

HOW DO MONETARY POLICY AND INFLATION ANNOUNCEMENTS AFFECT FIRM EXPECTATIONS IN HIGH INFLATION?*

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Abstract

This paper examines how monetary policy committee announcements and inflation surprises affect Turkish firms' inflation expectations and FX management decisions during the 2015–2024 period—a time characterized by both relatively stable and highly volatile inflation. Using survey data, we define monetary policy (inflation) surprises as the unexpected component of interest rate (inflation) forecasts measured within a narrow window around policy announcements. First, we show that firms' aggregate inflation expectations change significantly in response to monetary policy shocks, but their response is highly state-dependent: In relatively stable inflation environments, firms react in line with standard theory, anticipating a decline in prices while becoming pessimistic about the economic outlook. By contrast, in volatile settings, firms adopt a supply-side interpretation, revising their expectations upward amid pessimism. Second, inflation surprises increase inflation expectations and heighten pessimism regardless of the state, providing additional evidence for the supply-side view. Third, a positive inflation surprise induces an increase in FX holdings—reflecting concerns about potential currency depreciation—whereas an unexpected policy rate hike prompts firms to reduce FX positions in anticipation of currency appreciation. Our findings demonstrate that in a high-inflation environment, firms are especially attentive to macroeconomic developments, revising their inflation expectations and adjusting their financial strategies accordingly. These results underscore the importance of monetary policy communication and inflation news in shaping firm-level decisions, particularly when inflation is elevated and volatile.

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"The effects of monetary policy depend critically on the public getting the message about what policy will do months or years in the future." Janet Yellen, 2013.

1 Introduction

Expectations play a crucial role in policymaking, as they prominently influence the dynamic optimization problems of forward-looking economic agents. However, expectations are highly endogenous and adjust dynamically in response to policy actions. In this paper, we examine how monetary policy committee announcements and inflation news shape firms' inflation expectations, economic outlook, and financial decisions, using survey data from Turkish firms over the 2015–2024 period—a time marked by persistently high and volatile inflation.

We define monetary policy surprises as the unexpected component of interest rate forecasts provided by professionals, measured within a narrow window around monetary policy committee meetings and inflation announcements.¹ Our findings reveal a state-dependent response to monetary policy shocks: in a highly volatile inflation environment (post-2020 period), firms' aggregate inflation expectations for the next 12 months rise significantly in response to a positive monetary policy shock—contrary to the conventional demand-side expectation that monetary tightening reduces demand and, consequently, inflation. At the same time, firms' economic outlook deteriorates, leading them to lower their sales volume and employment expectations due to increased pessimism. This suggests that firms interpret monetary shocks differently than professionals, likely due to alternative propagation mechanisms, such as the rising cost of financing.

However, in a stable inflation environment, firms' reactions more closely resemble those of professionals. In this setting, firms reduce their inflation expectations while also becoming more pessimistic and lowering their sales volume expectations, aligning more closely with professional

¹This method utilizes the median Bloomberg forecasts and closely follows the approach outlined in [Aruoba et al. \(2021\)](#) and [Checo et al. \(2024\)](#).

forecasters.² As macroeconomic volatility increases in Türkiye, however, the divergence between firms' and professionals' inflation expectations widens,³ reflecting a shift in how firms perceive monetary policy's impact under different economic conditions. When inflation is stable, firms tend to adopt a demand-side perspective similar to professionals, whereas in high-volatility environments, they interpret monetary shocks primarily through a supply-side lens, associating policy tightening with rising costs rather than reduced demand.⁴

These findings suggest that monetary policy announcements not only prompt firms to reassess their expectations about monetary policy but also substantially reshape their inflation expectations and broader economic outlook, with firms' responses varying significantly depending on the inflationary environment. Firms' tendency to associate a worse economic outlook with higher inflation expectations is further supported by the inflation surprise results: a positive inflation surprise pushes firms' inflation expectations up within a narrow window while also making them more pessimistic about overall economic conditions and raising their expected unit costs and prices, regardless of the size of the shock or state of the economy, reinforcing the idea that firms primarily interpret inflation surprises through a cost-push lens rather than as a signal of stronger demand.

Next, we assess how these changes in expectations translate into firms' high-frequency financial decisions, particularly foreign exchange (FX) management, leveraging a unique dataset on daily FX market transactions at the firm level. We find that a positive inflation shock leads firms to increase their FX holdings, anticipating further currency depreciation. Conversely, a positive monetary policy shock results in a decline in FX holdings. This is because the surprise rate hike is perceived to strengthen the currency, with firms adjusting their FX positions accordingly. These findings indicate that firms do not merely update their inflation and output expectations but also

²Andre et al. (2022) demonstrate how households and professionals differ in their economic reasoning, particularly in their interpretation of monetary policy shocks and other macroeconomic disturbances. For evidence on the household side, see Kamdar (2019); Coibion et al. (2023); Binetti et al. (2024); Han (2024); Jiang et al. (2024).

³See Figure-1 for the divergence between the inflation expectations of firms and professionals from 2015 to 2025.

⁴Recent studies document firms' reliance on supply-side reasoning (Coibion et al., 2020b; Baumann et al., 2024). Our findings provide evidence for this mechanism specifically in turbulent economic periods, highlighting how firms' expectations evolve depending on macroeconomic conditions.

act upon them immediately, adjusting their FX management strategies in response to policy and inflation surprises.

The main contribution of this study is to assess the effectiveness of monetary policy communication and inflation announcements in shaping firms' expectations and financial behavior in a high-inflation environment. Unlike previous studies, which primarily focus on firms' expectation revisions, we provide novel evidence that firms adjust their expectations and simultaneously take concrete financial actions—such as FX management—following policy and inflation surprises. This highlights the broader economic implications of policy communication, particularly in economies where firms operate under high uncertainty and are highly responsive to macroeconomic developments.⁵ Section-2 reviews the literature on how monetary policy communication and announcements influence economic agents' expectations. Section-3 describes the data and presents key descriptive statistics. Section-4 explores, both theoretically and empirically, how firms' attention and responses to economic surprises evolve when transitioning from a stable environment to a volatile one. Section-5 presents the findings of the main empirical analysis. Finally, Section-6 concludes.

2 Literature Review

In low-inflation environments, firms and households are often not knowledgeable about the actions of the central bank, are unaware of monetary policy announcements, and tend to have expectations that are usually higher than those of professionals ([Bachmann and Elstner, 2015](#); [Dräger et al., 2016](#); [Binder, 2017](#); [D'acunto et al., 2023](#); [Weber et al., 2023](#); [Pfauti, 2024](#)). Many people do not know the objective, main roles, and inflation target of the central bank as well ([Kumar et al., 2015](#); [Van der Cruysen et al., 2018](#)). Recent studies have examined the impact of mone-

⁵See [Cavallo et al. \(2017\)](#); [Weber et al. \(2023\)](#); [Aktug and Atesagaoglu \(2024\)](#) for households and [Coibion and Gorodnichenko \(2015\)](#); [Frache and Lluberas \(2019\)](#); [Akarsu et al. \(2024\)](#) for firms on the relationship between high inflation and increased attention.

tary policy announcements on firms' expectations.⁶ [Coibion et al. \(2020a\)](#) document that in a low inflation environment neither households' nor firms' expectations respond much to monetary policy announcements due to lack of attention in a stable environment and suggest that new communication strategies are needed to use expectations as part of central bank tool kit. [Coibion et al. \(2022\)](#) conducted a randomized controlled trial to assess how different forms of communication influence U.S. households' inflation expectations, and document which communication tool is more effective, providing insights into the broader public's responsiveness to monetary policy communications.⁷

A closely related paper to the current study is [Enders et al. \(2019\)](#), which examines German firms' expectations in response to European Central Bank announcements. The study finds that firm expectations respond to small-sized policy surprises but not to large-sized shocks, indicating a nonlinear relationship between policy announcements and firms' expectations. Consistent with the conventional demand-side understanding, interest rate increases reduce price and production expectations, a pattern observed for small shocks. However, this channel does not function as expected in the case of large shocks.⁸ Larger monetary policy surprises tend to trigger stronger information effects; for example, a significant rate cut might signal that the central bank is more pessimistic about the future outlook, prompting such an extreme action. In such cases, the information channel can be strong enough to offset the conventional demand-side channel, consistent with findings from [Nakamura and Steinsson \(2018\)](#); [Miranda-Agrippino and Ricco \(2021\)](#).⁹

Similarly, [Di Pace et al. \(2024\)](#) analyzed U.K. firms' responses to Bank of England monetary

⁶There are studies on households side as well. [Lewis et al. \(2019\)](#) find that an unanticipated increase of 25 basis points in interest rates results in an immediate decline in the daily economic confidence of U.S. households. [Lamla and Vinogradov \(2019\)](#) use a narrow window around FOMC announcements and report that announcements have no significant direct impact on expectations of inflation and interest rates. See [Binder et al. \(2024\)](#); [Breitenlechner et al. \(2024\)](#); [Rast \(2022\)](#); [De Fiore et al. \(2022\)](#); [Claus and Nguyen \(2020\)](#) for further evidence on households.

⁷[Blinder et al. \(2008\)](#) and [Ehrmann and Fratzscher \(2007\)](#); [Ehrmann et al. \(2023\)](#) show there is no consensus on what constitutes an optimal communication strategy, and in fact the communication strategy might be state-dependent due to varying attention of economic agents ([Carroll, 2003](#); [Carvalho and Nechio, 2014](#); [Pedersen, 2024](#)).

⁸[Bottone and Rosolia \(2019\)](#) find no impact of monetary policy shocks on Italian firms' pricing plans or on the main determinants of their pricing choices. [Ferrando and Grazzini \(2023\)](#) document firms' bank loan expectations react to monetary policy shocks significantly.

⁹These surprises reflect a combination of an actual monetary policy shock and the information about the economic state that agents deduce from the central bank's actions.

policy announcements. Their findings suggest that firms adjust their price expectations in response to interest rate changes rather than high-frequency surprises, with a more pronounced effect observed in the lower tail of the expected price distribution. A tightening leads firms to revise their price growth expectations downward. Recently, using UK data, [Yotzov et al. \(2024\)](#) examined firms' high-frequency responses to inflation announcements and found that firms adjust their expectations based on changes in inflation data but not in reaction to unexpected inflation surprises.

Building upon this literature, our study examines how monetary policy committee announcements and inflation news influence Turkish firms' expectations from 2015 to 2024—a period characterized by relative stability before 2018, followed by high and volatile inflation. This contrast allows us to assess the state dependence of these effects. We define monetary policy surprises as the unexpected components of interest rate forecasts by professionals, measured within narrow windows around committee meetings, and apply a similar approach to inflation surprises around inflation announcements.

Our main contribution is threefold. First, we show that both aggregate and firm-level inflation expectations respond significantly to monetary policy and inflation surprises, highlighting the extent to which firms actively update their beliefs in response to macroeconomic news. Second, we document a state-dependent response to monetary policy shocks: during stable periods, firms interpret policy signals similarly to professionals, adjusting their expectations in a conventional demand-driven manner, whereas in volatile periods, they exhibit a more stagflationary response, akin to household behavior. In contrast, inflation surprises lead to a consistent pattern—firms raise their inflation expectations and simultaneously become more pessimistic about the economic outlook, regardless of macroeconomic conditions.

Third, our study extends beyond expectation revisions by examining how these shocks influence firms' high-frequency financial decisions. We provide novel evidence that firms adjust their FX management strategies immediately after policy and inflation announcements, increasing FX holdings in response to inflation surprises and reducing them following unexpected monetary

tightening. This highlights that firms not only revise their expectations but also actively manage their financial positions to hedge against macroeconomic risks, demonstrating the broader implications of policy and inflation announcements for corporate decision-making.

3 Firm Level Data and Monetary Policy Surprises

Our study utilizes multiple administrative databases provided to the Central Bank of the Republic of Türkiye (CBRT) by various government agencies. The analysis is based on four primary data sources: (1) the CBRT’s monthly Business Tendency Survey, (2) annual balance sheet and income statement data submitted by firms to the Revenue Administration, (3) annual employment data from the Social Security Institution, and (4) firm-level daily foreign exchange (FX) market transaction data collected from banks operating in Türkiye, which provides high-frequency information on all FX transactions conducted by non-financial firms. These datasets are integrated into a unified and comprehensive monthly dataset using unique firm identifiers, ensuring consistency and eliminating duplication across sources. This consolidated dataset enables a detailed analysis of the heterogeneous effects of monetary policy and inflation surprises on firms’ inflation expectations in Türkiye. The study covers the period from January 2015 to December 2024.

3.1 Firm Level Dataset

This study leverages a unique dataset derived from the Business Tendency Survey (BTS), conducted by the CBRT. The BTS gathers monthly survey responses from a representative sample of 1,800 to 2,200 manufacturing firms, with slight year-to-year fluctuations in sample size. These firms report both their general business outlook and actual outcomes and forecasts for various metrics, including capacity utilization, orders, and inventories.¹⁰ Respondents indicate whether these indicators have risen, fallen, or remained unchanged in the past three months and also provide expectations for the following three months. Additionally, firms report their annual inflation

¹⁰See Table-A1 for the survey questionnaire.

expectations in numeric form for the upcoming twelve months. Because the exact date on which each firm completes the survey is recorded, we can analyze expectations within a specific window around FOMC meetings or inflation announcements, enabling us to isolate the impact of these announcements and limit confounding information effects.

Beyond the BTS data, the Revenue Administration provides the CBRT with annual balance sheets and income statements for all Turkish firms subject to balance-sheet reporting. This covers only non-financial private sector firms, excluding those in financial or public domains.¹¹ The dataset also contains annual firm-level employment information, which allows us to determine firm size and track employment growth over time.¹²

Lastly, data on spot foreign exchange (FX) market transactions is sourced from banks operating in Türkiye. This dataset provides high-frequency (daily) information on all spot FX buying and selling transactions conducted by firms. In Türkiye, exporter firms are required to exchange a portion of their export revenues with the central bank. For this analysis, export revenue sales have been excluded, allowing us to focus on the effects of firms' inflation expectations on other net currency purchases and sales.

We exclude firm-year observations showing inconsistent or implausible values—such as negative employment, total assets, or net sales—to ensure we capture only economically active firms. In our refined sample, firm characteristics from balance-sheet data and employment are updated annually, while other indicators vary monthly.¹³ To mitigate the influence of outliers, we apply a 1% winsorization to all firm-level variables each year.

¹¹The dataset primarily includes incorporated companies (e.g., limited liability firms) that must submit financial statements under the corporate income tax regime. By contrast, unincorporated entities (e.g., sole proprietorships) operating under the personal income tax regime are only required to file if they surpass certain size thresholds.

¹²These data come from the Social Security Institution, covering employees hired under service contracts per Article 4/a of the Social Security Law No. 5510. Therefore, the dataset does not include self-employed individuals.

¹³The data provided by these institutions are furnished to the CBRT under anonymized firm IDs and can be accessed for on-site analysis. Additionally, the Ministry of Industry and Technology's Entrepreneur Information System laboratory maintains balance-sheet, income-statement, and employment data.

