



Issue No. 3
Quarter 3 2017
(July - September)

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 September 2017, the ESSN assisted more than one million vulnerable refugees, getting one step closer to the programme target of 1.3 million beneficiaries.

Highlights

- Turkey's annual consumer prices accelerated for the second month in a row in September, rising to **11.20** percent from **10.70** percent in August.
- The upward trend in annual inflation was partly driven by a **12.5** percent year-on-year surge in food prices.
- In September 2017, the revised refugee MEB, relying on TurkStat consumer prices, cost an average of **1,894 TL** for a household of six, or **316 TL** per capita.
- The average cost of the MEB has increased by **1.74 percent** in the **last three months**.

Turkey Macroeconomic Context

Along with the upturn in domestic demand, the Turkish economy grew by 5.1 percent annually in Q2 2017. The Q1 growth rate, which was previously announced as 5 percent, was revised up to 5.2 percent. As inflation and inflation expectations remain high, the need for tight monetary policy is reinforced in pursuit of the price stability objective.

Currency volatility, which peaked in Q4 2016, is still affecting inflation. Turkey's inflation figures picked up for a second straight month in September, reaching an annual rate of 11.20 percent, TurkStat data showed. Since the beginning of 2017, annual consumer prices saw their lowest level in January, at 9.22 percent, and hit its highest at 11.87 percent in April. Monthly consumer price inflation came in at 0.65 percent in September, below market expectations (compiled by Reuters' survey) of 0.76 percent.

The highest annual consumer price index (CPI) increase was recorded in Gaziantep-Adiyaman-Kilis at 12.89 percent, meanwhile the highest monthly CPI increase was in Izmir at

1.08 percent. Among the main expenditure groups, the highest annual increase was in 'transportation' at 16 percent, followed by 'food and non-alcoholic beverages' at 12.5 percent.

As noted in the September minutes of the Monetary Policy Committee (MPC) meeting, the Central Bank of the Republic of Turkey (CBRT) will closely monitor inflation and maintain its tight monetary policy stance until the inflation outlook is aligned with the targets. According to the CBRT quarterly inflation report, which was released in August, the bank predicts an inflation rate of 8.7 percent by the end of 2017, but aims to reach 5 percent inflation in the medium term.

Methodology

The Market Bulletin covers eight regions of Turkey with the highest number of refugees.

The regions covered are as follows: Hatay-Kahramanmaras-Osmaniye, Gaziantep-Adiyaman-Kilis, Sanliurfa-Diyarbakir, and Adana-Mersin in southeast Turkey; Bursa-Eskisehir-Bilecik in west Turkey; and three larger cities - Istanbul, Ankara and Izmir.

The MEB presents the minimum monthly cost of the goods and services required for refugees to live a dignified life outside the camps.

The MEB cost is calculated using TurkStat prices. Calculations are based on an average household size of six people. The Q3 average MEB is revised to be population weighted.

For more information 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

Leading indicators, such as August's Industrial Production and September Purchasing Manager's Index, suggested that economic activity remained strong in Q3 2017. Improvements in overall business conditions were sustained for the seventh successive month, which is the longest period of consecutive growth since 2014. According to the notes from September's MPC meeting, strengthening economic activities appeared widespread across sectors, such as construction, retail trade and service.

However, consumers are yet to be convinced of the improvements in the economic situation, as the consumer confidence index lagged behind at 68.7 in September, a drop by 3.4 percent from August.¹ The index was at 66.9 in January, and it hit its highest level at 72.8 in May.

Turkey's Medium-Term Economic Programme (MTP) was introduced on September 27, targeting an annual economic growth of 5.5 percent between 2018-2020. During this period, Turkey will focus on reducing inflation, creating more jobs, and providing a fair income distribution, all the while maintaining macroeconomic stability. The 2018-2020 central government budget will be prepared in line with

the economic goals, and monetary policy objectives.

The unemployment rate rose to a 4-month high in July, advancing to 10.7 percent in July from 10.2 percent in June, according to TurkStat data. This was the highest since March, when the unemployment rate was at 11.7 percent. There were 3.44 million unemployed people in Turkey in July versus 3.32 million a year earlier. On a seasonally adjusted basis, the unemployment rate rose to 11.2 percent from 11.1 percent in June. The seasonally adjusted youth unemployment rate [including age group 15-24], however, was reported to be 21.1 percent, a 0.1 percentage point decrease when compared to the previous month.

¹ The consumer confidence index summarizes consumer expectations about the general economic situation. This index indicates people's sentiments about spending their money, which in turn gives clues about economic vitality. The consumer confidence index is calculated from a TurkStat household survey, indicating an optimistic outlook when the index is above 100, and a pessimistic outlook when it is below 100.

