



Issue No. 2
Quarter 2 2017
(April - June)

Emergency Social Safety Net (ESSN) Market Bulletin

ESSN

The Emergency Social Safety Net (ESSN) is a programme aiming to support the most vulnerable refugees in Turkey through unrestricted cash transfers to meet basic needs.

It is a partnership between ECHO, the Ministry of Family and Social Policies, the Turkish Red Crescent and the World Food Programme. The ESSN is coordinated by the National Disaster and Emergency Management Presidency (AFAD).

The ESSN was rolled out nationwide starting in November 2016, building on existing Turkish social assistance infrastructure.

In June 2017, over 680,000 people received ESSN assistance. The total programme target is 1,300,000 people.

Highlights

- Turkey's inflation eased in June, after reaching a nine year high of 11.87 percent in April.
- Food prices, representing over 20% of the national Consumer Price Index, made a significant contribution to June's overall decrease in consumer prices.
- A refugee Minimum Expenditure Basket (MEB), constructed using June 2017 prices from the Turkish Statistical Institute (TurkStat), cost an average of **1945 TL** for a household with six members, or **324 TL** per capita.
- The average cost of the MEB has increased by almost 0.8 percent during the second quarter of 2017; the cost is over 10 percent higher than 12 months ago.

Turkey Macroeconomic Context

The Turkish economy is recovering from the shocks of 2016. Growth in Gross Domestic Product (GDP) hit five percent in the first quarter of 2017, a steep increase compared to Q1 2016. This is also an improvement in comparison to 3.5 percent growth in Q4 2016. The GDP growth is a clear indication of the strengthening economy. Key drivers of the quarterly growth were exports, construction investments and public consumption.

The Turkish economy has proven resilient in the wake of the adverse political and economic events of 2016. As uncertainty subsides, the tourism industry recovers, and corporate balance sheets improve, the World Bank has raised Turkey's economic growth projections for the next three years. According to the most recent projections covered in the "Global Economic Prospects" report, Turkey's economy is expected to expand 3.5 percent in 2017, 3.9 percent in 2018, and 4.1 percent in 2019. Last year, the growth was only 2.9 percent, down from 6.1 percent in 2015.

The robust growth rate in Turkey in the first quarter of 2017 was driven mainly by improved

domestic demand and exports. The recent depreciation in the Turkish Lira, and the demand from European Union (Turkey is its fifth largest trading partner) have contributed positively to net exports.

The fiscal stance of the Government to boost economic activity has been another key factor driving growth. Thanks to expansionary fiscal policies such as temporary tax cuts [e.g. on electronic goods and housing], various programmes to stimulate credit growth [for example, Small Medium Enterprise loans and a credit guarantee support], and employment incentives [e.g. Government covering social security and other premiums payments for

Methodology

This analysis is undertaken based on an average household size of six people. TurkStat data was used for all prices.

The analysis focuses on the eight geographic areas (NUTS2 level regions - Nomenclature of Territorial Units for Statistics) with the highest number of refugees. The regions covered are as follows:

- Hatay-Kahramanmaraş-Osmaniye
- Gaziantep-Adiyaman-Kilis
- Sanliurfa-Diyarbakir
- Adana-Mersin
- Bursa-Eskisehir-Bilecik
- Istanbul
- Ankara
- Izmir

For more detailed analysis on the methodology, please refer to the Market Bulletin: Q1.

Minimum Expenditure Basket Components

1. Food
2. Rent
3. Utilities
4. Non-Food Items
5. Health
6. Education
7. Communication
8. Transport

each new employee for one year], both private consumption and investment have started to recover.

A breakdown of the growth rate indicates year-on-year growth rates of 5.1 percent for household consumption expenditure, 9.4 percent for Government expenditure, and 10.6 percent for exports of goods and services.