3.2 Monetary Policy and Inflation Surprises

We construct monetary policy and inflation surprises using financial analysts' forecasts collected by Bloomberg.¹⁴ A critical condition for accurately identifying these shocks is that forecasts must incorporate all relevant information available up to the policy meeting or data release. Traditional surveys of professional forecasters often fall short in this regard, as they collect projections at fixed intervals—sometimes days or weeks before the announcement—potentially overlooking crucial economic developments that influence central bank decisions. Consequently, policy responses to new data can introduce endogeneity, complicating the identification of exogenous monetary policy and inflation shocks. We focus on forecasts submitted within the week leading up to the monetary policy announcement. Our findings indicate that forecasts submitted earlier tend to have larger absolute forecast errors, suggesting that waiting longer allows forecasters to incorporate additional information and improve accuracy (Figure-B1). To further examine the impact of forecast timing, we construct alternative measures of monetary policy surprises based on forecasts submitted within even shorter time frames before the announcement. As shown in Table-B1, these alternative series are highly correlated, reinforcing the robustness of our approach. Moreover, the results in Table-B2 suggest that analysts do not submit their forecasts at random intervals. Instead, forecasters appear to make strategic decisions about when to finalize and submit their predictions. In particular, when uncertainty surrounding the monetary policy decision is higher, analysts may deliberately delay their forecasts to gather more relevant information before making a prediction.

Bloomberg's platform addresses this issue by allowing analysts to continuously update their forecasts in real time until the policy decision is announced. This feature ensures that expectations reflect the most up-to-date economic information, minimizing timing gaps that could distort the measurement of policy surprises. As a result, estimates of monetary policy and infla-

¹⁴Similar methodologies have been employed in studies such as [Pericoli and Veronese \(2015\)](#), [Pescatori \(2018\)](#), [Gruss et al. \(2020\)](#), [Tillmann \(2023\)](#), and [Checo et al. \(2024\)](#). Additionally, we retrieve monetary policy surprises from the Survey of Market Participants, and the estimates from both sources exhibit a high degree of correlation, as shown in Figure-2.

tion surprises based on Bloomberg forecasts are more precise than those derived from traditional survey data.¹⁵

Consider the release of a Turkish macroeconomic indicator, y_t^i , on day t . For example, TURK-STAT publishes the Consumer Price Index (CPI) on the third day of each month, while the CBRT typically holds its Monetary Policy Committee (MPC) meetings between the second and fourth weeks. The key macroeconomic variables of interest—namely, the inflation rate and the policy rate—are announced on these respective dates. A surprise in variable y_t^i , where $i \in \{\text{policy rate, inflation}\}$, is defined as:

$$\text{Surprise}_t^i = y_t^i - \mathbb{E}[y_t^i | I_{t-\Delta^-}] \quad (1)$$

where y_t^i represents the actual announced value, and $\mathbb{E}[y_t^i | I_{t-\Delta^-}]$ denotes the consensus forecast from Bloomberg survey respondents, based on information available immediately before the release.

To ensure that monetary policy and inflation surprises are both valid and exogenous, we apply an orthogonalization procedure following [Bauer and Swanson \(2023\)](#).¹⁶ Specifically, we regress the initial surprise—calculated as the forecast error—on a comprehensive set of macroeconomic and financial indicators available before the announcement:

$$\text{Surprise}_t^i = \alpha + \beta \text{news}_t + \varepsilon_t \quad (2)$$

where news_t is a vector of forward-looking expectations, real economic indicators, price dynamics, and financial market conditions. Each variable is measured as the change between its value one month prior and the most recent data release available before the policy meeting. To cap-

¹⁵Bloomberg publicly discloses participants' forecasts, attributing them either to the institution alone or to both the institution and the individual researcher. This level of transparency enables market participants to assess the reliability and track record of each contributor. According to Bloomberg experts, most large organizations opt to display only their institutional name. This preference ensures a consistent and cohesive forecasting history, which is vital for accurately evaluating performance over time. This historical record serves as a key input for Bloomberg's ranking system, which assesses institutions based on the accuracy of their forecasts.

¹⁶Under the full-information rational expectations (FIRE) assumption, forecast errors should be unpredictable based on publicly available information at the time they are made ([Coibion and Gorodnichenko, 2015](#)).

ture price dynamics, we include three key measures: changes in headline inflation and in one-year- and two-year-ahead inflation expectations. Real economic activity is represented by the capacity utilization ratio, changes in industrial production growth, the one-year-ahead expected GDP growth rate, and the unemployment rate. Financial market conditions are accounted for by the percentage change in the Turkish Lira–US Dollar exchange rate, its one-year-ahead expected value, and stock market prices. By incorporating this structured set of variables, we create a robust framework for isolating the unexpected component of monetary policy decisions.

This approach mitigates two primary concerns. First, it reduces bias stemming from private information held by central banks that may shape market expectations. Second, it eliminates predictable components of policy decisions driven by observable economic conditions. By filtering out these endogenous factors, the orthogonalization process ensures that the resulting surprises capture genuine and unexpected shifts in monetary policy.

The residuals from this regression represent the orthogonalized monetary policy and inflation surprises:

$$\text{Surprise}_t^\perp = \varepsilon_t \quad (3)$$

This method effectively removes the influence of pre-existing market information and the central bank’s endogenous responses to macroeconomic conditions. Figure-2 illustrates the evolution of monetary policy shocks and inflation surprises over the 2015–2025 period.¹⁷

4 Attention and Inflation Volatility

Before analyzing the impact of monetary policy announcements and inflation news, we first examine why attention may vary with the state of the economy, as we discuss the state-dependency of our main results in detail in the next section. To do so, we employ a standard Bayesian learning framework to illustrate how attention increases with inflation volatility, following Pfauti (2024).

¹⁷Using Bloomberg forecasts instead of market participants’ expectations does not result in significant differences, as the shocks obtained from both sources are highly correlated.

First, assume that inflation follows an AR(1) process:

$$\pi_t = \rho \pi_{t-1} + \epsilon_t, \quad \epsilon_t \sim N(0, \sigma_\epsilon^2).$$

Because $|\rho| < 1$, the process is stationary with steady-state variance $\text{Var}(\pi_t) = \frac{\sigma_\epsilon^2}{1-\rho^2}$. Suppose that at time t an agent receives a noisy signal:

$$s_t = \pi_t + \omega_t, \quad \omega_t \sim N(0, \sigma_\omega^2),$$

and holds a prior forecast $\hat{\pi}$ with variance P . Bayesian updating then implies:

$$\hat{\pi}_{t|t} = \hat{\pi} + K(s_t - \hat{\pi}) = (1 - K)\hat{\pi} + K s_t,$$

where the optimal Kalman gain in steady-state is¹⁸

$$K = \frac{P}{P + \sigma_\omega^2} = \frac{\frac{\sigma_\epsilon^2}{1-\rho^2}}{\frac{\sigma_\epsilon^2}{1-\rho^2} + \sigma_\omega^2}.$$

Here, $\frac{\sigma_\epsilon^2}{1-\rho^2}$ is the agent's prior uncertainty about inflation. In a volatile environment, σ_ϵ^2 is larger, leading to a higher steady-state prior variance and thus a higher K . Consequently, the agent "learns" more from new signals, which we interpret as greater attention. In our context, we distinguish between environments by the magnitude of σ_ϵ^2 : a stable (low-noise) regime of pre-2020 with small σ_ϵ^2 and a volatile (high-noise) regime of post-2020 with large σ_ϵ^2 . We expect a larger response to monetary policy announcement and inflation news in the latter period as firms' put more weights on new signals.

First, before analyzing the impact of announcements, our aim is to estimate attention in a

¹⁸Optimal K on the new signal s_t arises from minimizing the mean squared error of the forecast, $\mathcal{L}(\hat{\pi}_{t|t}) = \mathbb{E}[(\pi_t - \hat{\pi}_{t|t})^2 | s_t]$.

dynamic setting. Bayesian updating implies that the posterior forecast at time t is:

$$\pi_{t|t}^e = \pi_{t|t-1}^e + K_t (s_t - \pi_{t|t-1}^e) = (1 - K_t) \pi_{t|t-1}^e + K_t s_t,$$

where the gain K_t is endogenously determined (for instance, via a Kalman filter) and increases with prior uncertainty. Let $\pi_{t|t-1}^e$ denotes the agent's prior forecast based on information up to time $t - 1$. Given the AR(1) process, the one-step-ahead forecast for period $t + 1$ reflects the long-run inflation mean $\bar{\pi}$ and the persistence ρ as:

$$\pi_{t+1|t}^e = (1 - \rho) \bar{\pi} + \rho \pi_{t|t}^e.$$

Substitute the updated $\pi_{t|t}^e$ into this expression:

$$\pi_{t+1|t}^e = (1 - \rho) \bar{\pi} + \rho \left[\pi_{t|t-1}^e + K_t (s_t - \pi_{t|t-1}^e) \right].$$

Rewriting,

$$\pi_{t+1|t}^e = (1 - \rho) \bar{\pi} + \rho \pi_{t|t-1}^e + \rho K_t (s_t - \pi_{t|t-1}^e).$$

Finally, replacing s_t with the observed inflation π_t and error term, the empirical regression to test attention level of firms becomes:

$$\pi_{t+1|t}^e = (1 - \rho) \bar{\pi} + \rho \pi_{t|t-1}^e + \rho K (\pi_t - \pi_{t|t-1}^e) + \eta_t.$$

where K captures the (steady-state) level of attention of firms, and $\eta_t = \rho K \omega_t$ is a scaled version of the noise term ω_t . Here, ρK_t reflects how strongly the agent updates forecasts when actual inflation π_t diverges from the prior forecast $\pi_{t|t-1}^e$. A larger gain ρK signals greater attention to new information. When volatility is high, the steady-state prior variance is larger, implying a higher Bayesian gain and thus greater attention to new signals.

To estimate attention, K , we run the following regression as in (Pfauti, 2024):

$$\pi_{i,t+1|t}^e = \beta_0 + \beta_1 \pi_{i,t|t-1}^e + \beta_2 (\pi_t - \pi_{i,t|t-1}^e) + \alpha_i + \delta_{st} + \phi_p + \eta_t. \quad (4)$$

where $\beta_1 = \rho$ and $\beta_2 = \rho K$ such that attention $K = \frac{\beta_2}{\beta_1}$. The specification includes firm (α_i), sector-time (δ_{st}), and province (ϕ_p) fixed effects. The panel structure of the dataset allows us to estimate this model over 2015–2024, where inflation is relatively stable before 2018 but particularly volatile after 2020. This framework thus enables us to test how attention changes over time and how the volatility of inflation is related to the level of attention.

Figure-3 shows that firms' attention has increased from 2015 to 2024. In panel (a), we report regression estimates for the following subsample periods: 2015–2017, 2018–2020, 2021–2022, and 2023–2024. As both the level and the volatility of inflation rise, we observe a significant increase in the estimated K , indicating that firms pay more attention to new signals as their prior becomes less precise in a high and volatile inflation environment. In panel (b), we estimate the same model on an annual basis, and the results suggest a significant increase in attention over time, driven by heightened inflation volatility. Given these findings, we expect to observe substantial revisions in expectations surrounding monetary policy announcements and inflation outcomes, particularly in turbulent times.¹⁹

Lastly, we assess how persistence the (in)attention of firms during these different periods, as we regress their absolute forecast errors on their previous absolute forecast errors, following (Coibion et al., 2018). To assess the persistence of inattention, we first define the forecast error for firm i in industry j at time t as $FE_{i,t} = \pi_t - \pi_{i,t|t-1}^e$. To test whether firms that exhibit large forecast errors in one period tend to continue making large errors in subsequent periods, we estimate the following regression:

$$|\pi_{t+1} - \pi_{i,t+1|t}^e| = \alpha + \rho |\pi_t - \pi_{i,t|t-1}^e| + \alpha_i + \delta_{st} + \phi_p + \varepsilon_{i,t+1}, \quad (5)$$

¹⁹In a noisy-information model, agents partially rely on long-run anchors, forecasts can appear more adaptive or rule-of-thumb-like in periods of low volatility. This mechanism might explain the larger response observed in the post-2020 period compared to the pre-2020 period.

where $\pi_{i,t+1|t}^e$ reflects firm i 's forecast of 12-month-ahead inflation. Figure-4 shows how the persistence of inattention declines from 2015 to 2024. Firms in the pre-2018 period tend not to learn from their past forecast errors, as they are highly inattentive to new information and primarily rely on their priors. The estimated persistence coefficient is nearly 0.75—comparable to the levels documented in low and stable inflation environments (Coibion et al., 2018). Such a high degree of persistence indicates economically significant information rigidities. Furthermore, it is important to note that persistence in inattention is highly negatively correlated with attention, documented in Figure-3. After establishing the presence of information rigidities and their variation across different subsamples, we now examine the impact of monetary policy and inflation surprises on firms' expectations. Based on the findings presented here, we discuss the state-dependency of these effects in the next section.

5 Impact of MP and Inflation Surprises on Expectations

5.1 Identification Method and Estimation

BTS is conducted on a monthly basis, spanning a period of approximately 2 to 3 weeks. During this window, firms have the flexibility to submit their responses at any point in time. Figure-5 illustrates the timeline of a typical survey wave alongside our identification strategy. Our approach leverages the staggered nature of firm responses relative to key macroeconomic announcements. Specifically, we focus on monetary policy and inflation announcements that occur within the BTS administration window. To assess the impact of these announcements on firms' expectations, we compare the responses of firms that completed the survey just before the announcement to those that responded shortly after. Specifically, we estimate the following regression:²⁰

$$y_{it} = \beta_0 + \beta_1 \mathbf{Post}_{it} + \beta_2 \mathbf{Post}_{it} * \mathbf{S}_t + \Gamma X_{it-1} + \alpha_i + \delta_{st} + \phi_p + \varepsilon_{it} \quad (6)$$

²⁰A similar estimation methodology is used by Lamla and Vinogradov (2019), Binder and Brunet (2022), De Fiore et al. (2022), and Rast (2022) for households, and by Enders et al. (2019) and Di Pace et al. (2024) for firms.

where y_{it} represents firm i 's expectations regarding the inflation, price, unit cost, volume expectations and the overall economic outlook at a given year-month t . $\mathbf{Post}_{it}$ is a dummy variable that equals 1 if the firm completes the survey within five days after the announcement and 0 otherwise. Alternatively, we also estimate the results for three-day and seven-day windows before and after the MPC or inflation announcements. $\mathbf{S}_t$ represents the orthogonalized monetary policy and inflation surprises. To account for firm-specific heterogeneity, we incorporate firm fixed effects (α_i), and sector-time fixed effects (δ_{st}) to capture broader sectoral trends and mitigate potential confounding influences arising from macroeconomic fluctuations at the sectoral level. Furthermore, we control for province fixed effects (ϕ_p) to account for regional differences that may influence firms' expectations. To further refine our estimation and control for firm-specific factors that may influence responses to monetary policy changes, we introduce a set of annual firm-level controls, denoted as X_{it-1} . These controls account for variations in firm size, financial health, and potential operational constraints, which could shape firms' expectations and reactions to economic conditions. Specifically, we include net sales, leverage (measured as the total debt-to-total assets ratio), firm age, and return on assets (ROA), where it is defined as the ratio of net profit to total assets and serves as a key indicator of a firm's profitability and efficiency.

Figure-6 illustrates the total number of survey respondents for each day of the month over the sample period. The distribution of responses reveals that the majority of firms submit their surveys during the second week, with a noticeable decline in submissions toward the end of the month. This pattern suggests that when an announcement occurs late in the month, the limited number of responses within the announcement window may pose challenges for inclusion in the analysis. However, in Türkiye, MPC announcements are predominantly scheduled between the second and third weeks of the month, while inflation announcements typically occur in the first week. Given this structure, we define our baseline announcement window as a symmetric five-day period around both MPC and inflation announcements.²¹

Our identification strategy relies on the assumption that firms submit their survey responses

²¹ Results for alternative windows—three-day and seven-day—are provided in Appendix C.

randomly throughout the month, meaning that the timing of their responses is not systematically related to firm characteristics or the monetary policy (or inflation) announcement.²² In other words, the probability of filing survey responses before or after the MPC announcement is assumed to be exogenous with respect to firm-specific factors and unaffected by strategic timing behavior.

