Contemporary Turkish Studies
Research at LSE

INFLATION AND INSTITUTIONS: TÜRKIYE, THE UNITED STATES, AND THE POLITICS OF PRICE STABILITY

Professor Yaprak Gürsoy began the event by expressing her pleasure in welcoming Professor Selva Demiralp from Koç University in Istanbul. She mentioned that Professor Demiralp would be discussing recent inflation dynamics in both Türkiye and the United States, focusing especially on the role of political pressures and institutional credibility in shaping inflation expectations and the effectiveness of monetary policy.

Professor Gürsoy remarked that those who followed Turkish economic developments would likely be familiar with Professor Demiralp's commentaries, which appear frequently in Turkish media and on social platforms. She emphasised that Demiralp's research extended far beyond Türkiye, citing her contributions to leading global outlets like The Wall Street Journal, The New York Times, and The Financial Times. Professor Gürsoy noted that Demiralp had made significant academic contributions and had a particular talent for making complex economic issues accessible to broader audiences. She further pointed out that Demiralp served as Director of the Koç University-TÜSİAD Economic Research Forum and had consulted for both the European Central Bank and had experience with the Federal Reserve and the Central Bank of Türkiye.

Following Professor Demiralp's lecture, Professor Gürsoy added, Dr Orkun Saka would serve as the discussant. Dr Saka is a Visiting Senior Fellow at the European Institute and an Associate Professor at City, University of London. Professor Gürsoy highlighted his leadership of the LSE Workshop on the Political Economy of Türkiye and described the current panel as emerging from Dr Saka's collaborative work with Professor Demiralp.

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Thursday 5 June, 6.00 to 7.30pm GMT
In-person public event (MAR.2.10, Marshall Building, LSE)

Professor Selva Demiralp then began her presentation by stating that her analysis was inspired by recent developments in the Turkish and U.S. economies. She observed an unusual convergence in the behaviour of inflation expectations between the two countries, noting that while the Turkish economy was not behaving more like an advanced economy, the U.S. economy appeared increasingly similar to that of an emerging market.

Professor Demiralp explained that recent headlines showed inflation expectations rising in both countries. In the U.S., she referred to a University of Michigan survey showing consumer pessimism following President Trump's post-election rhetoric and tariff policies, which put pressure on the Federal Reserve. In Türkiye, she pointed to unrest and increased financial stress after the arrest of Istanbul Mayor Ekrem İmamoğlu, who was also the opposition's presidential candidate. She argued that in both cases, political uncertainty had driven up inflation expectations and eroded consumer confidence.

She noted that while the causes of political instability differed, the consequences in both countries were remarkably similar: an increase in market risk, higher inflation expectations, and declining institutional credibility. Demiralp highlighted that although actual inflation had begun to decline in both countries, inflation expectations continued to rise, an alarming signal that suggested weakened trust in central bank credibility.

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Demiralp went on to explain that strong central banks typically anchor inflation expectations regardless of short-term fluctuations in inflation. However, in both Türkiye and, increasingly, the U.S., people seemed to be basing expectations on actual inflation rather than central bank targets, indicating a loss of trust.

She attributed this partly to political interference in monetary policy. In the case of the U.S., Professor Demiralp emphasised how President Trump had publicly pressured the Federal Reserve during his first term in office. While markets had once ignored such comments, she suggested they might now be reacting more sensitively, perhaps due to the possibility of Trump being in power again. This was likened to Türkiye, where political leaders had long interfered with central bank independence, prompting market reactions. Türkiye, where political leaders had long interfered with central bank independence, prompting market reactions.

She illustrated the economic consequences of the arrest of İmamoğlu in Türkiye, which had caused credit default swaps to spike and forced the Turkish Central Bank to raise interest rates and sell $60 billion in reserves to stabilise markets. Professor Demiralp contrasted this with the U.S. Federal Reserve's approach, which involved signalling its readiness to act without taking immediate steps, a luxury afforded by its stronger credibility.

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Professor Demiralp underscored that credible central banks could influence markets through what she called “open-mouth operations,” whereas institutions with weaker reputations had to resort to costly open market operations.

