

Macro: Macroeconomic expectations largely maintained; first interest rate cut from the CBRT expected in July

In June, market participants' expectations did not change significantly. After the lower-than-expected inflation in May, the year-end inflation expectation returned to 29.9%, while longer-term inflation expectations decreased slightly. Current year-end inflation expectations remained above the uncertainty band of the CBRT's Inflation Report, while remaining well above the forecast path in other maturities. Growth, current account balance and exchange rate expectations also remained almost unchanged.

The most important change in this survey period was the expansion of the scope of the question regarding the policy rate. Accordingly, no interest rate cut is expected from CBRT in June. However, interest rate cuts are expected to start in the second half of the year. The average rate cut expectation is 300 basis points for July and 250 basis points for September. The policy rate is expected to be 36 at the end of the year.

Recent geopolitical developments and their impact on energy commodity and gold prices were not reflected in this survey period. Therefore, in case geopolitical risks persist, we may observe a deterioration in market expectations in the upcoming survey periods.

The details of the Survey are as follows:

- **Exchange Rate (\$/TL):** The year-end exchange rate expectation decreased by 0.1 TRY compared to the previous survey period and returned to the level of 43.6 in the April survey (Table 1). Based on today's value (≈ 39.4), the exchange rate is expected to increase by 10.7% until the end of the year. This expectation implies a depreciation trend of about 1.7% on average on a monthly basis, as was the case last month. Although the 2025 year-end pricing in the futures market declined, it still remains well above the values in the expectations survey with 47.7.
- **Inflation:** May inflation came in at 1.53%, significantly below the May survey expectation of 2.36%. Although there was no significant change in the assumptions regarding other determinants of inflation (exchange rate, growth), the forecast error in May was not fully reflected in the year-end inflation forecast. The year-end inflation forecast fell from 30.35% to 29.86%. This indicates that some of the forecast deviation in May was attributed to temporary effects by the survey participants. Among these, food prices, especially fresh fruits and vegetables, were probably the main drivers.

Monthly inflation expectations for June were revised downwards from 1.77% to 1.61% and for July from 1.94% to 1.86%. August monthly inflation expectation was set at 1.64%. According to these monthly inflation forecasts, annual inflation will remain unchanged at 35.4% in June before falling to 33.6% in July and 32.5% in August. This monthly inflation path implies a gradual increase in the inflation trend in the June-August period according to our own direct seasonally adjustment.

Inflation expectations for other maturities also decreased slightly. The year-end inflation expectation for 2026 decreased by 0.2 points to 20.4%, the expectation for 24 months ahead decreased by 0.4 points to 17.4% and the expectation for 5 years ahead decreased by 0.2 points to 11.0%.

- **Policy Rate:** CBRT changed the question regarding the policy rate in the June survey. In this context, the question 'What is your expectation for the CBRT one-week repo auction interest

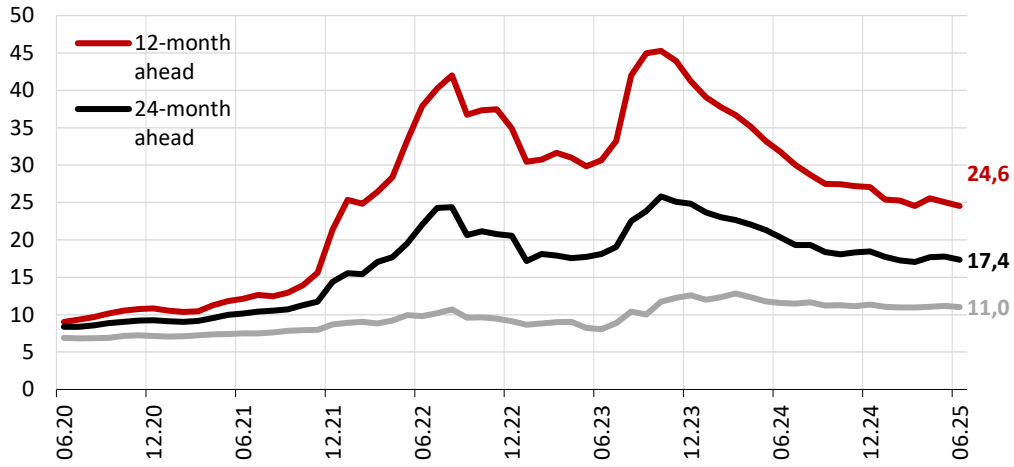
rate (%)’ for the current month-end, 3-month ahead, 12-month ahead and 24-month ahead was changed to ‘What is your policy rate expectation for the upcoming Monetary Policy Committee meetings?’ for the first meeting, second meeting, third meeting, current year-end, 12-month ahead, next year-end and 24-month ahead.

According to the new questions, market participants do not expect a policy rate change from the CBRT this month. However, interest rate cuts are expected to start in the second half of the year. The average rate cut expectation is 300 basis points for July and 250 basis points for September. The year-end expectation for the policy rate is close to our forecast at 36% and the average rate cut is expected to be 200 bps in the last quarter. Expectations for 12 months ahead and for the end of next year suggest that the pace of rate cuts will shrink over time. Interest rate expectation for 2026 year-end is 24.3%.

In real terms, the CBRT is expected to maintain a tight stance throughout the forecast period.

- **Growth:** Growth expectations for 2025 and 2026 remained unchanged at 2.9% and 3.7%, respectively.
- **Current Account Balance:** Current account deficit expectations improved slightly compared to the previous survey period. \$18.8 billion for 2025 and \$23.8 billion for 2026. Our forecasts are at similar levels. However, recent developments pose an upside risk to these forecasts.

Chart 1. Inflation Expectations (%)



Source: CBRT

Table 1. Results of the Survey

	Jun.25	May.25	Apr.25	Mar.25
CPI (Monthly Inflation, %)				
Current month	1.61	2.36	3.1	2.3
Next month	1.86	1.77	2.2	2.3
2-month ahead	1.64	1.94	1.7	1.9
CPI (Annual Inflation, %)				
End of current year	29.9	30.4	30.0	28.0
12-month ahead	24.6	25.1	25.6	24.6
End of next year	20.4	20.6	20.3	19.1
24-month ahead	17.4	17.8	17.7	17.1
5-year ahead	11.0	11.2	11.1	11.0
Policy rate (%)				
First meeting	46.0	-	-	-
Second meeting	43.0	-	-	-
Third meeting	40.4	-	-	-
End of current year	36.1	-	-	-
12-month ahead	29.3	30.1	29.4	27.6
End of next year	24.3	-	-	-
24-month ahead	20.1	20.8	20.3	19.3
Exchange Rate (\$/TL)				
Current month	39.7	39.0	38.4	37.0
End of current year	43.6	43.7	43.6	42.8
12-month ahead	47.0	46.6	45.9	44.4
Current Account Balance (mn \$)				
Current year	-18.8	-19.2	-19.1	-19.4
Next year	-23.8	-24.4	-24.1	-24.5
Growth (%)				
Current year	2.87	2.93	3.0	3.1
Next year	3.70	3.73	3.8	4.0

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

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