To empirically validate this assumption, we follow the methodology of [Bottone and Rosolia \(2019\)](#) and estimate a probit model predicting the likelihood of firms submitting their survey responses before or after the MPC or inflation announcement. This model incorporates past price expectations, firm size, leverage, firm age, net sales, industry classification, and exporter status as control variables. The results in [Figure-D1](#) indicate that the predicted probabilities of filing responses before or after the announcement are virtually identical, suggesting that the decision to submit responses is not influenced by the observed firm characteristics considered.

Additionally, to further assess the validity of our identification strategy, we compare the characteristics of firms that respond after the MPC or inflation announcement (the treatment group) with those that respond before the announcement. Specifically, we conduct an assignment into treatment regression, in which we regress a treatment dummy (indicating whether a firm responded after the announcement) on a set of firm characteristics. This regression includes key firm-level variables such as firm size (log of the number of employees), export share (exports as a percentage of total sales), profit margin (net profit-to-sales ratio), leverage (total debt-to-total assets ratio), along with firm, sector and province fixed effects. The results, presented in [Table-D1](#), show that none of the observable firm characteristics are statistically significantly correlated with treatment assignment. Moreover, the constant term remains stable across different specifications, ranging between 0.50 and 0.52, indicating that approximately 50% of firms were in the treatment group on average. Importantly, this proportion remains unchanged even when controlling for firm characteristics.

²²See [Table-A2](#) for evidence that firms responding before and after announcements are statistically similar in their observable characteristics.

We further reinforce our identification assumption by estimating an alternative specification that omits the interaction term ($\mathbf{Post}_{it} * \mathbf{S}_t$) between the treatment dummy variable—indicating the timing of firms’ responses—and macroeconomic shocks, following the methodology of [Di Pace et al. \(2024\)](#). The results of this alternative model are reported in Table-D2 and Table-D3 . Focusing on the coefficient of the treatment variable—indicating firms that complete the survey within the five days after the announcement window ($\mathbf{Post}_{it}$)—we find that it is not statistically significant. This suggests that the timing of a firm’s response—whether before or after the MPC announcement—does not predict variations in the moments of the firms’ expectation. Moreover, this result is consistent with our main findings, where the interaction term is included. These findings ensure that the variation in survey response timing relative to the MPC or inflation announcement is plausibly exogenous and not driven by firm-specific factors. As a result, our identification strategy effectively isolates the impact of monetary policy announcements on firms’ expectations without concerns of systematic selection bias.

5.2 Monetary Policy Surprises

Table-1 presents the core results regarding the impact of monetary policy announcements on firms’ expectations. The estimated coefficients indicate that these announcements have a highly significant effect. Specifically, a 1 percentage point (pp) monetary policy shock increases firms’ inflation expectations by 0.43 pp. This finding runs counter to the standard demand-side (intertemporal substitution) channel, wherein higher policy rates are typically assumed to reduce inflationary pressures by dampening aggregate demand, which leads to a decline in inflation expectations. Instead, our results suggest that firms perceive an unexpected rate hike as inflationary, likely associating higher rates with cost-push factors, such as increased financing costs. The impact on producer price index (PPI) expectations is even larger: a 1 pp monetary policy shock raises firms’ PPI inflation expectations by about 0.60 pp. One possible explanation is that firms anticipate other businesses passing on heightened financing costs through higher input prices,

reinforcing inflationary pressures rather than curtailing them.

Notably, this pattern does not appear to arise from an information effect ([Nakamura and Steinsson, 2018](#)), in which an unexpected rate hike might signal the central bank’s private information about a stronger future economy and thus spur higher inflation expectations. In contrast, we find that firms become more pessimistic about the economic outlook following a positive monetary policy shock (see Panel C of Table-1) and simultaneously raise their expectations of borrowing costs (Panel D of Table-1). If the information channel were operative, we would expect firms to anticipate stronger future demand and thus a more optimistic outlook. Instead, they foresee lower economic activity and higher financing costs in the next three months while simultaneously revising inflation expectations upward—indicative of a supply-side interpretation, as the output and price expectations are negatively correlated. In this regard, firms’ reactions resemble those of households rather than professionals. [Andre et al. \(2022\)](#) documents that, following a monetary tightening, a majority of households expect inflation to rise. Similarly, firms do not adhere to the demand-side logic typically adopted by professionals; instead, they hold the opposite view—perceiving an interest rate hike as an inflationary shock rather than a disinflationary one.

Further support for this logic comes from our companion paper, [Akarsu et al. \(2024\)](#), which documents that an exogenous rise in firms’ inflation expectations (induced by an information RCT) leads firms not only to predict lower economic activity but also prompts them to adjust their actual behavior in the following months by reducing employment and sales. These findings reinforce the view that firms interpret monetary tightening primarily as a cost-push shock, which they expect to feed directly into both consumer and producer prices.

In [Appendix-C](#), to assess the robustness of our results, we replicate the analysis in Table-1 using alternative event windows. Specifically, we re-estimate the impact of monetary policy shocks using a 3-day and a 7-day window instead of the 5-day window used in Table-1. The estimated impact on expectations remains largely unchanged when using the 3-day window. However, the effect is slightly stronger when using the 7-day window, though widening the window increases

the risk of contamination from other factors.

Heterogeneity Analysis

Our heterogeneity results indicate that these results hold across various subsamples, though the magnitude of the monetary policy impact differs. For instance, small firms raise their inflation expectations by 0.48 percentage points in response to a 1 percentage point policy shock, compared to 0.36 percentage points among large firms. One possible explanation is that larger firms tend to be more attentive to monetary policy news, which moderates their response by anchoring expectations with stronger priors. Additionally, their lower sensitivity to financing costs may make them less reactive than smaller firms (Durante et al., 2022; Cloyne et al., 2023). Small firms also experience a sharper decline in economic optimism—approximately 0.042 points on a scale where 1 represents optimism and 3 represents pessimism—compared to a decline of 0.017 points among large firms, reflecting their greater exposure to economic fluctuations. A similar pattern emerges when considering leverage: highly leveraged firms, being more sensitive to financial conditions, exhibit a larger revision in their inflation expectations following a policy shock. However, because they anticipate a potential debt-erosion effect from higher inflation, their increase in pessimism is not as pronounced as that of low-leverage firms. The same pattern holds for PPI expectations, with small firms and highly leveraged firms again displaying more substantial adjustments.

Moreover, Table-2 shows that firms not only revise their expectations about the general economic outlook but also become more pessimistic about their own sales volume and employment levels over the next three months (Panel A-B). Similarly, they do not just adjust their CPI/PPI inflation expectations but also raise their own price and unit cost expectations (Panel C-D). This effect is slightly weaker for low-leverage firms, as they may perceive that higher borrowing costs will have a limited impact on their marginal costs, thereby mitigating the effect on their operations. In contrast, highly leveraged firms exhibit a significantly more pessimistic outlook, likely because the increased cost of borrowing disproportionately constrains their ability to sustain operations and invest.

Similarly, small firms also become more pessimistic about their sales and employment prospects, reflecting their heightened sensitivity to monetary policy fluctuations, as discussed above. This further suggests that borrowing cost fluctuations play a critical role in shaping firms' expectations when faced with a monetary policy surprise. Firms are highly attentive to these changes, and immediately after the policy shock, they revise their borrowing cost expectations upward. This effect is particularly pronounced for small firms, given their limited access to other forms of financing, which forces them to rely more heavily on bank loans. Likewise, highly leveraged firms raise their borrowing cost expectations more sharply in response to a surprise tightening, likely anticipating that banks will become less willing to extend credit to firms already under financial stress.

State- and Size-Dependency of the Response

As one of the main contribution of the paper, in Figure-7, we document the state-dependency of our results, showing that firms' reactions to monetary policy shocks vary depending on the broader economic environment. Attention to inflation may fluctuate over the business cycle, particularly in response to changes in inflation levels, as shown in the previous section and documented in the literature (Korenok et al., 2022; Bracha and Tang, 2024; Pfauti, 2024). Between 2015 and 2024, inflation in Türkiye exhibited substantial volatility. In the pre-2020 period, the average inflation rate was 11.2%, with a standard deviation of 4.5, while in the post-2020 period, the average inflation surged to 43.4%, with a standard deviation of 24.6. This shift represents an increase in the coefficient of variation from 0.40 to 0.57, indicating a transition from a relatively stable environment to one characterized by much greater uncertainty and inflationary turbulence. So, we expect to see a stronger response of firms to macroeconomic surprises in post-2020 period, as they are less likely to rely on their priors in this highly volatile environment.

Figure-7 demonstrates that firms' interpretation of monetary policy shocks (as well as inflation news, discussed later) changed significantly between these two periods. In the pre-2020 period, firms responded to a positive monetary policy shock by lowering their CPI and PPI expectations while also becoming more pessimistic about the economic outlook and reducing their sales ex-

expectations. This suggests that they viewed monetary tightening as a conventional demand-side contraction, similar to how professional forecasters interpret such shocks. However, in the post-2020 period, firms' reactions reversed—a monetary tightening now leads to an increase in CPI expectations, with the magnitude of the response nearly six times larger than in the earlier period. This might be due to the cost-push channel, as an increase in interest rates raises production costs (Ravenna and Walsh, 2006; Chowdhury et al., 2006; Beaudry et al., 2024). Alternatively, economic agents might associate higher interest rates with an increased risk of default, which raises the risk premium—particularly in countries with high levels of debt. This, in turn, can trigger capital outflows and lead to currency depreciation (Blanchard, 2004; Ha et al., 2025). The former explanation appears more plausible, as we provide evidence against the latter in Section-5.4. Moreover, firms believe even more strongly that tightening leads to a deteriorating economic outlook, and they lower their sales volume expectations accordingly.²³ In volatile environments, monetary tightening also alters firms' pricing behavior. An increase in inflation expectations following a monetary policy announcement not only raises their CPI expectations but also leads them to anticipate higher own-price levels and unit costs. However, this transition is not significant during stable periods, meaning that in relatively stable times, pricing behavior and unit cost expectations remain unchanged after monetary policy shocks (Figure-7).

This overall shift indicates that firms not only change the way they interpret policy shocks in different macroeconomic environments but also adjust the strength of their response. In a stable, low-inflation environment, firms align more closely with professional forecasters, interpreting monetary tightening as a contractionary demand shock that reduces inflation expectations (Panel A) and worsens the economic outlook (Panel C), consistent with standard economic theory. However, in a high-inflation and volatile environment, firms behave more like households, viewing monetary tightening as a cost-push shock that raises inflation expectations (Andre et al., 2022). This finding underscores the importance of inflation volatility in shaping firms' beliefs and highlights how monetary policy transmission varies across macroeconomic conditions.

²³This is consistent with the state-dependent attention documented in Figure-3.

Consistent with the view that firms behave more like professionals in a stable environment, they become more pessimistic about the economic outlook while simultaneously lowering their inflation expectations in the pre-2020 period. This pessimism is also reflected in their sales volume and business activity expectations (Panel D). In other words, in a low and stable inflation environment, firms tend to interpret economic fluctuations through a demand-side lens, expecting weaker demand to drive lower inflation. However, in a high and volatile inflation environment, their interpretation shifts toward a supply-side perspective, associating economic fluctuations with rising costs and inflationary pressures.

Regarding the weight of the signal, firms tend to revise their inflation expectations downward in relatively stable periods, but the magnitude of this decline remains moderate, likely because they hold strong priors on inflation during the pre-2020 period. Although an 11% average inflation rate may seem low in the Turkish context, it is still relatively high, and prior research suggests that firms become highly attentive once inflation surpasses 4% ([Weber et al., 2023](#); [Korenok et al., 2022](#)). Given Türkiye's prolonged exposure to high inflation, firms are expected to be well-informed about inflation dynamics and to rely heavily on their established expectations ([Cavallo et al., 2017](#)). As a result, when they receive a monetary policy surprise in a stable environment, they revise their expectations cautiously, assigning a lower weight to the new information. This cautious updating may be due to their perception that deviations from a stable trend are likely transitory or modest, making frequent adjustments less necessary. When short-term fluctuations are not perceived as "high stakes," firms update their expectations more sluggishly, as rational inattention literature suggests ([Coibion and Gorodnichenko, 2012](#)).

In contrast, the post-2020 period, marked by heightened inflation volatility and macroeconomic uncertainty, presents a compelling case for analyzing firms' responses through the lens of rational inattention. While firms remain attentive, their approach to processing and reacting to new information shifts, as increased uncertainty weakens their reliance on prior beliefs and amplifies the importance of incoming signals. According to rational inattention theory ([Sims, 2003, 2010](#)), economic agents allocate their limited attention to processing only the most valuable infor-

mation, adjusting their responsiveness based on the trade-off between information costs and expected benefits. In stable environments, firms rely more on their priors and update expectations infrequently (Mackowiak and Wiederholt, 2009; Maćkowiak and Wiederholt, 2015). However, in a more uncertain environment, where agents are more uncertain about the long-run inflation rate as the underlying stochastic process is more volatile, firms become less confident in their prior beliefs and assign greater weight to incoming signals (Afrouzi et al., 2023).²⁴ At the same time, under volatile inflation, as the “signal” becomes bigger and more variable (sharper movements in inflation), the expected benefits of more frequent information acquisition and faster updating go up, prompting agents to be more attentive. In other words, as inflation shocks become larger and more variable, the expected benefits of more frequent updates outweigh the cognitive costs, leading to stronger responses to monetary policy shocks (Maćkowiak and Wiederholt, 2015). Consequently, their adjustment in expectations is much larger, leading to a stronger response to monetary policy shocks in highly volatile environments.²⁵

After documenting the state dependency of firms’ responses, we next examine the size-dependency of firms’ responses. A strong size-dependent pattern emerges. Figure-8 shows that firms react significantly to both small and large monetary policy shocks, which contrasts with previous findings in the literature (Enders et al., 2019; Di Pace et al., 2024). However, the direction of their inflation expectations response depends on the magnitude of the shock. When the shock is small, firms lower their inflation expectations for both CPI and PPI, aligning more closely with the responses of professional forecasters. In contrast, when the shock is large, firms increase their inflation expectations for the next 12 months, exhibiting a pattern more similar to that of households. Despite these opposing reactions in inflation expectations, firms consistently expect economic activity to

²⁴ $F_t \pi_{t+h} = \omega \mu + (1-\omega) E[\pi_{t+h} | \Omega_t]$ is how forecasts are formed in a simple Bayesian environment, where ω is shrinkage factor and μ_i is long-run value of inflation. This approach allows for the updating of forecasts by combining prior beliefs with the newest available data in a way that reflects both private information and public signals. Importantly, in a high and volatile inflation environment, μ_i is itself time-varying. Consequently, an inflation shock affects not only the conditional expectation part, but also μ_i itself, resulting in substantially larger forecast revisions upon the arrival of new inflation data each month.

²⁵ However, the downside is that if signals are noisy, agents may overreact or become more erratic in their forecasts in the short run.

decline in both cases. This finding suggests that, regardless of how firms interpret the inflationary effects of monetary policy shocks, they consistently associate monetary tightening with worsening economic conditions.