She also referenced earlier research that showed how markets in Türkiye reacted to political leaders’ comments, whereas in the past, U.S. markets did not. However, she observed a shift, noting that U.S. markets might now be starting to mirror the Turkish pattern of responsiveness to political influence.

Professor Demiralp concluded her remarks by stressing the importance of protecting central bank independence, warning that once it was lost, regaining market trust and achieving price stability became far more difficult and economically costly.

Dr Orkun Saka followed Professor Demiralp’s presentation by affirming that his remarks would be complementary rather than critical, as he largely agreed with her analysis. He indicated that while Professor Demiralp had focused on how political institutions influence central bank independence and inflation management, his focus would be on a different, but equally important, institution, the media.

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Dr Saka noted that many Turkish citizens expressed scepticism about the inflation rate reported by the Turkish Statistical Institute (TÜİK). He mentioned alternative indices such as ENAG, which uses online price tracking and consistently reports inflation figures that were two to four times higher than official numbers. This, he argued, contributed to growing mistrust of government-released data.

Dr Saka explained that this mistrust led to highly divergent inflation expectations among the public. He presented findings from a new household expectations survey launched in 2024 by Koç University, a project he was closely involved in alongside Professor Demiralp. The first year of data showed that, although average inflation expectations rose slightly after the local elections and then declined, these trends masked significant variation across political lines.

He elaborated that when survey respondents were grouped by their political party preference, a clear polarisation emerged. Supporters of the ruling party consistently reported lower inflation expectations, while supporters of opposition parties reported higher ones. What was striking, Dr Saka noted, was that both groups were relatively unwavering in their expectations throughout the sample period, suggesting entrenched beliefs rather than reactive assessments.

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Dr Saka went further by combining political affiliation with media consumption patterns. He explained that survey respondents were also asked which TV channels they watched. Based on AI-generated classifications from ChatGPT and DeepSeek, for this project, media outlets were categorised into three groups: government-aligned, neutral, and opposition-leaning.

When this data was analysed, a more nuanced pattern emerged. Those who both supported the government and consumed government-aligned media had the lowest inflation expectations. On the other hand, opposition supporters who also consumed opposition-aligned media formed the upper bound, reporting the highest expectations. Groups who consumed neutral media or whose political and media preferences did not align showed more variability in expectations.

Dr Saka emphasised that this media-politics alignment was highly polarised. He highlighted that around 70% of ruling party supporters consumed only pro-government media, while an almost identical percentage of opposition voters consumed only opposition-aligned outlets. This, he argued, created two parallel realities within the same economy, one where inflation was perceived as manageable, and another where it was seen as dangerously high.

