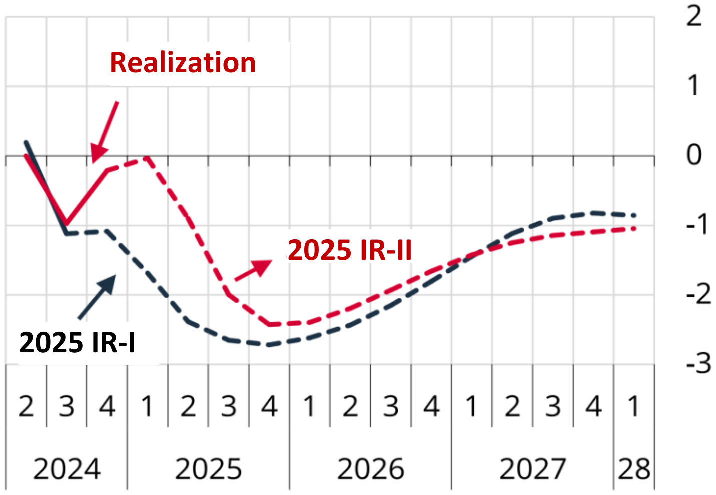
Chart 2. Oil (left panel) and Import Price (right panel) Assumptions



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

Economic activity: Output gap forecasts were revised upwards for 2024-Q4 and 2025-Q1 in line with our previous assessments, while they imply a significant cool down in the economy starting from 2025-Q2 (Charts 1 and 3). Looking at the previous two reports, we observe that growth remained higher than CBRT projections and the initial values for the output gap were revised upwards. In the 2025-I report, the output gap was estimated at around -1.7% in the first quarter; in the new forecasts, it is neutral (Chart 3).

Chart 3. CBRT Output Gap Forecasts



We calculate that the output gap path is consistent with a growth forecast of 2.5-3% for 2025. This forecast implies a contraction in the second and third quarters of the year, and below potential limited positive growth in the last quarter.

Table 3 presents growth forecasts consistent with output gap projections under different quarterly potential growth assumptions:

Table 3. Growth Forecasts Implied by Output Gap Forecasts (%)

	Quarterly Potential Growth (%)		
	0,8	**1,0**	**1,2**
2025	2,4	2,9	3,4
2026	2,6	3,5	4,3
2027	4,0	4,8	5,7

Exchange rate: While the assumption for USD-denominated import prices has been lowered, the limited positive impact attributed to TL-denominated import prices in accounting suggests that the exchange rate pass-through will largely be offset by lower import costs. We believe that the year-end USD exchange rate assumption is maintained around 42-43.

3. Our Evaluations

Monetary policy: The communication did not rule out the possibility of a rate cut in June. As a result of abundant TRY liquidity amid foreign inflows, CBRT's net OMO funding approached zero (23 billion TRY yesterday). Consequently, the weighted average funding rate (WAFR) fell to 46.0%, the same as the policy rate. The overnight reference interest rate (TLREF) was realized at 45.8% today.

Following the inflation report press conference, we maintain our year-end inflation forecast at 30.0%.

- There are downside risks to our forecast. However, if the appropriate level of monetary tightness can be maintained through a patient and prudent approach, there is a high probability that year-end inflation will remain within the CBRT's forecast band. This is because the current monetary stance is likely to reduce growth and demand to a level consistent with the CBRT's disinflation projections.

- Based on the data of the first half of the month, we had estimated May inflation at 1.8% mom (35.8% yoy), which is close to the CBRT's forecast (1.6% mom; 35.4% yoy). This represents a significant downside surprise compared to the market expectations (CBRT Survey of Market Participants: 2.36%). We believe that this figure, together with rising foreign inflows and reserve accumulation, keeps the possibility of a rate cut in June alive. However, to ensure the sustainability of disinflation and the accumulation of credibility, we believe it is best to delay the first rate cut until July, adopting a wait-and-see approach rather than cutting rates at every meeting, provided we are confident of improvement in the inflation trend. In fact, the increased yield sensitivity of residents due to recent risks necessitates a cautious policy stance.
- In summary, compared to two months ago, we assess that the inflation outlook has improved, with a greater probability of remaining within the target range, due to additional tightening in both domestic and global financial conditions. During this period, while the CBRT has regained control of the FX market and inflation, it is critical to maintain monetary tightness in order to ensure that the next step is a rate cut, thereby limiting the trade-offs between price and financial stability.

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağlar Yüncüler – Vice President
Caglar.Yunculer@akbank.com

M. Sibel Yapıcı
Sibel.Yapici@akbank.com

Sercan Pişkin
Sercan.Piskin@akbank.com