Overall, the results point to a stagflationary interpretation on the part of firms: a monetary tightening that increases financing costs also raises production costs and thus inflation expectations, while simultaneously dampening the economic outlook.²⁶ Firms, as price setters, are primarily supply-side actors yet remain directly exposed to fluctuations in customer demand. In response to a tightening shock, rising financing costs—stemming not only from higher user costs but also from reduced net worth and diminished collateral values—lead to increased production costs and elevated inflation expectations. This cost-push effect makes firms more pessimistic about the economic outlook. Although the initial surge in costs prompts firms to revise their inflation expectations upward, the full impact of monetary policy on demand typically materializes with a lag.²⁷ Consequently, downward adjustments on inflation expectations may evolve as demand pressures gradually emerge over the longer horizon. On the other hand, the state-dependency analysis reveals that in periods of relatively low and stable inflation, firms interpret monetary tightening more in line with professional forecasters. In such an environment, they expect both lower inflation and weaker aggregate and firm-level activity following a policy shock, aligning with the standard demand-side interpretation of monetary policy transmission. This contrast suggests that firms’ perceptions of monetary policy shocks are highly state-dependent, shifting between demand-side reasoning in stable conditions and cost-push interpretations in high-inflation environments.

²⁶An unexpected increase in the policy rate causes asset prices to fall, which reduces borrowers’ net worth and diminishes the collateral value of their assets. This, in turn, raises the external finance premium on debt, making financing more expensive, not only due to higher user costs but also via the impact on firms’ balance sheets and lending terms (Kiyotaki and Moore, 1997; Bernanke et al., 1999).

²⁷The Phillips curve can be modified if the real interest rate is included in the marginal cost, as shown in (Beaudry et al., 2024):

$$\pi_t = \beta E_t \pi_{t+1} + \kappa(\gamma_y y_t + \gamma_r(i_t - E_t \pi_{t+1})) + \mu_t$$

where marginal cost is given by $(\gamma_y y_t + \gamma_r(i_t - E_t \pi_{t+1}))$. On impact, a higher nominal interest rate can increase marginal cost, while its delayed effect on output materializes later, reducing demand and pushing marginal cost down.

In short, these findings offer novel insights into how firms in both high, volatile inflation environments and relatively low, stable environments interpret and respond to monetary policy actions. As suggested in the literature (Coibion et al., 2018, 2020b), this response may be state-dependent. We provide significant empirical evidence for this by using high-frequency variation in firms' expectations.

5.3 Inflation Surprises

As documented in Table-3, we examine the impact of inflation news on firms' CPI and PPI expectations within a narrow event window, applying a similar methodology. The effect is highly significant: a 1 percentage point unexpected inflation shock in a monthly announcement leads to a 0.18 percentage point increase in firms' CPI inflation expectations for the next 12 months and a 0.31 percentage point rise in their PPI inflation expectations. This suggests that firms anticipate some degree of persistence in the inflation shock, as a fully transitory shock would only raise inflation expectations for the next 12 months by approximately 0.09 percentage points. We also observe an immediate effect on firms' own price and unit cost expectations following the shock (Table-4), indicating that aggregate inflation news not only shifts firms' broad inflation expectations but also directly influences their anticipated pricing and cost structures. Consistent with the supply-side interpretation, firms associate a positive inflation shock with a worse economic outlook (Table-3), mirroring the behavior of households documented in Andre et al. (2022). Moreover, as shown in Table-4, firms' pessimism extends beyond aggregate economic activity expectations and is also reflected in firm-level expectations, such as sales volume and employment projections. Additionally, firms expect higher nominal borrowing costs, likely anticipating monetary tightening in response to a positive inflation surprise. These findings reinforce the notion that in a high-inflation environment, economic agents—whether households or firms—are more likely to perceive rising inflation as a cost-push phenomenon that suppresses output rather than as an indicator of strong future demand.²⁸

²⁸For evidence on household behavior in high-inflation environments, see (Aktug and Atesagaoglu, 2024).

The state-dependency analysis, as shown in Figure-9, illustrates how firms' responses to inflation news differ between stable and volatile inflation environments. A positive inflation surprise increases firms' inflation expectations for the next 12 months, but the impact is significantly larger in the post-2020 period. Specifically, the estimated effect is 0.04 in the pre-2020 period, whereas it rises to 0.2 in the post-2020 period. A similar pattern holds for PPI, though with a higher pass-through, as documented earlier. These results align with the heightened attentiveness observed during more volatile periods. When the underlying inflation trend becomes more uncertain, firms can no longer rely on their long-term inflation priors and instead assign greater weight to incoming signals. Within five days of the announcement, firms immediately incorporate the new information into both their CPI and PPI inflation expectations.

Crucially, this change is also reflected in firms' own price expectations and unit cost expectations. Firms with higher aggregate inflation expectations anticipate not only price increases but also rising unit costs. However, the pass-through from aggregate inflation expectations to firm-level expectations is only significant in the post-2020 period, whereas no such effect is observed in the pre-2020 period (Figure-9).

The heterogeneity analysis across all tables suggests that small firms are more responsive to inflation news compared to large firms, and highly leveraged firms are more reactive to inflation surprises than their low-leverage counterparts. These firms adjust their expectations about inflation, economic outlook, firm-level prices, and sales more significantly, placing greater weight on incoming signals and relying less on their priors. This pattern mirrors the heterogeneity in responses to monetary policy shocks documented earlier, reinforcing the idea that firms with fewer resources or greater financial constraints are more sensitive to new macroeconomic information.

5.4 Impact on Foreign Exchange Transactions

Beyond examining how firms' expectations respond to monetary policy and inflation surprises, we also investigate how these surprises affect high-frequency decisions such as foreign exchange

(FX) purchases and sales, leveraging a rare dataset of daily firm-level transactions. Since firms have the flexibility to buy or sell foreign currency at any point before or after an announcement, we focus on their behavior around the announcement window rather than defining separate treatment and control groups. Instead of imposing a strict classification, we track firms' foreign currency transactions within a five-day window before and after the announcement. By aggregating these transactions over this period, we capture firms' responses to monetary policy and inflation-related news in a dynamic and time-sensitive manner.

To implement this approach, we leverage high-frequency administrative data covering all firms that maintain balance sheets, allowing for the construction of a novel panel dataset. This dataset records each firm's foreign currency purchases and sales twice—once in the pre-announcement period and once in the post-announcement period. By structuring the data in this way, we can effectively isolate and analyze the impact of the announcement on firms' foreign exchange behavior, shedding light on how firms adjust their currency holdings in response to policy signals and economic developments. Specifically, we estimate the following regression:

$$y_{it} = \beta_0 + \beta_1 \mathbf{Post}_{it} + \beta_2 \mathbf{Post}_{it} * \mathbf{S}_t + \alpha_{it} + \delta_{st} + \phi_p + \Gamma X_{it} + \varepsilon_{it} \quad (7)$$

where y_{it} represents the logarithm of foreign currency purchases and sales for firm i at time t . The variable $\mathbf{Post}_{it}$ is a dummy indicator that takes a value of 1 if the transaction occurs in the five days after the announcement and 0 if it occurs in the five days before the announcement. This setup allows us to capture the shift in firms' foreign currency behavior around the policy event. $\mathbf{S}_t$ represents monetary policy and inflation surprises, capturing unexpected changes in policy decisions or inflation outcomes that may influence firms' foreign exchange activities. In this identification strategy, we incorporate firm-time fixed effects (α_{it}), as our dataset tracks each firm twice within a month—once before and once after the announcement. These fixed effects allow us to compare each firm to itself over time, eliminating concerns that firm-specific, time-varying factors may drive foreign exchange behavior. Firm-time fixed effects also absorb all firm-

specific characteristics that vary over time, including idiosyncratic shocks, liquidity conditions, and firm-specific risk exposure that may influence foreign currency transactions. Additionally, we include sector-time (δ_{st}) fixed effects to control for industry-wide responses to economic conditions and province fixed effects (ϕ_p) to account for regional variations in firms' access to financial markets, regulatory conditions, and local economic activity, all of which may shape their foreign currency decisions. To further refine our analysis, we incorporate a set of firm-specific controls (X_{it}) that capture key financial and operational characteristics influencing firms' foreign exchange behavior. These controls include net sales, a proxy for firm size and revenue capacity; leverage, measured as the total debt-to-total assets ratio, reflecting firms' financial structure and borrowing constraints; firm age, representing maturity and experience in financial markets; return on assets (ROA), an indicator of profitability and financial health; imports, which capture exposure to international trade and sensitivity to exchange rate fluctuations; and foreign currency credits, reflecting firms' FX-denominated liabilities, which could influence their FX transactions.

In this specification, the coefficient β_1 captures the percentage change in a firm's foreign currency transactions in the five days after the announcement compared to the five days before the announcement, effectively isolating the immediate response of firms to the event. This coefficient reflects whether firms increase or decrease their foreign exchange activity following the announcement, independent of any external shocks. Meanwhile, β_2 quantifies the effect of a monetary policy or inflation surprise on a firm's foreign currency transactions, measuring the percentage change in FX transactions after the announcement relative to the pre-announcement period. This coefficient provides insights into how unexpected shifts in monetary policy or inflation influence firms' engagement in foreign exchange markets, capturing the extent to which firms adjust their currency purchases or sales in response to policy surprises. By structuring our model in this way, we ensure that our estimates reflect firms' direct reactions to monetary and inflation-related developments while accounting for firm-specific, sectoral, and regional dynamics.

The results in Table-5 show that, following an inflation announcement, firms increase their FX purchases while reducing their FX sales, leading to a net increase in FX holdings as they raise their

inflation expectations for the next 12 months in response to a positive inflation surprise (as documented in Table-3). This pattern reflects firms' hedging behavior against inflation, as they likely associate higher inflation with currency depreciation (Delgado et al., 2024; Pozdnyakova, 2025). By increasing their FX holdings, firms seek to protect themselves against potential depreciation shocks.

Moreover, Table-5 shows that following a monetary policy announcement in which the policy rate rises unexpectedly, firms reduce their FX purchases and increase their FX sales, thereby lowering their FX holdings. This suggests that firms anticipate an appreciation of the local currency when interest rates exceed market expectations, consistent with the uncovered interest parity (UIP) condition. In other words, the unexpected monetary tightening appears to outweigh other potential channels—such as inflation expectations—that might otherwise exert downward pressure on the domestic currency. This FX response is not in alignment with the FX puzzle in EMEs (Ha et al., 2025), which suggests that an interest rate hike increases the risk of default, raising the risk premium—particularly in countries with high levels of debt—thereby triggering capital outflows and leading to currency depreciation. We do not find evidence supporting this channel. However, it is worth noting that Türkiye's debt-to-GDP ratio has remained below 40% in the last decade.

Examining the heterogeneity of these responses, we find that firms in Türkiye are highly responsive to monetary policy announcements, adjusting their FX behavior almost immediately within a narrow window after the shock is realized. The decline in net FX holdings is more pronounced among large firms compared to small firms, and similarly, firms with lower leverage respond more strongly than those with higher leverage.

In summary, unexpected monetary policy and inflation announcements not only reshape firms' expectations but also prompt immediate adjustments in their FX management strategies as firms seek to hedge against potential currency fluctuations.

6 Conclusion

This paper examines how monetary policy committee announcements and inflation surprises affect Turkish firms' expectations and behavior between 2015 and 2024, a period spanning both relatively stable and highly volatile inflation environments. Our findings indicate that, in stable conditions, a positive monetary policy shock lowers firms' inflation expectations, aligning with the conventional demand-side channel typically emphasized by professional forecasters. By contrast, under high and volatile inflation, monetary tightening leads to a stagflationary interpretation: firms significantly raise their inflation expectations while simultaneously becoming more pessimistic about the economic outlook. This state-dependent response highlights how elevated uncertainty and inflation volatility prompt firms to place greater weight on signals, thereby revising their expectations more aggressively.

We also demonstrate that inflation surprises play an important role in shaping firms' beliefs and actions. A positive inflation surprise triggers a significant increase in both CPI and PPI expectations, in any state of the economy, yet the impact is much larger in volatile periods. Hence, the pass-through from aggregate inflation shocks to firms' own outlook is particularly pronounced in high-volatility regimes, reflecting intensified reliance on incoming information when prior beliefs lose credibility.

Additionally, we provide evidence that these revised expectations carry over into immediate financial decisions. Employing a unique dataset on daily foreign exchange transactions, we find that a positive inflation surprise leads firms to increase their FX holdings—likely to hedge against anticipated currency depreciation—whereas a positive monetary policy shock prompts them to reduce FX positions, consistent with the expected appreciation of the local currency. These results show that policy and inflation surprises do not merely reshape firms' macroeconomic expectations; they also induce rapid adjustments in FX management strategies.

Taken together, our findings suggest that in high-inflation and highly uncertain contexts, firms pay especially close attention to new macroeconomic signals, responding in ways that differ markedly

from the textbook demand-side view. By documenting substantial shifts in both aggregate and firm-level expectations and real-time financial decisions, this study underscores the vital importance of macroeconomic volatility in shaping how policy announcements and inflation news propagate through the economy. We conclude that monetary policy communication and the broader policy toolkit need to account for these state-dependent and firm-level dynamics to effectively anchor expectations and stabilize economic outcomes in turbulent inflationary environments.

Table 1: MPC Announcements and Firm's Inflation Expectations

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on CPI Expectations					
MPS * Post	0.434*** (0.131)	0.367** (0.147)	0.476*** (0.168)	0.451*** (0.173)	0.337** (0.156)
Post	-0.022 (0.111)	0.132 (0.170)	-0.064 (0.150)	-0.261* (0.148)	0.112 (0.155)
R-Squared	0.80	0.82	0.81	0.82	0.83
Observations	42,337	19,047	22,849	20,973	21,007
Panel B: Effect on PPI Expectations					
MPS * Post	0.599*** (0.181)	0.437** (0.186)	0.744*** (0.237)	0.876*** (0.251)	0.541** (0.249)
Post	-0.156 (0.150)	0.086 (0.244)	-0.299 (0.188)	-0.307 (0.212)	-0.114 (0.208)
R-Squared	0.77	0.79	0.78	0.79	0.80
Observations	42,866	19,129	23,280	21,239	21,282
Panel C: Effect on Economic Outlook					
MPS * Post	0.021*** (0.004)	0.017*** (0.005)	0.042*** (0.006)	0.019*** (0.005)	0.025*** (0.006)
Post	-0.004 (0.003)	-0.005 (0.005)	-0.007* (0.004)	-0.006 (0.004)	-0.007 (0.005)
R-Squared	0.39	0.40	0.43	0.42	0.43
Observations	46,292	20,593	25,234	22,994	22,935
Panel D: Effect on Borrowing Cost Expectation					
MPS * Post	0.021** (0.009)	0.023* (0.013)	0.026** (0.013)	0.026** (0.013)	0.018** (0.008)
Post	-0.038*** (0.007)	-0.039*** (0.011)	-0.031*** (0.012)	-0.043*** (0.010)	-0.036*** (0.011)
R-Squared	0.37	0.40	0.40	0.41	0.40
Observations	45,167	20,249	24,456	22,455	22,339
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: This table presents the estimation results for Equation-6. MPS stands for monetary policy shocks, measured as the difference between Bloomberg professionals' expectations and the announced rate, and then orthogonalized. The analysis is conducted using a 5-day window, with "Post" referring to the 5-day period following the monetary policy committee decision. The sample period is 2015M1-2024M12. Standard errors, clustered by firm, in parantheses. ***p<0.01, **p<0.05, *p<0.1.

