

Macro: Expectations remained largely unchanged from last month

There was no significant change in survey participants' expectations compared to last month. Year-end inflation expectations for 2025 and 2026 remained unchanged at 29.7% and 20.4%, respectively. Both forecasts are above the uncertainty bands shared by CBRT in its 2025-III Inflation Report (25%-29% for 2025; 13%-19% for 2026).

Last month, there were differing views among participants regarding the size of the first interest rate cut, ranging from 250 to 300 bps. Following the 300-bps interest rate cut, there appears to be full consensus among participants that the interest rate cut in September will also be 300 basis points. In the meetings in the last quarter of the year, interest rate cuts are expected to be smaller. However, there are again different opinions regarding the pace of the cuts in October and December, ranging from 200 to 250 basis points.

The interest rate expectation for the end of 2026 is 24.2%, which is 0.3 points lower than last month. When evaluated together with the expected year-end inflation, it appears that a more accommodative monetary stance is expected at the end of 2026 compared to the current situation. However, the interim targets set by the CBRT in the 2025-III Inflation Report require no change in the combination of high real interest rates and tight macroprudential policy in the coming year.

The details of the Survey are as follows:

- **Exchange Rate (\$/TL):** The year-end exchange rate expectation rose by 0.24 TL compared to the previous survey period, reaching 44.0 (Table 1). Based on today's value (≈ 40.9), an increase of approximately 7.5% in the exchange rate is expected by the end of the year. Although the 2025 year-end pricing in the futures market declined from 47.0 to 46.1 over the last month, it remains above the values in the expectation survey.
- **Inflation:** Inflation expectations for the end of 2025 and 2026 remained unchanged from last month at 29.7% and 20.4%, respectively. There was no significant change in longer-term inflation expectations. Annual inflation expectations for 24 months and 5 years ahead were 16.9% and 11.1%, respectively. All inflation expectations remain above the year-end forecast bands updated yesterday by the CBRT.

July inflation was 2.06%, close to the July survey expectation of 2.11%. The monthly inflation forecast for August was revised slightly upward from 1.63% to 1.69%. According to our calculations based on the forecast graph in the CBRT's Inflation Report, the CBRT's monthly inflation forecast for August is around 1.7%. If this forecast materializes, annual inflation will decline by 1.0 percentage points to 32.5%.

In this context, according to our own seasonally adjusted calculations, monthly inflation will not show any significant change compared to July. However, administered price and tax adjustments contributed a one-off 0.9 percentage points to July monthly inflation, and the fact that this contribution will disappear in August would have created room for improvement in the inflation trend. However, our own forecast and observations from the field indicate that food inflation, which has been trending positively in recent months, will accelerate in August, and this acceleration will hinder the expected improvement in the inflation trend.

- **Policy Rate:** The interest rate cut in July was stronger than the average expectation in the survey (270 bps) at 300 bps. This month, there is consensus among participants on a 300 bps cut at the September meeting. Smaller cuts are expected in October and December. The

average expectation is 230 bps for October and 210 bps for December (year-end 35.6%). Based on this, it appears that those expecting a 200- and 250 bps cut in October are more evenly distributed, while the expectation of a 200-bps cut in December is more prevalent. The interest rate expectation for the end of 2026 is 24.2%, which is 0.3 percentage points lower than last month.

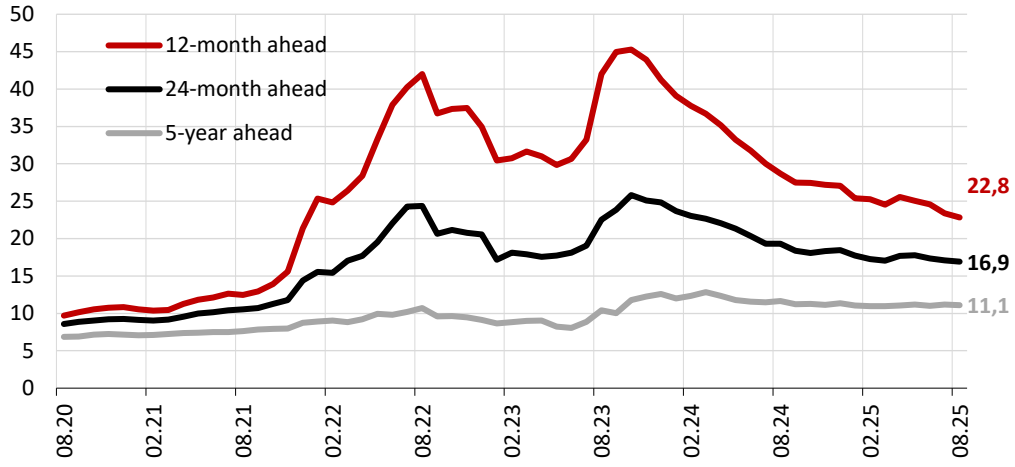
- **Growth:** Growth expectations for 2025 and 2026 remained unchanged at 2.9% and 3.7%, respectively.
- **Current Account Balance:** Current account deficit expectations did not show any significant change compared to the previous survey period, standing at \$20.3 billion for 2025 and \$25.2 billion for 2026. We consider both estimates to be largely consistent with expected growth and exchange rate forecasts.

Tablo 1. Results of the Survey

	Aug.25	Jul.25	Jun.25	May.25
CPI (Monthly Inflation, %)				
Current month	1.69	2.11	1.61	2.4
Next month	1.97	1.63	1.86	1.8
2-month ahead	2.05	1.93	1.64	1.9
CPI (Annual Inflation, %)				
End of current year	29.7	29.7	29.9	30.4
12-month ahead	22.8	23.4	24.6	25.1
End of next year	20.4	20.4	20.4	20.6
24-month ahead	16.9	17.1	17.4	17.8
5-year ahead	11.1	11.2	11.0	11.2
Policy rate (%)				
First meeting	40.0	43.3	46.0	-
Second meeting	37.7	40.9	43.0	-
Third meeting	35.6	38.6	40.4	-
End of current year	35.6	36.2	36.1	-
12-month ahead	27.8	28.3	29.3	30.1
End of next year	24.2	24.5	24.3	-
24-month ahead	19.6	19.7	20.1	20.8
Exchange Rate (\$/TL)				
Current month	41.1	40.5	39.7	39.0
End of current year	43.96	43.72	43.57	43.7
12-month ahead	48.4	47.7	47.0	46.6
Current Account Balance (mn \$)				
Current year	-20.3	-19.9	-18.8	-19.2
Next year	-25.2	-25.3	-23.8	-24.4
Growth (%)				
Current year	2.90	2.89	2.87	2.9
Next year	3.69	3.71	3.70	3.7

Source: CBRT

Chart 1. Inflation Expectations (%)



Source: CBRT

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