Leading indicators, such as May's Industrial Production and Purchasing Manager's Index (PMI), signaled economic activity gaining momentum for Q2, including a more robust increase in Q2 growth rate, in comparison with Q1, according to Central Bank of Republic of Turkey (CBRT) meeting notes in June.¹ Indeed, economic recovery appears to be widespread across sectors. Not only the manufacturing industry, but also retail trade, construction and services have seen strengthening economic activity recently. Tourism revenues experienced a rise in Q2, though the industry is still burdened with \$17 billion in debt, according to data from the Bank Regulation Supervision Agency. Recent TurkStat data shows Turkey's tourism income increased by 8.7 percent in Q2, compared to Q2 2016, reaching \$5.41 billion.

Economic recovery has yet to fully translate into sustained job growth. The number of seasonally adjusted unemployed persons decreased by 60,000 from March to April 2017, to a total of 3,550,000 persons. The unemployment rate was 11.3 percent, down from 11.5 percent in March 2017. However, seasonally adjusted youth unemployment rate stood historically high, reaching 22 percent for young workers [aged 15-24] in April 2017.

In June 2017, annual inflation dropped by 0.82 percentage points to 10.9 percent, easing from 11.72 percent in the previous month. This is below the market forecast of 11.2 percent compiled by Bloomberg analysts. The highest increases in consumer prices were recorded in Gaziantep-Adiyaman-Kilis area, with a 13.42 percent annual increase, according to TurkStat data.

¹**Industrial Production** refers to the output of **industrial** establishments and covers sectors such as mining, **manufacturing** and public utilities (electricity, gas and water). The **Purchasing Managers' Index (PMI)** is an indicator of the economic health of the manufacturing sector. For more details on these two indices, please refer to TurkStat website"

Minimum Expenditure Basket

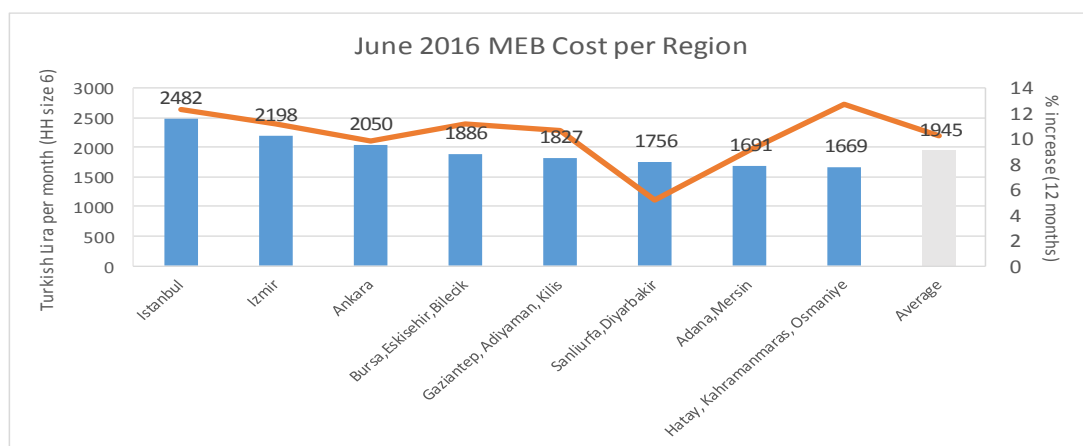
Data demonstrates that the average cost of the MEB has increased by almost 0.8 percent in the last quarter.

Figure 1 shows the actual June 2017 cost of the MEB across the eight regions. As in the Q1 bulletin, Istanbul, Izmir and Ankara are the most expensive regions, at over 2000 TL per month for a household size of six. The least expensive regions are Adana-Mersin (1691 TL), and Hatay-

Kahramanmaraş-Osmaniye (1669 TL). The average across the eight regions is 1,945 TL, which is 0.8 percent higher than the Q1 average.*

*Correction: Q1 market bulletin noted average MEB as 1927.02 TL. Due to a calculation error, actual average MEB cost in Q1 should be 1930.07 TL.