Table 2: MPC Announcements and Firm's Volume, Employment and Borrowing Cost Expectations

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on Volume Expectations					
MPS * Post	-0.022** (0.011)	-0.018 (0.013)	-0.024*** (0.009)	-0.028*** (0.010)	-0.020* (0.012)
Post	-0.008 (0.007)	-0.019 (0.012)	0.002 (0.010)	-0.008 (0.010)	-0.010 (0.011)
R-Squared	0.82	0.80	0.82	0.81	0.84
Observations	48,058	21,443	26,149	23,798	23,900
Panel B: Effect on Employment Expectations					
MPS * Post	-0.015** (0.007)	-0.013** (0.006)	-0.018** (0.008)	-0.021*** (0.007)	-0.012* (0.007)
Post	-0.016* (0.009)	-0.018 (0.012)	-0.011 (0.012)	-0.021* (0.012)	-0.005 (0.012)
R-Squared	0.31	0.35	0.36	0.36	0.35
Observations	47,439	21,145	25,820	23,474	23,588
Panel C: Effect on Price Expectations					
MPS * Post	0.004*** (0.001)	0.002** (0.001)	0.006*** (0.002)	0.007*** (0.002)	0.002** (0.001)
Post	0.008 (0.005)	0.012 (0.007)	0.006 (0.007)	0.010 (0.007)	0.009 (0.007)
R-Squared	0.41	0.43	0.45	0.46	0.45
Observations	43,287	20,010	22,955	20,732	22,251
Panel D: Effect on Unit Cost Expectations					
MPS * Post	0.004*** (0.001)	0.003* (0.002)	0.005*** (0.002)	0.005** (0.002)	0.002 (0.002)
Post	0.003 (0.005)	0.005 (0.008)	0.005 (0.007)	0.007 (0.007)	0.002 (0.007)
R-Squared	0.40	0.43	0.44	0.45	0.434
Observations	43,715	20,191	23,200	20,915	22,494
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: This table presents the estimation results for Equation-6. MPS stands for monetary policy shocks, measured as the difference between Bloomberg professionals' expectations and the announced rate, and then orthogonalized. The analysis is conducted using a 5-day window, with "Post" referring to the 5-day period following the monetary policy committee decision. The sample period is 2015M1-2024M12. Standard errors, clustered by firm, in parantheses. ***p<0.01, **p<0.05, *p<0.1.

Table 3: Inflation Announcements and Firm's Expectations

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on CPI Expectations					
INFSURP * Post	0.178*** (0.036)	0.163*** (0.054)	0.198*** (0.041)	0.189*** (0.053)	0.170*** (0.050)
Post	-0.326* (0.169)	-0.264 (0.242)	-0.412* (0.217)	-0.285 (0.209)	-0.358 (0.232)
R-Squared	41,047	19,074	21,656	19,792	20,952
Observations	0.84	0.84	0.86	0.87	0.85
Panel B: Effect on PPI Expectations					
INFSURP * Post	0.312*** (0.054)	0.225*** (0.077)	0.391*** (0.075)	0.359*** (0.079)	0.265*** (0.072)
Post	-0.255 (0.214)	-0.463 (0.314)	-0.186 (0.279)	-0.182 (0.277)	-0.208 (0.287)
R-Squared	0.79	0.80	0.82	0.82	0.81
Observations	41,542	19,226	22,006	20,039	21,208
Panel C: Effect on Economic Outlook					
INFSURP * Post	0.005*** (0.001)	0.004** (0.002)	0.006*** (0.001)	0.008*** (0.002)	0.005*** (0.002)
Post	-0.002 (0.005)	-0.003 (0.008)	-0.008 (0.007)	0.003 (0.007)	-0.004 (0.008)
R-Squared	0.45	0.44	0.50	0.48	0.48
Observations	43,990	20,271	23,410	21,094	22,593
Panel D: Effect on Borrowing Cost Expectation					
INFSURP * Post	0.003*** (0.001)	0.002*** (0.001)	0.004*** (0.001)	0.006*** (0.002)	0.002** (0.001)
Post	-0.005 (0.006)	-0.003 (0.009)	-0.007 (0.008)	-0.002 (0.008)	-0.008 (0.009)
R-Squared	0.39	0.40	0.43	0.43	0.42
Observations	43,363	20,086	22,980	20,894	22,179
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: This table presents the estimation results for Equation-6. INFSURP stands for inflation surprise, measured as the difference between Bloomberg professionals' expectations and the announced monthly inflation rate, and then orthogonalized. The analysis uses a 5-day window, with "Post" referring to the 5-day period following the inflation announcement. The sample period is 2015M1–2024M12. Standard errors, clustered by firm, in parantheses. ***p<0.01, **p<0.05, p<0.1.

Table 4: Inflation Announcements and Firm's Volume, Employment and Borrowing Cost Expectations

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on Volume Expectations					
INFSURP * Post	-0.004*** (0.001)	-0.002** (0.001)	-0.007*** (0.002)	-0.010*** (0.004)	-0.002** (0.001)
Post	-0.002 (0.001)	-0.002 (0.002)	-0.001 (0.002)	-0.003 (0.002)	-0.001 (0.003)
R-Squared	0.35	0.35	0.41	0.40	0.37
Observations	45,293	21,012	23,966	21,579	23,416
Panel B: Effect on Employment Expectations					
INFSURP * Post	-0.005*** (0.002)	-0.002** (0.001)	-0.008*** (0.002)	-0.013*** (0.005)	-0.002** (0.001)
Post	-0.001 (0.001)	-0.001 (0.002)	0.002 (0.001)	-0.001 (0.002)	0.001 (0.001)
R-Squared	0.35	0.36	0.41	0.40	0.40
Observations	44,830	20,775	23,734	21,389	23,136
Panel C: Effect on Price Expectations					
INFSURP * Post	0.004*** (0.001)	0.002** (0.002)	0.006*** (0.001)	0.006*** (0.002)	0.002** (0.001)
Post	-0.004 (0.004)	-0.004 (0.006)	-0.007 (0.005)	-0.006 (0.006)	-0.005 (0.006)
R-Squared	0.44	0.46	0.48	0.48	0.47
Observations	46,743	21,505	24,921	22,269	24,175
Panel D: Effect on Unit Cost Expectations					
INFSURP * Post	0.004*** (0.054)	0.003** (0.077)	0.004*** (0.075)	0.005*** (0.079)	0.002** (0.072)
Post	0.005 (0.004)	0.001 (0.007)	-0.002 (0.006)	-0.001 (0.006)	0.008 (0.006)
R-Squared	0.43	0.45	0.47	0.48	0.46
Observations	46,743	21,505	24,921	22,269	24,175
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: This table presents the estimation results for Equation-6. INFSURP stands for inflation surprise, measured as the difference between Bloomberg professionals' expectations and the announced monthly inflation rate, and then orthogonalized. The analysis uses a 5-day window, with "Post" referring to the 5-day period following the inflation announcement. The sample period is 2015M1–2024M12. Standard errors, clustered by firm, in parantheses. ***p<0.01, **p<0.05, p<0.1.

Table 5: MPC and Inflation Announcements and Firm's Foreign currency Transactions

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on Foreign Currency Purchases					
MPS*Post	-0.011*** (0.002)	-0.017** (0.008)	-0.013*** (0.002)	-0.011*** (0.003)	-0.014*** (0.005)
Post	-0.011*** (0.003)	-0.044** (0.021)	-0.009*** (0.003)	-0.010** (0.005)	-0.017*** (0.005)
R-Squared	0.82	0.80	0.82	0.81	0.84
Panel B: Effect on Foreign Currency Sales					
MPS*Post	0.036*** (0.002)	0.048*** (0.013)	0.034*** (0.002)	0.033*** (0.003)	0.040*** (0.003)
Post	0.166*** (0.003)	0.159*** (0.023)	0.166*** (0.003)	0.172*** (0.004)	0.159*** (0.005)
R-Squared	0.81	0.78	0.81	0.80	0.82
Panel C: Effect on Foreign Currency Purchases					
INFSURP*Post	0.035*** (0.001)	0.045*** (0.009)	0.034*** (0.001)	0.034*** (0.002)	0.035*** (0.002)
Post	-0.240*** (0.004)	-0.628*** (0.026)	-0.217*** (0.004)	-0.244*** (0.006)	-0.236*** (0.006)
R-Squared	0.82	0.80	0.82	0.81	0.84
Panel D: Effect on Foreign Currency Sales					
INFSURP*Post	-0.028*** (0.001)	-0.062*** (0.008)	-0.026*** (0.001)	-0.025*** (0.002)	-0.028*** (0.002)
Post	-0.267*** (0.004)	-0.789*** (0.028)	-0.236*** (0.004)	-0.294*** (0.006)	-0.241*** (0.006)
R-Squared	0.81	0.78	0.81	0.80	0.82
Firm FE x Time FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓
Observations	2,998,614	173,680	2,824,934	1,507,006	1,491,608

Notes: This table presents the estimation results for Equation-7. MPS stands for Monetary Policy Surprise, measured as the deviation from expected policy changes announced by central banks and then orthogonalized against known economic factors. INFSURP stands for inflation surprise, measured as the difference between Bloomberg professionals' expectations and the announced monthly inflation rate, and then orthogonalized. The analysis uses a 5-day window, with "Post" referring to the 5-day period following the monetary policy announcement. The sample period is 2020M4–2024M12. Standard errors, clustered by firm, in parantheses. ***p<0.01, **p<0.05, p<0.1.

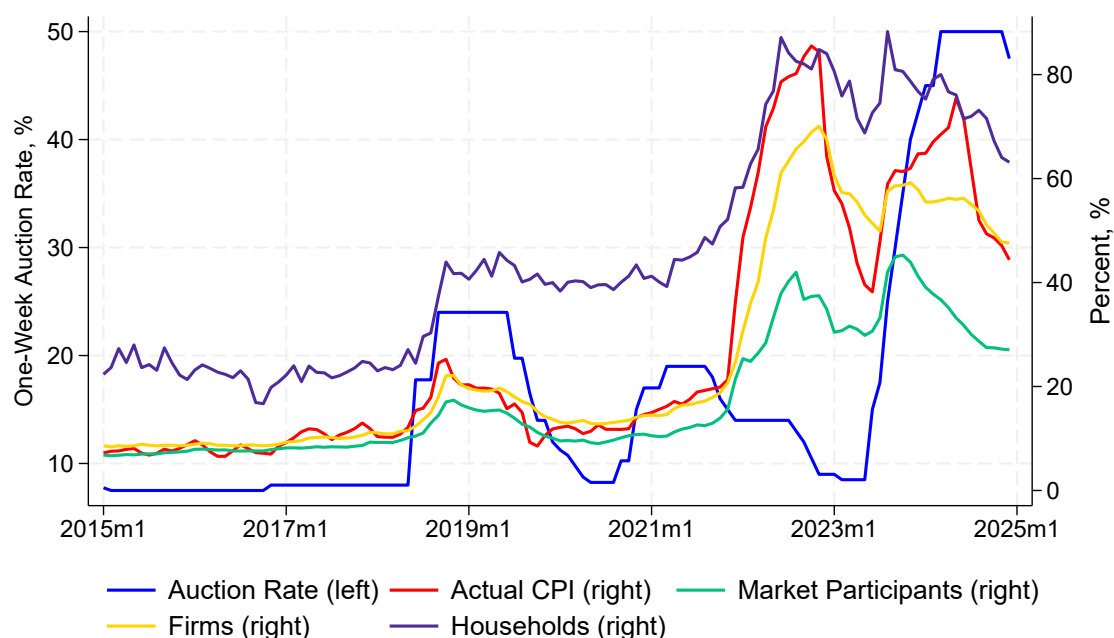
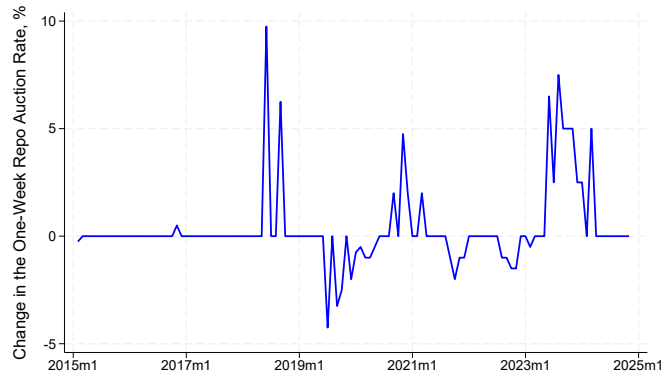
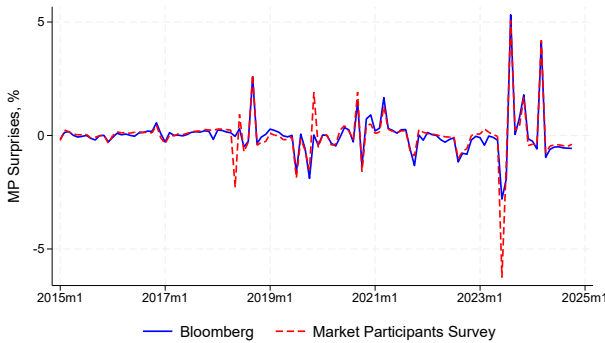


Figure 1: Time Series of CBRT's policy rate, Actual CPI and One-Year Ahead Market Participants', Firms' and Households' Inflation (CPI) Expectations

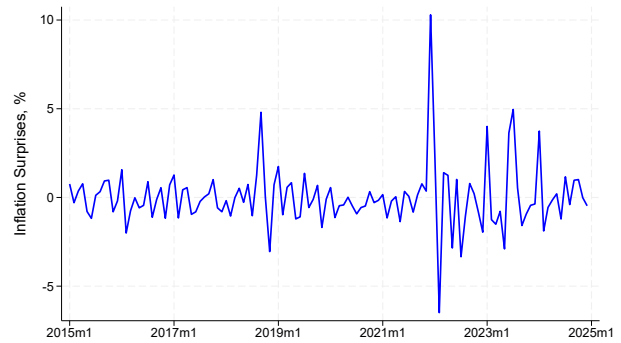
Notes: The figure presents the time series of one-year-ahead inflation expectations for households, firms, and market participants, alongside the actual CPI and the CBRT's one-week auction rate (policy rate). The sample period spans from January 2015 to December 2024.



