

Macro: Interest rate cut process is expected to start this month

There is no significant change in the expectations of the survey participants in general framework. Current year-end inflation expectation decreased by 0.2 points to 29.7% due to the lower-than-expected realization. While the year-end inflation expectation for 2026 remained unchanged at 20.4%, expectations for longer maturities remained above the uncertainty band announced by CBRT in the Inflation Report.

Regarding the monetary stance, the rate cut process is expected to start in July and continue gradually throughout the forecast period in the survey. The average rate cut expectations for the next 4 months indicate that the general expectation is for a 250 basis points cut in all meetings in the second half of this year. Expectations for 12 months ahead and for the end of next year suggest that the pace of rate cuts will gradually shrink. In real terms, the CBRT is expected to maintain a tight stance throughout the forecast period.

The details of the Survey are as follows:

- **Exchange Rate (\$/TL):** The year-end exchange rate expectation increased by 0.15 TRY compared to the previous survey period and was realized as 43.6, close to the level in the May survey (Table 1). Based on the current value (≈ 40.4), the exchange rate is expected to increase by 8.2% until the end of the year. This expectation implies a depreciation trend of about 1.9% on a monthly compound basis. Although the year-end 2025 pricing in the futures market continues to decline, it remains well above the values in the expectations survey at around 47.0.
- **Inflation:** June inflation came in at 1.37%, below the June survey expectation of 1.61%. While monthly inflation in the last three months was 1.14 points lower than expected in cumulative terms, the decline in the year-end inflation forecast for the April-July period was limited to 0.32 points. According to the survey, the year-end inflation forecast decreased by 0.2 points to 29.66%.

Monthly inflation expectations for July were revised upwards from 1.86% to 2.11% (due to natural gas hike and tax adjustments) and for August from 1.64% to 1.63%. September monthly inflation expectation was revised as 1.93%. According to these monthly inflation forecasts, annual inflation will fall to 33.6% in July, 32.5% in August and 31.2% in September. According to our own direct seasonally adjusted calculation, this monthly inflation path will be around 2.5% in July and August and around 2.0% in September. Therefore, survey expectations imply an increase in the inflation trend in the third quarter.

Medium-term inflation expectations edged down. While the year-end inflation expectation for 2026 remained flat at 20.4%, the expectation for 24 months ahead decreased by 0.3 points to 17.1%. The 5-year ahead inflation expectation increased by 0.2 points to 11.2%.

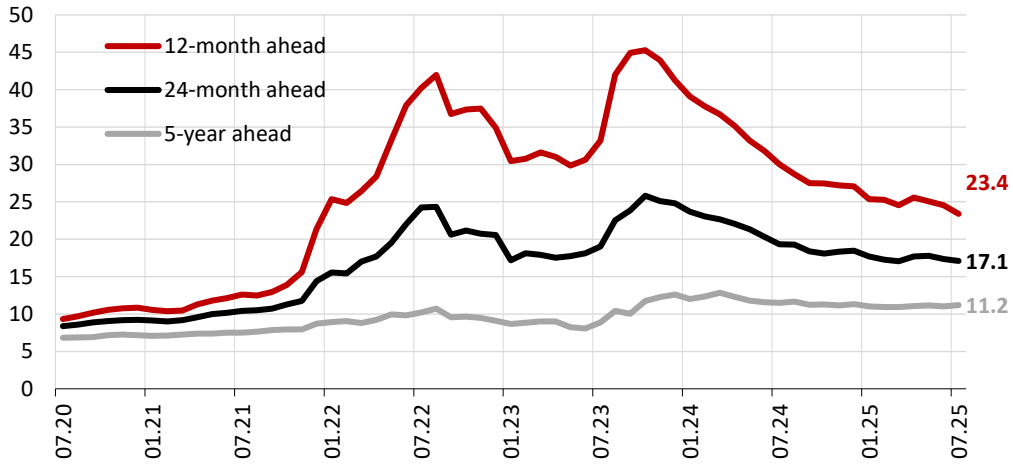
- **Policy Rate:** According to the new meeting-based questions, market participants' expectations for a CBRT rate cut this month are 270 basis points on average. Accordingly, it is understood that some of the participants expect 250 and some expect 300 or more rate cuts, but the number of those expecting 250 basis points is higher. Other market surveys also point to a 250 basis points cut. The average rate cut expectations for September and October meetings are 240 and 230 basis points, respectively. It is observed that the 250-basis point cut is the more widespread expectation.

The year-end policy rate expectation is close to 36%, in line with our forecasts. This indicates that a 250 basis point cut is expected in the fourth meeting of the second half. In sum, the general expectation among the survey participants is that the gradual rate cut process will start in July with 250 basis point cuts in each meeting until the end of the year and a total of 1000 basis point rate cut will be made. Expectations for the 12-month ahead and for the end of next year reveal an outlook that the rate cut steps will shrink over time. Interest rate expectation for 2026 year-end is 24.5.

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 deteriorated slightly compared to the previous survey period and approached our own forecasts; 19.9 billion USD for 2025 and 25.3 billion USD for 2026. The upward revision in this month's survey can be considered as an update of the risks posed by the geopolitical risks in June on our energy imports and travel revenues. On the other hand, with the ceasefire between Iran and Israel, energy prices have fallen back to pre-war levels, keeping the risks on the current account deficit balanced for now.

Chart 1. Inflation Expectations (%)



Source: CBRT

Table 1. Results of the Survey

	Jul.25	Jun.25	May.25	Apr.25
CPI (Monthly Inflation, %)				
Current month	2.11	1.61	2.4	3.1
Next month	1.63	1.86	1.8	2.2
2-month ahead	1.93	1.64	1.9	1.7
CPI (Annual Inflation, %)				
End of current year	29.7	29.9	30.4	30.0
12-month ahead	23.4	24.6	25.1	25.6
End of next year	20.4	20.4	20.6	20.3
24-month ahead	17.1	17.4	17.8	17.7
5-year ahead	11.2	11.0	11.2	11.1
Policy rate (%)				
First meeting	43.3	46.0	-	-
Second meeting	40.9	43.0	-	-
Third meeting	38.6	40.4	-	-
End of current year	36.2	36.1	-	-
12-month ahead	28.3	29.3	30.1	29.4
End of next year	24.5	24.3	-	-
24-month ahead	19.7	20.1	20.8	20.3
Exchange Rate (\$/TL)				
Current month	40.5	39.7	39.0	38.4
End of current year	43.72	43.57	43.7	43.6
12-month ahead	47.7	47.0	46.6	45.9
Current Account Balance (mn \$)				
Current year	-19.9	-18.8	-19.2	-19.1
Next year	-25.3	-23.8	-24.4	-24.1
Growth (%)				
Current year	2.89	2.87	2.9	3.0
Next year	3.71	3.70	3.7	3.8

Source: CBRT

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