Figure 1: MEB Cost, June 2016



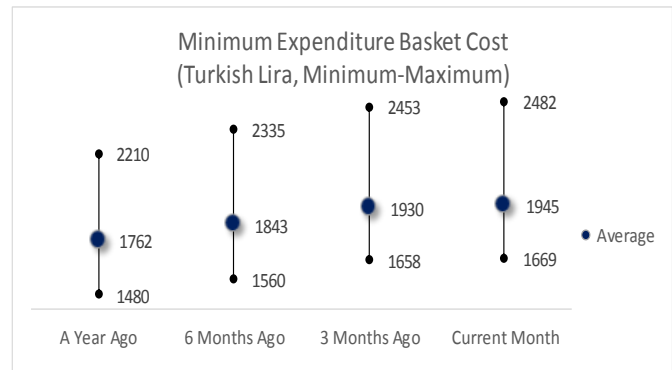
This figure also presents the percentage change in the cost of the MEB over the past 12 months (represented by the orange line). The annual change in the cost of the MEB ranged from 9.11 percent [Adana-Mersin] to 12.76 percent [Hatay-Kahramanmaras-Osmaniye] in all regions, except for Sanliurfa-Diyarbakir where the MEB cost increased by only 5.16 percent. This can be attributed to a relatively low percentage change in the cost of food.

Figure 2 illustrates an increasing gap between the minimum MEB cost in Hatay-Kahramanmaras-Osmaniye, and the maximum MEB cost in Istanbul. This gap has increased from 729 TL to 813 TL during the reporting period, which represents an additional 11 percent divergence.

Rent is the main driver of this difference, representing an average of 66 percent of the difference between minimum and maximum MEB cost.

Food is the second largest driver of the difference between minimum and maximum MEB cost, representing an average of 14.4 percent of the difference.

Figure 2: MEB Trend Analysis



Food Prices

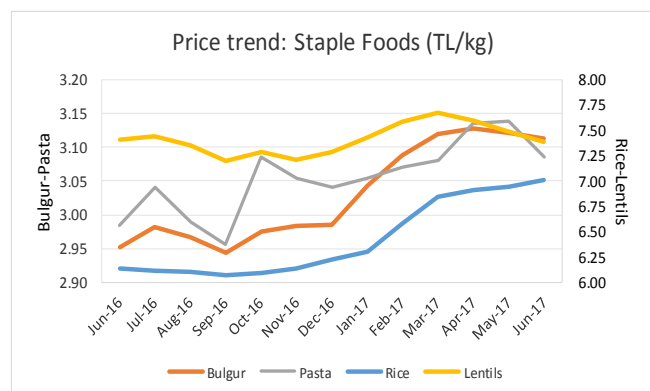
Food and non-alcoholic beverages, with a significant influence in the national Consumer Price Index (CPI), demonstrated an annual inflation rate of 14.34 percent in June 2017.

Despite steady increases since December, in June, annual food and non-alcoholic beverages inflation dropped by 2.57 percentage points to 14.34 percent.

According to the June Inflation Report of the CBRT, the decline in food prices is primarily caused by the fall in annual unprocessed food inflation. This is due to the base effect from fresh fruits and vegetables – essentially inflation rates of these commodities were unusually high in June 2016, so annual inflation appears lower in June 2017. However, seasonally adjusted unprocessed food prices remained on the increase in June. The report also noted that the rate of monthly inflation slowed down for processed foods, such as bread and cereals.

During the second quarter of 2017, prices of lentil and bulgur (wheat) decreased by 3.7 percent, and 0.2 percent, whereas prices of rice and pasta increased by 2.5 percent and 0.2 percent, respectively. The price decreases, specifically in June, can be explained as this coincides with the harvesting season of lentils (complete by the end of June) and wheat (May-July). Figure 3 shows these changes.