(a) Policy Rate Change



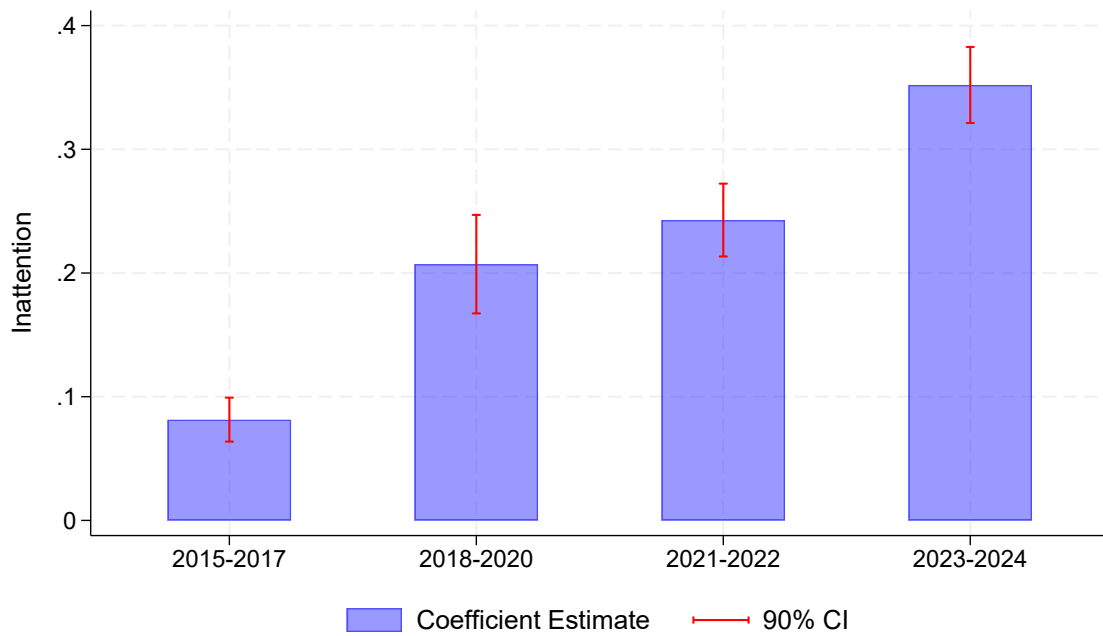
(b) Orthogonalized Monetary Policy Surprises



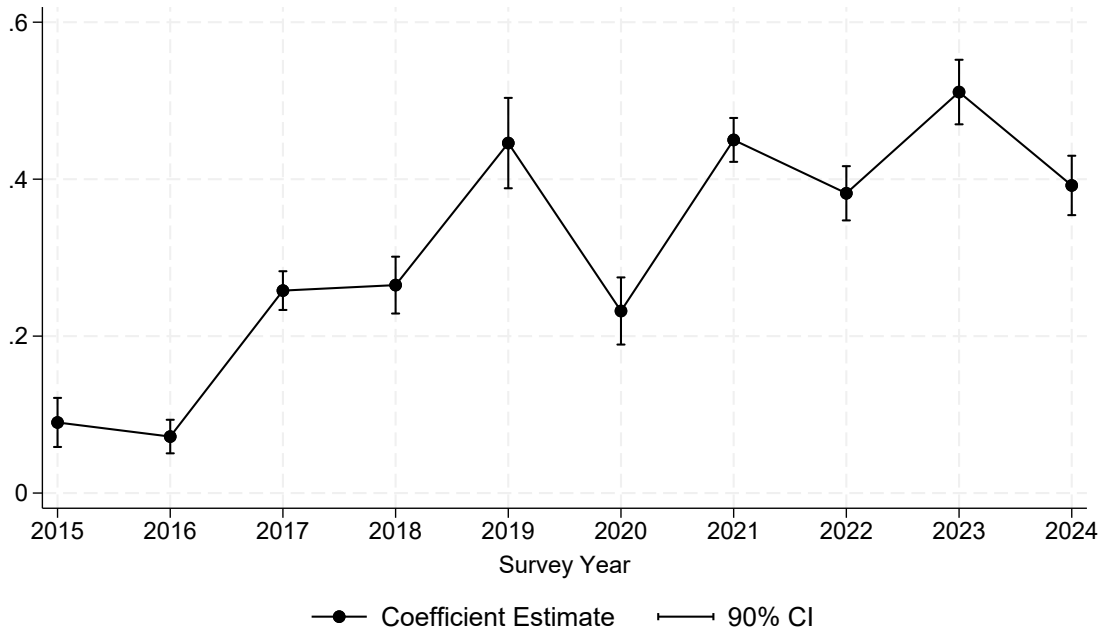
(c) Orthogonalized Inflation Surprises

Figure 2: Change in the CBRT's Policy Rate and Orthogonalized Monetary Policy and Inflation Surprises

Notes: The figure displays the orthogonalized monetary policy surprises derived from Bloomberg and the Market Participants Survey. They are measured as the difference between professionals' expectations and the announced rate, and then orthogonalized. The correlation between the two series is 0.95. Panel (c) displays the orthogonalized inflation surprises derived from Bloomberg forecasts.



(a) Rolling Window Coefficient Estimate for Firms' Attention



(b) Annual Coefficient Estimate for Firms' Attention

Figure 3: Event Study - Firm's Inattention

Notes: We estimate equation-4, following (Pfauti, 2024), to measure the attention level of firms over different time periods. Panel (a) presents the results over rolling windows, while panel (b) shows the results for each year. The lines around the estimates represent the 95% confidence intervals. Standard errors are clustered by firm.

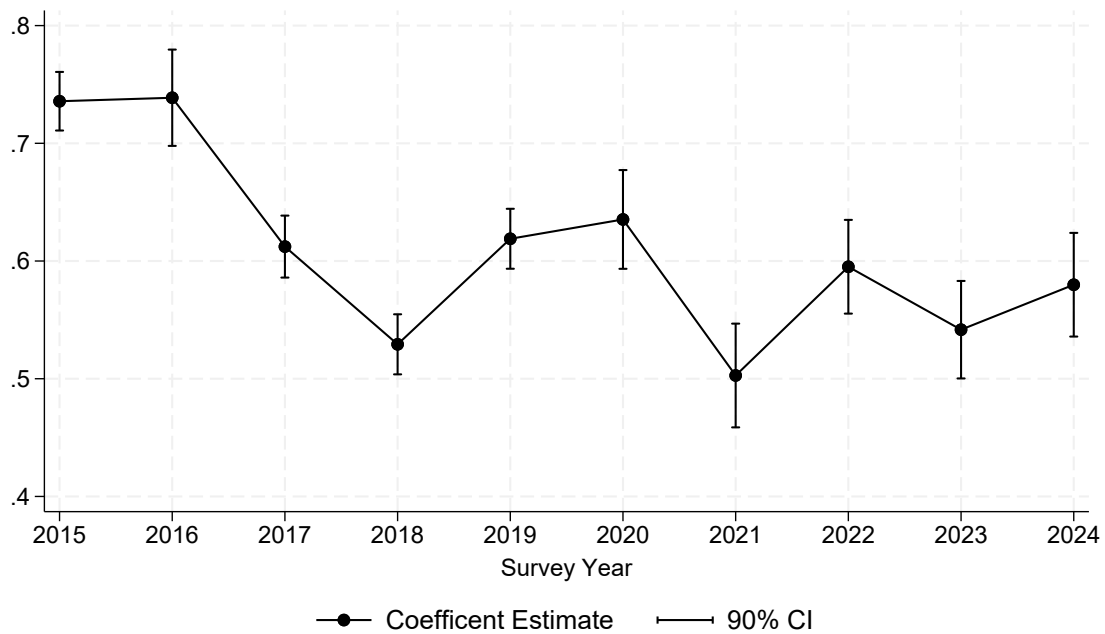


Figure 4: Event Study - Persistence of Inattention

Notes: We estimate equation-5, following (Coibion et al., 2018), to measure the persistence of firms' inattention over the years. The lines around the estimates represent the 90% confidence intervals. Standard errors are clustered by firm.

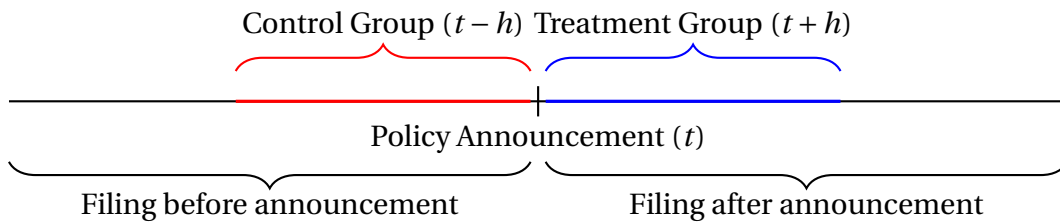


Figure 5: Timeline of Filling the Survey Relative to Announcement

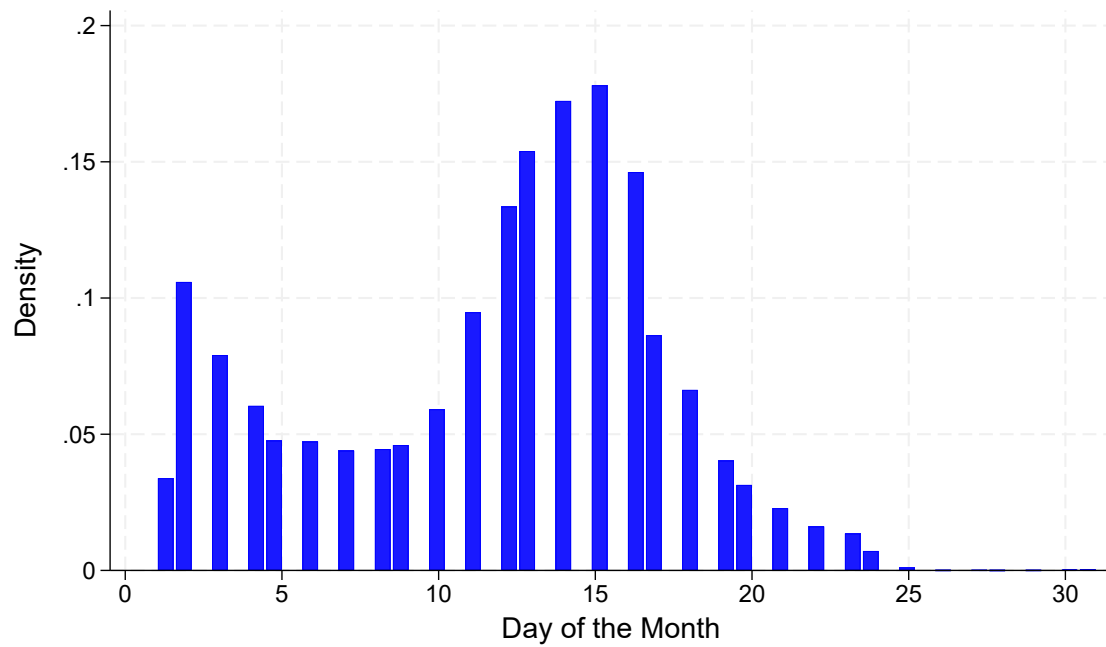
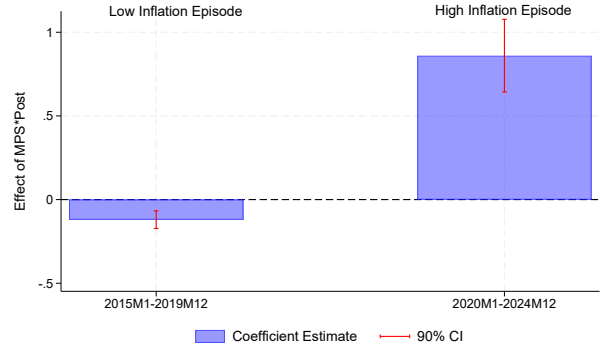
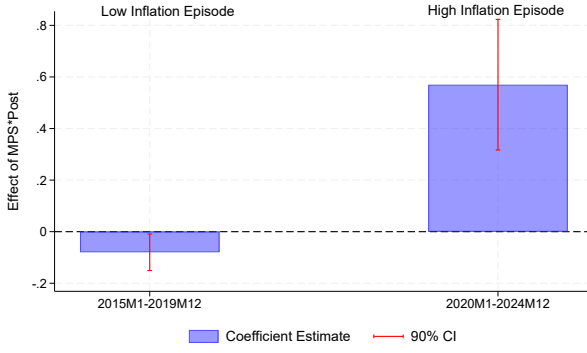


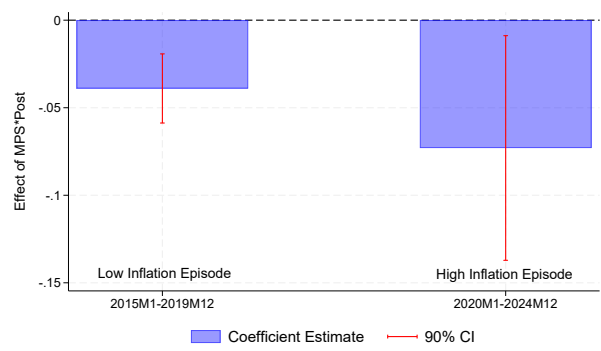
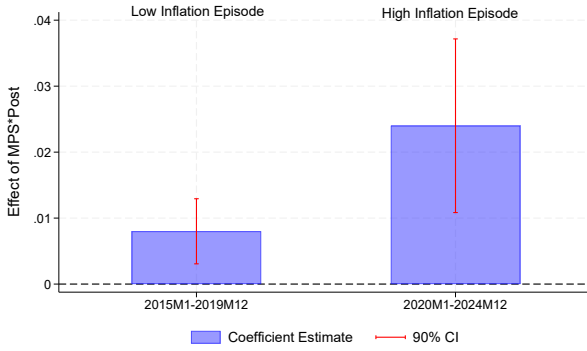
Figure 6: Distribution of the Survey Respondents by Day of the Month

Notes: The Business Tendency Survey is conducted monthly, but the exact response dates of firms are recorded. This analysis leverages high-frequency data for identification within a narrow window around announcements. The sample period is 2015M1–2024M12.



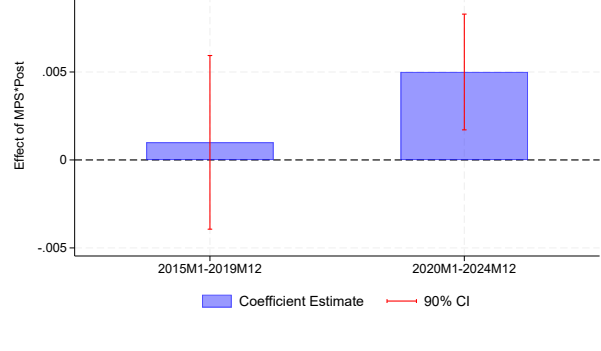
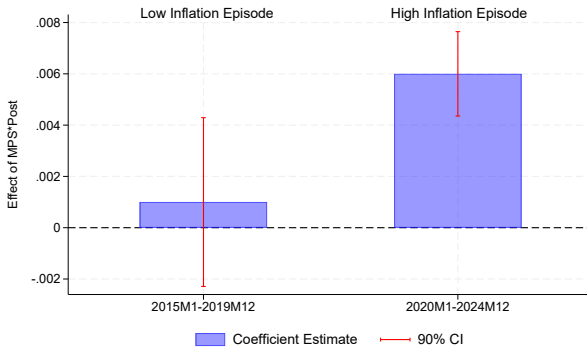
(a) One-Year Ahead CPI Expectations

(b) One-Year Ahead PPI Expectations



(c) Economic Outlook

(d) Three-Months Ahead Volume Expectations

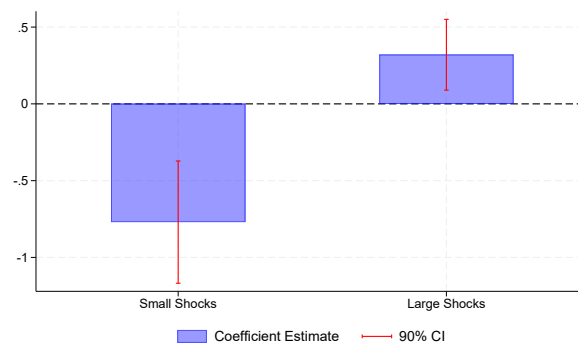
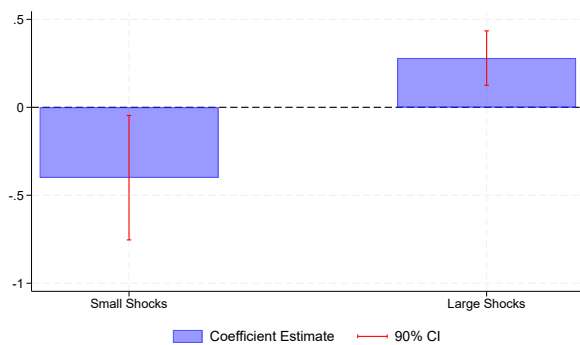


(e) Three-Months Ahead Price Expectation

(f) Three-Months Ahead Unit Cost Expectations

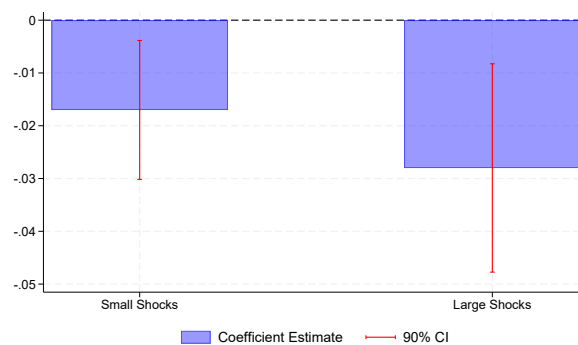
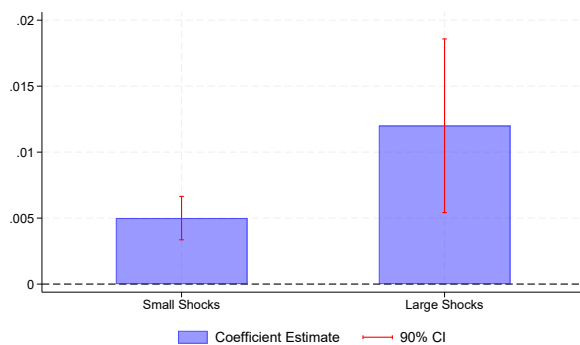
Figure 7: State-dependency of the Effect of MPC Announcements on Firm's Expectations

Notes: The estimates reflect the impact of monetary policy (MP) shocks on the selected variables, for two subsamples: 2015M1-2019M12 (low inflation period) and 2020M1-2024M12 (high and volatile inflation period). MP shocks are measured as the difference between Bloomberg professionals' expectations and the announced rate, then orthogonalized. The analysis is conducted using a 5-day window. The red line around the estimates represents the 90% confidence intervals. Standard errors are clustered by firm.