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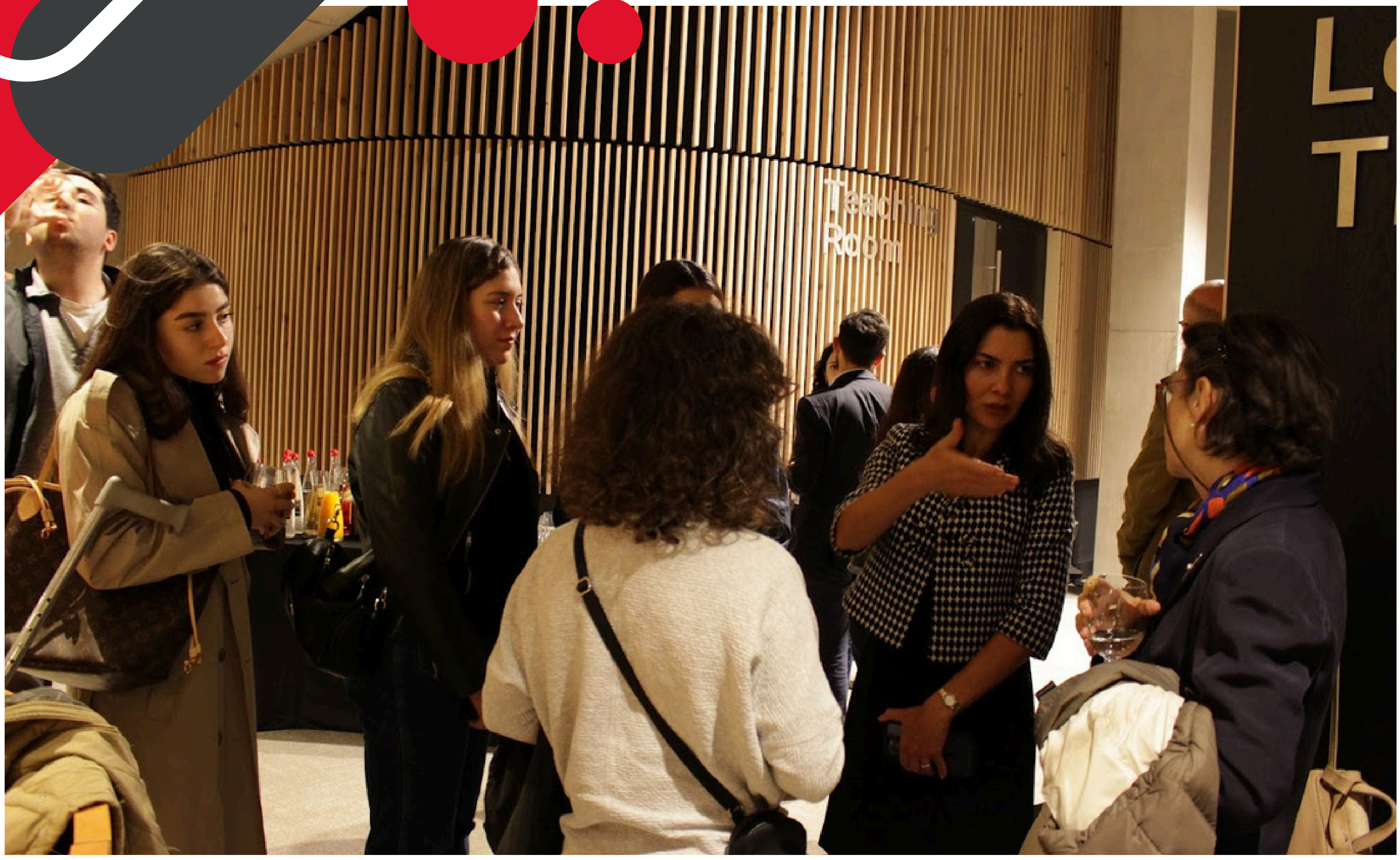

To illustrate the role of narrative framing, Dr Saka shared contrasting newspaper headlines from the 2018 currency crisis. He showed how pro-government newspapers framed the depreciation as a foreign attack on Türkiye, while opposition papers described it as a failure of the government's economic model. This divergence in media narratives, he said, had a profound impact on how individuals formed their economic expectations.

He also noted that this pattern was not unique to Türkiye. Drawing from recent academic research, Dr Saka showed that similar trends were emerging in the United States. For instance, studies of The Wall Street Journal and The New York Times found partisan filtering in how the same economic facts were reported. Republican-affiliated firms received more favourable coverage in the Journal, while Democrat-leaning firms were emphasised more in the Times. The tone of coverage also varied based on political alignment, reflecting growing media polarisation even in the financial press.

Dr Saka concluded his remarks by warning that inflation expectations were increasingly shaped by political ideology and media narratives rather than by objective macroeconomic indicators or central bank guidance. He argued that this had serious implications for monetary policy effectiveness, since public trust in institutions and data was a prerequisite for anchoring expectations. He raised the question of whether social media might help or hinder this dynamic, suggesting that it could be explored further in the Q&A.

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Professor Demiralp returned briefly to reinforce the point that the U.S. was beginning to resemble Türkiye in its political influence over inflation expectations. She cited the University of Michigan survey, which showed inflation expectations diverging sharply along party lines depending on who held the presidential office. She warned that if public trust in the Federal Reserve continued to decline, the U.S. could face similar challenges to Türkiye in maintaining price stability.

She concluded by reiterating that central bank independence was vital for anchoring inflation expectations, and that once lost, restoring it came with significant economic costs.
The panel continued with discussions in response to the questions and comments received from the audience.

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