Figure 3: Staple Food Price Trends



ESSN Q2
Milestones

Payment to ~507k in April

Modification to programme design discussed in April with key stakeholders

Payment to ~601k in May

The Comprehensive Vulnerability Monitoring Exercise (CVME) began in May to assess vulnerabilities within the refugee population

Payment to ~686k in June

ESSN Visibility campaign started on World Refugee Day in June

ESSN contract was extended to December 2018, with revision to programme target (1.3 million beneficiaries)

Revision to ESSN criteria starting with June applications, and revision to monthly transfer value (120 TL) with June payments

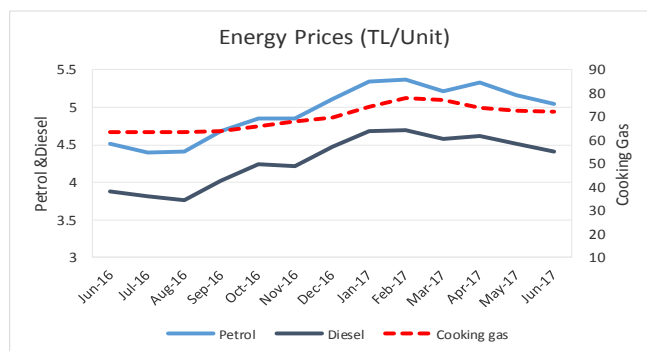
Energy Prices

Energy prices fell by 0.57 percent in June in comparison to the previous month.

Amid the decline in international oil prices and the appreciating Turkish lira against the US dollar, petrol, diesel and cooking gas prices fell by 3.13, 3.66 and 6.22 percent respectively over the past three months. Annual energy inflation declined by 1.16 percentage points to 7.56 percent in June [retrieved from CBRT June inflation report].

Figure 4 illustrates these changes from June 2016 to June 2017.

Figure 4: Energy Price Trends



Emergency Social Safety Net Programme Implications

In June, the Emergency Social Safety Net (ESSN) programme provided unrestricted cash transfers to almost 110,000 refugee households, which include over 680,000 individual beneficiaries. The aim of the ESSN is to ensure that all refugees are able to meet their basic needs. Market analysis is critical to understand if the cash transfer continues to provide a meaningful amount of purchasing power to beneficiary households.

In Q1, consumer inflation increased far more than expected, mainly due to the depreciating Turkish currency, rising oil prices, food price spikes, and prior tax adjustments. After reaching almost 12 percent in April, however, consumer inflation slowed slightly in May and June.

Important programmatic negotiations took place in Q2; ESSN stakeholders agreed to increase the transfer value from 100 TL to 120 TL per person per month, with the inclusion of additional top-ups. The analysis within the market bulletin served as a key source of data informing these decisions. The 120TL cash transfers began in June, partially easing the pressure on purchasing power caused by high consumer prices.

According to the most recent analysis, the average MEB is valued at 1,945 TL for a family of six, and 324 TL for each person. The increased transfer value (120 TL), therefore, meets, on average, just over one third of the basic needs. The planned top-ups (starting in Q3) will further increase the total transfer amount, increasing ability to meet basic needs - particularly for smaller

households that do not benefit from economies of scale.

During the reporting period, the average MEB cost has increased by almost 0.8 percent in the past three months, and by almost 10 percent in the past year. This 10 percent annual increase in the cost of MEB continues to degrade the purchasing power, which is concerning for both ESSN beneficiaries and non-beneficiaries.

Food inflation is one of the key drivers of the high inflation rates in Turkey. ESSN baseline data indicates that households spend over 30 percent (closer to 40 percent in the southeast of Turkey) of their total monthly expenditure on food. It is, therefore, particularly concerning that the annual inflation rate for food and non-alcoholic beverages has remained over 14 percent in June.

TurkStat prices are likely higher than actual prices paid by refugee households as TurkStat data is collected from more formal, larger supermarkets, while refugees often purchase at smaller markets where prices are lower. Therefore the revised transfer amount may be more adequate than indicated here. WFP's VAM/M&E unit will continue to closely monitor market trends, in conjunction with post-distribution monitoring (PDM) data. The PDM data will show measurable changes in the lives of both beneficiary and non-beneficiary households, which may be partially explained by market trends. This combination of data will be used to advocate for appropriate programmatic changes moving forward.



WFP Turkey VAM/M&E Unit: co.tur.m&e@wfp.org