(a) One-Year Ahead CPI Expectations

(b) One-Year Ahead PPI Expectations

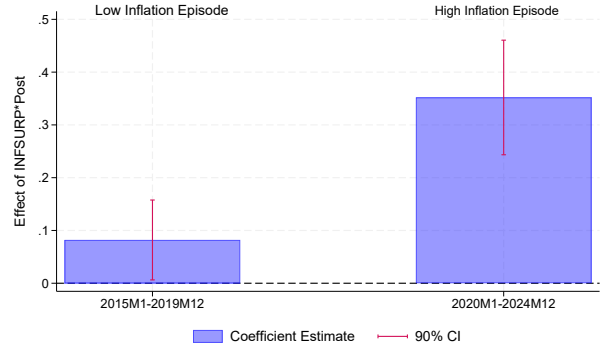
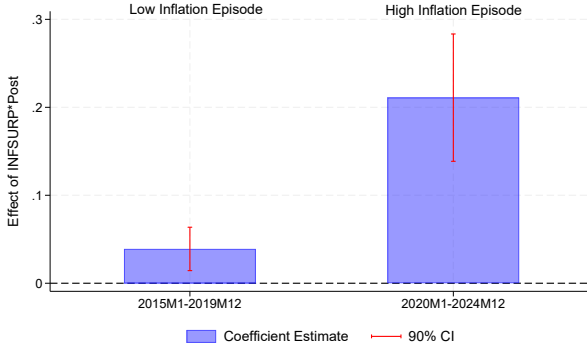


(c) Economic Outlook

(d) Three-Months Ahead Volume Expectations

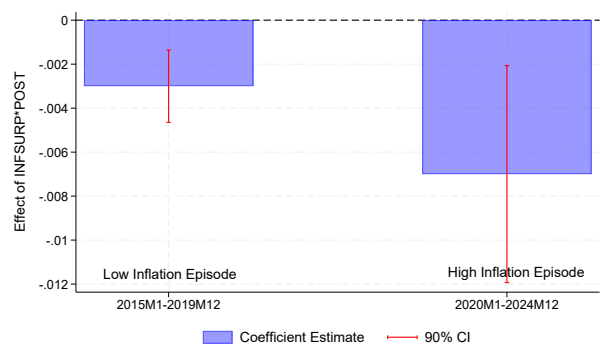
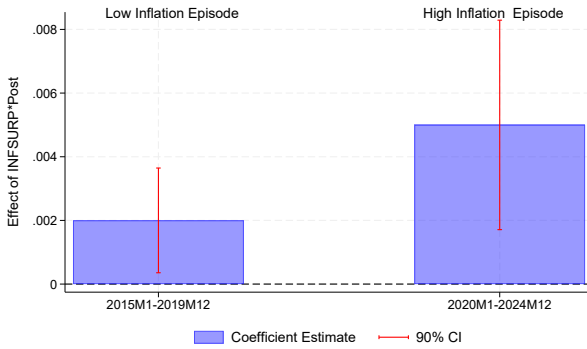
Figure 8: Size-dependency of the Effect of Monetary Policy Surprises on Firms' Expectations

Notes: The estimates reflect the impact of MP shocks on the selected variables, separately for small (below median) and large shocks (above median). MP shocks are measured as the difference between Bloomberg professionals' expectations and the announced rate, and then orthogonalized. The analysis is conducted using a 5-day window. The red line around the estimates represents the 90% confidence intervals. Standard errors are clustered by firm.



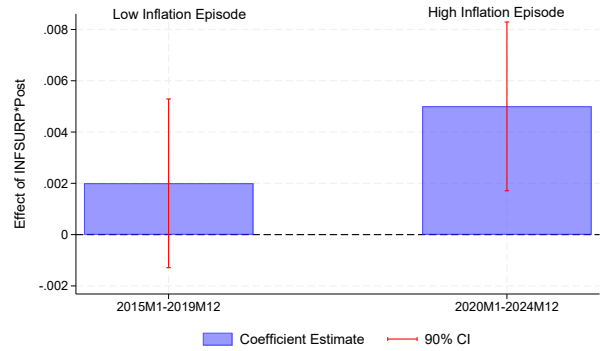
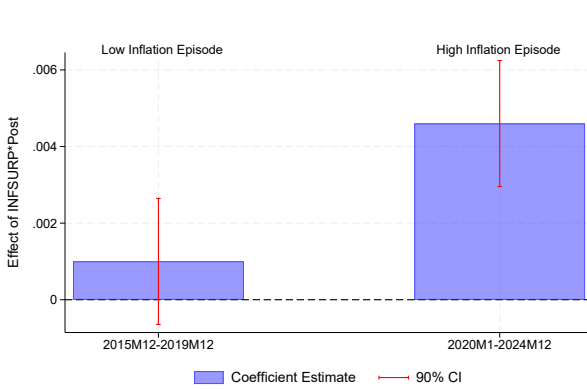
(a) One-Year Ahead CPI Expectations

(b) One-Year Ahead PPI Expectations



(c) Economic Outlook

(d) Three-Months Ahead Volume Expectations



(e) Three-Months Ahead Price Expectations

(f) Three-Months Ahead Unit Cost Expectations

Figure 9: State-dependency of the Effect of Inflation Announcements on Firm's Expectations

Notes: The estimates reflect the impact of inflation surprises on the selected variables, for two subsamples: 2015M1-2019M12 (low inflation period) and 2020M1-2024M12 (high and volatile inflation period). Inflation surprises are measured as the difference between Bloomberg professionals' expectations and the announced rate, then orthogonalized. The analysis is conducted using a 5-day window. The red line around the estimates represents the 90% confidence intervals. Standard errors are clustered by firm.

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Appendix - A - BTS Detailed Questionnaire

Label	Variable	Question	Scale
Q1	Prod Volume	The production volume of your company over the last three months:	Above normal (3) Normal (2) Below normal (1)
Q2	Total Orders	The total amount of your currently registered orders:	Above normal (3) Normal (2) Below normal (1)
Q3	Export Orders	The amount of your currently registered export orders:	Above normal (3) Normal (2) Below normal (1)
Q4	Inventory Level	The level of your current finished goods inventory:	Above normal (3) Normal (2) Below normal (1)
Q5	Prod Expectation	Your production volume expectation for the next three months:	Increase (3) No change (2) Decrease (1)
Q6	Price Expectation	Your sales price expectation for the next three months:	Increase (3) No change (2) Decrease (1)
Q7	Employment Expectation	Your total employment expectation for the next three months:	Increase (3) No change (2) Decrease (1)
Q8	Order Trend	The total amount of orders you received in the last three months:	Increase (3) No change (2) Decrease (1)
Q9	Order Expectation	Your total order quantity expectation for the next three months:	Increase (3) No change (2) Decrease (1)
Q10	Export Order Trend	The amount of export orders you received in the last three months:	Increase (3) No change (2) Decrease (1)
Q11	Export Order Expectation	Your export order quantity expectation for the next three months:	Increase (3) No change (2) Decrease (1)
Q12	Capacity Utilization	Your capacity utilization rate (percentage of physical capacity at present):	Numeric in %
Q13	Domestic Orders	The amount of your currently registered domestic market orders:	Above normal (3) Normal (2) Below normal (1)
Q14	Domestic Order Trend	The amount of domestic market orders you received in the last three months:	Increase (3) No change (2) Decrease (1)
Q15	Domestic Order Expectation	Your domestic market order quantity expectation for the next three months:	Increase (3) No change (2) Decrease (1)
Q16	Domestic Price Expectation	Your domestic market sales price expectation for the next three months:	Increase (2) No change (1) Decrease (0)
Q17	Investment Expectation	Compared to the past twelve months, your expectation for fixed capital investment expenditures in the next twelve months:	Increase (3) No change (2) Decrease (1)
Q18	Unit Cost Trend	Your average unit cost over the last three months:	Increase (3) No change (2) Decrease (1)
Q19	Unit Cost Expectation	Your expectation for the average unit cost in the next three months:	Increase (3) No change (2) Decrease (1)
Q20	Inflation Expectation	Your annual inflation expectation at the end of the next twelve-month period (CPI, PPI):	Numeric in %
Q21	Interest Rate Expectation	Your expectation for the short-term Turkish Lira interest rate in the upcoming three-month period:	Increase (3) No change (2) Decrease (1)
Q22	Industry Outlook	Your opinion on the general trend in your industry compared to a month ago:	More pessimistic (3) Same (2) More optimistic (1)

Table A2: Descriptive Statistics: 5 Days Before and After MPC & Inflation Announcements

	MPC Announcement				Inflation Announcement			
	5 days before		5 days after		5 days before		5 days after	
	mean	sd	mean	sd	mean	sd	mean	sd
Firm Characteristics								
Net Sales (billion TL)	1.31	8.96	1.22	6.17	1.26	7.71	1.27	5.91
Assets (billion TL)	1.23	5.79	1.14	5.01	1.19	5.59	1.17	4.85
Capital (billion TL)	0.27	1.66	0.24	1.39	0.26	1.30	0.25	1.31
Exports (billion TL)	0.41	2.52	0.36	1.89	0.38	1.83	0.38	1.76
Net Profit (billion TL)	0.12	1.02	0.10	0.79	0.11	0.61	0.11	0.79
Number of Employees	667.82	1312.65	669.32	1283.14	581.81	1119.23	619.82	1255.71
Firm Expectations								
CPI Expectations	21.68	20.72	20.81	19.37	32.02	28.02	30.13	26.18
PPI Expectations	24.31	22.71	22.60	20.04	34.83	33.06	32.44	31.97
Production Capacity Utilization	69.42	20.98	69.06	20.71	70.21	20.51	69.67	20.51
Economic Outlook	2.11	0.57	2.09	0.58	2.11	0.57	2.12	0.56
Volume Expectations	2.16	0.63	2.14	0.65	2.12	0.59	2.14	0.62
Employment Expectations	2.07	0.49	2.05	0.50	2.05	0.48	2.06	0.49
Price Expectations	2.31	0.56	2.25	0.55	2.29	0.54	2.32	0.56
Unit Cost Expectations	2.28	0.56	2.25	0.57	2.27	0.55	2.28	0.56
Borrowing Cost Expectations	2.17	0.63	2.10	0.66	2.17	0.59	2.22	0.62
Observations	27,614		22,334		22,262		25,065	

Notes: The table presents descriptive statistics for various firm characteristics and survey participants' expectations, categorized based on their responses submitted within the 5 days before and after the MPC and inflation announcements.

Appendix - B - Robustness Check for Monetary Policy Surprises

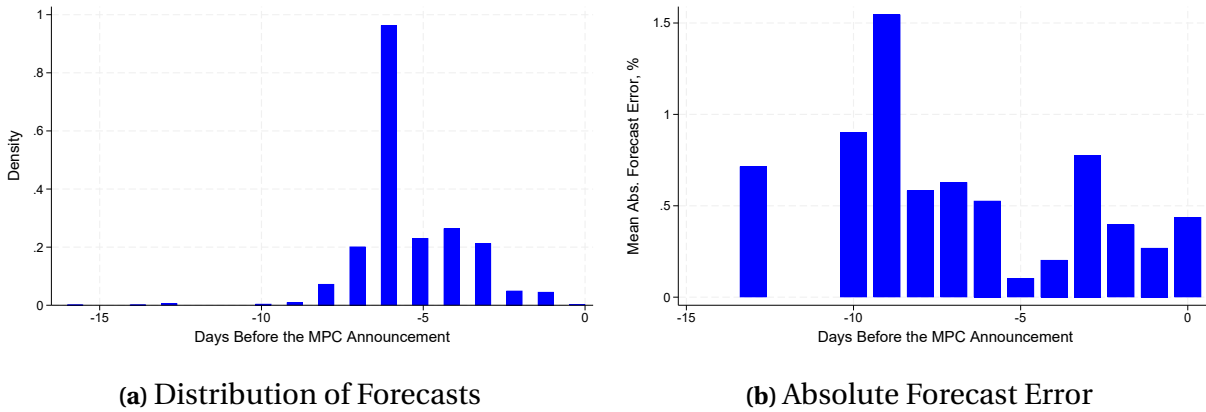


Figure B1: Forecast and Absolute Forecast Errors by Submission Day Before the MPC

Notes: Panel-a illustrates the distribution of forecast submissions in the days leading up to the Monetary Policy Committee (MPC) announcement, providing insights into when forecasts are made relative to the decision. Panel-b presents the mean absolute forecast error over the same period, measured as the absolute difference between the announced policy rate and the forecasts submitted by Bloomberg forecasters. This panel highlights how forecast accuracy evolves as the announcement approaches, offering a perspective on the relationship between submission timing and prediction accuracy.

Table B1: Monetary Policy Surprises based on different time window

	(1)	(2)	(3)	(4)	(5)
	Last 3 days	Last 5 days	Last 7 days	Last 10 days	All sample
Last 3 days	1.0000				
Last 5 days	0.9963	1.0000			
Last 7 days	0.9797	0.9754	1.0000		
Last 10 days	0.9802	0.9760	0.9998	1.0000	
All sample	0.9800	0.9758	0.9995	0.9999	1.0000

Notes: Monetary policy surprises calculated using different time windows are highly correlated. The main text presents results based on last 7-days.

To examine the relationship between submission timing and forecast accuracy, we regress absolute forecast errors on the number of days between the submission date and the monetary policy meeting:

$$|FE|_{f,t} = \beta_0 + \beta_1 \cdot \text{Days}_{f,t} + \alpha_f + \lambda_t + \varepsilon_{f,t} \quad (\text{B1})$$

where $|FE|_{f,t}$ represents the absolute forecast error, defined as the absolute difference between the announced interest rate and forecaster f 's prediction for announcement t . $\text{Days}_{f,t}$ captures the number of days before the announcement that the forecast was submitted, with higher values indicating earlier submissions. The regression includes both forecaster and announcement fixed effects to control for individual forecasting tendencies and meeting-specific factors. A positive β_1 suggests that forecasts submitted further in advance tend to have larger errors, implying that waiting longer and incorporating more information improves forecast accuracy.

Table B2: Timing of Bloomberg Forecast Submissions

	Outcome Variable: Absolute Forecast Error			
	(1)	(2)	(3)	(4)
Days Before the Announcement	0.043** (0.019)	0.042** (0.017)	0.001 (0.014)	0.005 (0.013)
Constant	0.247** (0.107)	0.245*** (0.092)	0.473*** (0.077)	0.497*** (0.069)
Forecaster FE		✓		✓
Announcement FE			✓	✓
R-Squared	0.003	0.071	0.704	0.714
Observations	2,417	2,381	2,417	2,381

Notes: Standard errors, clustered by the forecaster, in parenthesis. The sample period is 2015M1–2024M12. ***p<0.01, **p<0.05, *p<0.1.

When there are no fixed effects, we observe that forecasters who submit their predictions earlier tend to have larger absolute errors. This makes sense intuitively—forecasters submitting earlier have less information to work with, while those who wait can incorporate late-breaking news or market signals, leading to more accurate predictions. This pattern remains even after account-

ing for forecaster fixed effects in Column (2), suggesting that submission timing plays a role in forecast accuracy at the individual level. However, once we introduce time fixed effects in Column (3), the relationship disappears, indicating that the accuracy of forecasts is more influenced by meeting-specific factors rather than submission timing alone. This remains true in Column (4), where both forecaster and time fixed effects are included, further reinforcing the idea that it is not the timing of submission per se that drives accuracy, but rather the evolving information environment surrounding each policy meeting. For instance, in meetings with high uncertainty, forecasters may delay their submissions to incorporate more information, which creates the appearance that later forecasts are more accurate. But once we account for these time-specific factors, the effect of submission timing on forecast errors fades. This suggests that forecast accuracy is shaped more by the availability of information than by the simple act of submitting earlier or later.

Appendix - C - Robustness Check for the Impact of MP and Inflation Shocks

3 days after the announcement

Table C1: MPC Announcements and Firm's Expectations (3 days before and after the announcement)

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on CPI Expectations					
MPS * Post	0.392*** (0.149)	0.312** (0.155)	0.401** (0.209)	0.425** (0.202)	0.295* (0.168)
Post	-0.276* (0.148)	-0.088 (0.201)	-0.328* (0.174)	-0.505 (0.372)	-0.016 (0.187)
R-Squared	0.80	0.83	0.81	0.82	0.83
Observations	27,134	12,172	14,451	13,444	13,223
Panel B: Effect on PPI Expectations					
MPS * Post	0.469** (0.221)	0.341** (0.165)	0.552** (0.276)	0.679*** (0.275)	0.485** (0.281)
Post	-0.350* (0.182)	-0.049 (0.302)	-0.579*** (0.224)	-0.410 (0.257)	-0.288 (0.262)
R-Squared	0.77	0.79	0.79	0.80	0.81
Observations	27,496	12,241	14,748	13,629	13,409
Panel C: Effect on Economic Outlook					
MPS * Post	0.018** (0.008)	0.015** (0.007)	0.026*** (0.008)	0.022** (0.011)	0.016** (0.008)
Post	-0.003 (0.007)	-0.007 (0.012)	0.003 (0.010)	0.003 (0.011)	0.004 (0.011)
R-Squared	0.41	0.43	0.46	0.44	0.47
Observations	29,798	13,215	16,050	14,778	14,524
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: MPS stands for monetary policy shocks, measured as the difference between Bloomberg professionals' expectations and the announced rate, and then orthogonalized. The analysis is conducted using a 3-day window, with "Post" referring to the 3-day period following the monetary policy committee decision. The sample period is 2015M1-2024M12. ***p<0.01, **p<0.05, *p<0.1.

Table C2: Inflation Announcements and Firm's Expectations (3 days before and after the announcement)

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on CPI Expectations					
MPS * Post	0.170*** (0.051)	0.117* (0.070)	0.172** (0.077)	0.230*** (0.072)	0.172** (0.070)
Post	-0.317 (0.169)	-0.520** (0.248)	-0.353 (0.218)	-0.253 (0.221)	-0.450* (0.231)
R-Squared	0.84	0.84	0.87	0.86	0.86
Observations	30,712	14,302	15,326	14,900	15,490
Panel B: Effect on PPI Expectations					
MPS * Post	0.300*** (0.071)	0.201** (0.098)	0.318*** (0.103)	0.473*** (0.102)	0.241** (0.094)
Post	-0.265 (0.223)	-0.494 (0.330)	-0.177 (0.301)	-0.248 (0.294)	-0.198 (0.309)
R-Squared	0.80	0.81	0.83	0.83	0.82
Observations	31,088	14,430	15,569	15,092	15,681
Panel C: Effect on Economic Outlook					
MPS * Post	0.005*** (0.001)	0.004** (0.002)	0.006*** (0.0022)	0.007*** (0.003)	0.005*** (0.002)
Post	-0.007 (0.006)	-0.009 (0.009)	-0.012 (0.008)	0.001 (0.008)	-0.011 (0.008)
R-Squared	0.47	0.46	0.54	0.51	0.51
Observations	32,905	15,210	16,576	15,864	16,725
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: INFSURP stands for inflation surprise, measured as the difference between Bloomberg professionals' expectations and the announced monthly inflation rate, and then orthogonalized. The analysis uses a 3-day window, with "Post" referring to the 3-day period following the inflation announcement. The sample period is 2015M1–2024M12. ***p<0.01, **p<0.05, p<0.1.

Table C3: Inflation Announcements and Firm's Price and Unit Cost Expectations (3 days before and after the announcement)

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on Price Expectations					
MPS * Post	0.005*** (0.001)	0.003* (0.002)	0.006*** (0.002)	0.007*** (0.002)	0.004** (0.002)
Post	-0.002 (0.005)	-0.001 (0.007)	-0.002 (0.006)	-0.007 (0.007)	0.001 (0.006)
R-Squared	0.46	0.48	0.49	0.50	0.50
Observations	34,957	16,104	17,679	16,735	17,900
Panel B: Effect on Unit Cost Expectations					
MPS * Post	0.004*** (0.001)	0.003* (0.002)	0.005*** (0.002)	0.005** (0.002)	0.003* (0.002)
Post	0.001 (0.005)	0.005 (0.007)	-0.002 (0.006)	-0.001 (0.007)	0.002 (0.007)
R-Squared	0.44	0.46	0.49	0.50	0.48
Observations	34,957	16,104	17,679	16,735	17,900
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: INFSURP stands for inflation surprise, measured as the difference between Bloomberg professionals' expectations and the announced monthly inflation rate, and then orthogonalized. The analysis uses a 3-day window, with "Post" referring to the 3-day period following the inflation announcement. The sample period is 2015M1–2024M12. ***p<0.01, **p<0.05, p<0.1.

7 days after the announcement

Table C4: MPC Announcements and Firm's Expectations

	(1) All Sample	(2) Large Firms	(3) SMEs	(4) High Leverage	(5) Low Leverage
Panel A: Effect on CPI Expectations					
MPS * Post	0.528*** (0.110)	0.478*** (0.150)	0.598*** (0.150)	0.619*** (0.145)	0.514*** (0.160)
Post	-0.118 (0.095)	-0.038 (0.144)	-0.105 (0.122)	-0.350* (0.190)	-0.030 (0.132)
R-Squared	0.80	0.82	0.81	0.82	0.84
Observations	67,794	30,822	38,629	33,814	33,741
Panel B: Effect on PPI Expectations					
MPS * Post	0.787*** (0.153)	0.637*** (0.220)	0.892*** (0.197)	0.992*** (0.212)	0.605*** (0.213)
Post	-0.212* (0.129)	-0.132 (0.206)	-0.258* (0.156)	-0.503*** (0.179)	-0.098 (0.175)
R-Squared	0.77	0.78	0.78	0.79	0.81
Observations	68,566	30,968	39,264	34,178	34,154
Panel C: Effect on Economic Outlook					
MPS * Post	0.024*** (0.005)	0.022** (0.006)	0.031*** (0.005)	0.035** (0.008)	0.020** (0.009)
Post	-0.007 (0.005)	-0.011 (0.008)	-0.004 (0.007)	-0.006 (0.008)	-0.006 (0.007)
R-Squared	0.37	0.38	0.41	0.39	0.40
Observations	73,800	33,215	42,351	36,853	36,712
Firm FE	✓	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓	✓

Notes: MPS stands for monetary policy shocks, measured as the difference between Bloomberg professionals' expectations and the announced rate, and then orthogonalized. The analysis is conducted using a 7-day window, with "Post" referring to the 7-day period following the monetary policy committee decision. The sample period is 2015M1-2024M12. ***p<0.01, **p<0.05, *p<0.1.

Appendix - D - Filling the Survey Before or After the Announcement

Table D1: Indifference of the Firm's Filling the Survey 5 Days after the Announcement

	Outcome: Filling the Survey After the Announcement			
	MPC Announcements		Inflation Announcements	
	(1)	(2)	(3)	(4)
Total Assets	-0.0006 (0.0052)	0.0023 (0.0085)	-0.0162 (0.0103)	0.0072 (0.0172)
Leverage	0.0118 (0.0099)	-0.0111 (0.0148)	-0.0093 (0.0098)	0.0057 (0.0047)
Exports	0.0004 (0.0004)	0.0010 (0.0009)	0.0015 (0.0010)	0.0018 (0.0017)
Liabilities	-0.066 (0.0044)	-0.0049 (0.0065)	-0.0034 (0.0085)	-0.0018 (0.0072)
Capital	-0.0014 (0.0023)	-0.0002 (0.0040)	0.0032 (0.0038)	-0.0007 (0.0079)
Capacity Utilization Ratio	0.0001 (0.0001)	-0.0003* (0.0002)	-0.0003 (0.0002)	-0.0005 (0.0004)
Constant	0.5160*** (0.0261)	0.46841*** (0.0918)	0.5390*** (0.0675)	0.5012** (0.2361)
Firm FE		✓		✓
Sector x Time FE		✓		✓
Province FE		✓		✓
R-squared	0.0026	0.0473	0.0021	0.0820
Observations	49,720	49,352	47,240	46,818
p-value (F-stat)	1.000	0.621	0.835	1.000

Notes: This table examines whether firms that complete the survey within the 5 days before or after the announcement differ statistically in observable characteristics. The results suggest no evidence of selection bias. ***p<0.01, **p<0.05, p<0.1.

Table D2: Irrelevance of Filling the Survey Before or After the MPC Announcement

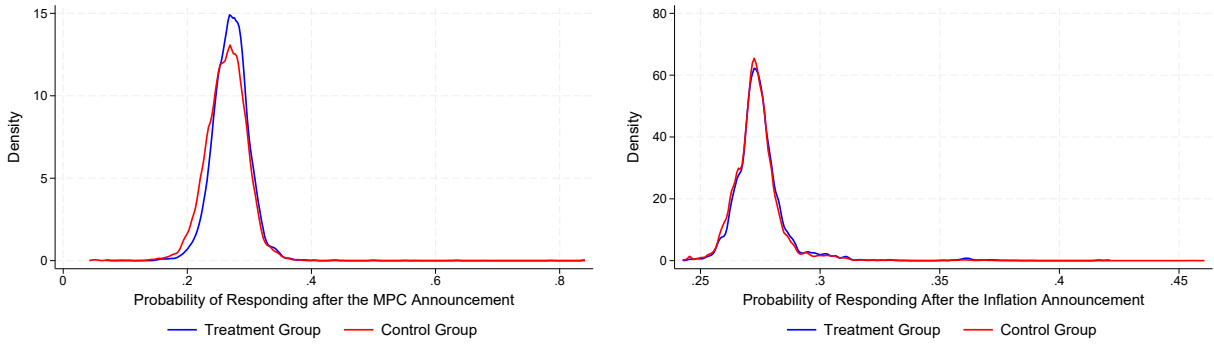
	(1) CPI Expectation	(2) PPI Expectation	(3) Economic Outlook	(4) Borrowing Cost Expectation
Post	0.039 (0.106)	-0.074 (0.143)	0.001 (0.006)	-0.036* (0.019)
Constant	20.569*** (0.028)	24.027*** (0.038)	2.108*** (0.002)	2.164*** (0.002)
R-squared	0.802	0.770	0.387	0.367
Observations	42,337	42,866	46,292	45,167
	(5) Volume Expectation	(6) Employment Expectation	(7) Price Expectation	(8) Cost Expectation
Post	-0.012 (0.007)	-0.007 (0.006)	-0.006 (0.006)	-0.001 (0.006)
Constant	2.163*** (0.002)	2.067*** (0.001)	2.290*** (0.002)	2.280*** (0.002)
R-squared	0.302	0.315	0.346	0.358
Observations	48,058	47,439	47,710	46,308
Firm FE	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓
Province FE	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓

Notes: This table examines whether completing the survey within the 5 days before or after the MPC announcement creates a significant difference due to timing alone, without interacting with shocks. The time window itself has no predictive power. ***p<0.01, **p<0.05, *p<0.1.

Table D3: Irrelevance of Filling the Survey Before or After the Inflation Announcement

	(1) CPI Expectation	(2) PPI Expectation	(3) Economic Outlook	(4) Borrowing Cost Expectation
Post	0.267 (0.421)	0.195 (0.555)	0.006 (0.023)	-0.020 (0.026)
Constant	30.349*** (0.005)	33.477*** (0.006)	2.108*** (0.000)	2.205*** (0.000)
R-squared	0.838	0.796	0.447	0.386
Observations	41,200	41,696	44,150	43,522
	(5) Volume Expectation	(6) Employment Expectation	(7) Price Expectation	(8) Cost Expectation
Post	-0.010 (0.028)	-0.028 (0.022)	-0.004 (0.024)	-0.009 (0.024)
Constant	2.134*** (0.000)	2.058*** (0.000)	2.300*** (0.000)	2.280*** (0.000)
R-squared	0.348	0.353	0.407	0.402
Observations	45,456	44,991	45,293	43,876
Firm FE	✓	✓	✓	✓
Sector x Time FE	✓	✓	✓	✓
Province FE	✓	✓	✓	✓
Firm Controls	✓	✓	✓	✓

Notes: This table examines whether completing the survey within the 5 days before or after the MPC announcement creates a significant difference due to timing alone, without interacting with shocks. The time window itself has no predictive power. ***p<0.01, **p<0.05, *p<0.1.



(a) Before and After MPC Announcements

(b) Before and After Inflation Announcements

Figure D1: Predicted Probability of Responding Before (Control) and After (Treatment) the Announcement

Notes: We test whether firms respond to the survey on random days within the month. The plot shows the predicted probabilities of survey responses before and after a monetary announcement for both the control group (firms that file pre-announcement) and the treated group (firms that file post-announcement). These predicted probabilities are estimated using a probit model, which analyzes the likelihood of returning the questionnaire after the monetary event.