Minimum Expenditure Basket

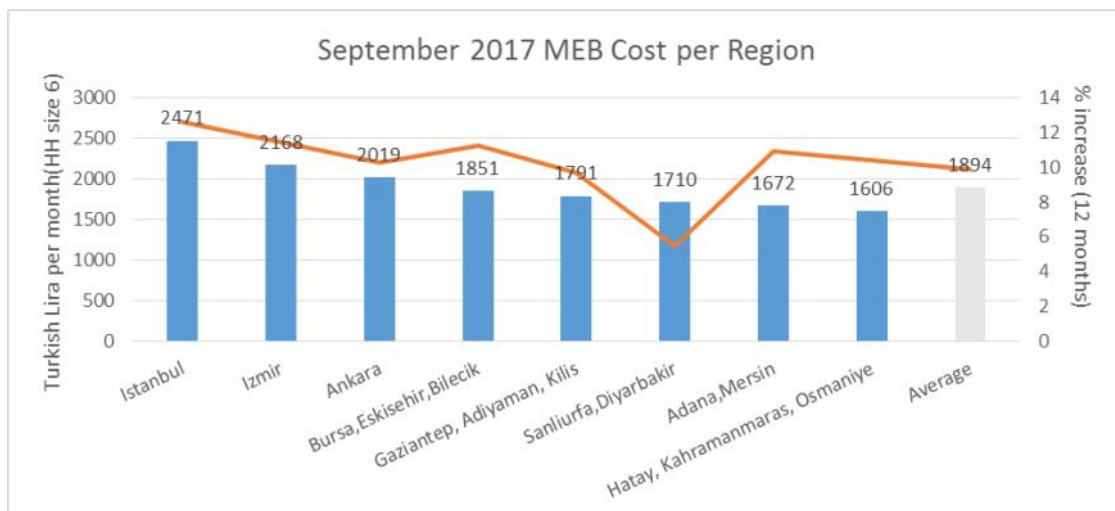
Analysis indicates that the weighted average cost of the MEB has increased by 1.74 percent in Q3, and 10.28 percent in the last year.

Actual MEB costs across the eight regions for September 2017 are displayed in Figure 1. Istanbul, Izmir and Ankara were once again the most expensive regions, at over 2,000 TL per month for a household size of six. The least expensive regions remained the same, namely Adana-Mersin with 1,672 TL, and Hatay-Kahramanmaras-Osmaniye with 1,606 TL. The

weighted average MEB cost across the eight regions was 1,894 TL, a 1.74 percent increase from Q2*.

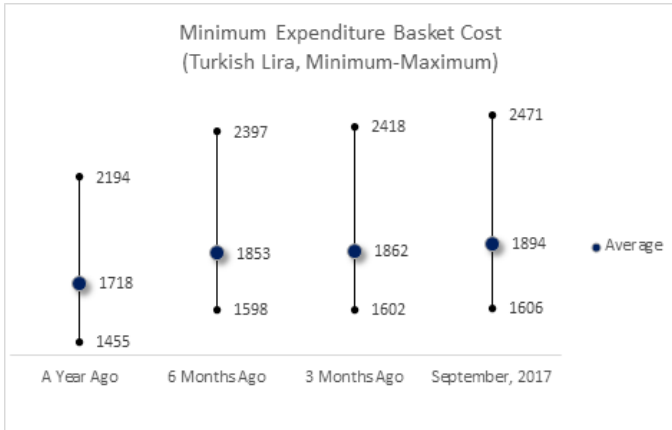
The orange line in Figure 1 demonstrates the percentage change in the cost of the MEB year-on-year. Almost all areas varied between 9.71 percent [Gaziantep-Adiyaman-Kilis] and

Figure 1: MEB Cost, September 2017



12.63 percent [Istanbul]. The exception was Sanliurfa-Diyarbakir, which witnessed an annual increase in the MEB cost of only 5.49 percent. Considering that food and rent constitute more than two-thirds of the MEB cost in all regions, this substantial difference was due to a relatively low percentage change in the costs of food and rent in Sanliurfa-Diyarbakir.

Figure 2: MEB Trend Analysis



The divergence between minimum (Hatay-Kahramanmaraş-Osmaniye) and maximum (Istanbul) MEB costs has become more pronounced in Q3, as illustrated in Figure 2. Indeed, the year-on-year gap has widened from 11.41 percent to 16.98 percent in the last three months.

Rent is main driver of this difference, as it represents more than 60 percent of the difference between minimum and maximum MEB cost—i.e. rent is significantly higher in Istanbul than it is in the Southeast. Food represents 14% of the difference between the minimum and maximum MEB costs.

N.B.: Q2 Market Bulletin noted the average MEB as 1,945 TL. Due to methodological revisions in Q3 (population weighting the average MEB, and revisions to the education costs included), the Q2 MEB value should be considered as 1,862 TL.

Food Prices

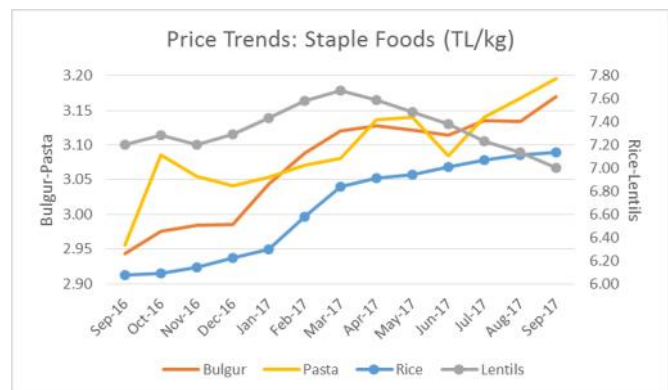
Food and non-alcoholic beverages, with significant influence in the national Consumer Price Index (CPI), demonstrated an annual inflation rate of 12.50 percent in September 2017.

Annual food and non-alcoholic beverage inflation increased by 0.53 percentage points to 12.50 percent in September. According to the CBRT monthly price developments report, unprocessed food inflation was at 14.97 percent due to the negative base effect from fresh fruits and vegetables — essentially inflation rates of these commodities were unusually low in September 2016, so annual inflation appears higher in September 2017. Meanwhile, prices for processed food items, particularly for dairy products, butter and tea remained on the rise, bringing processed food inflation up to an annual rate of 10.49 percent. Hence, an upward trend in annual food inflation persisted in September.

During Q3 of 2017, prices of pasta, bulgur (wheat) and rice increased by 3.58 percent, 1.82 percent, and 1.80 percent, respectively. Indeed, annual price increase in rice is quite striking by almost 18 percent. As rice is a very commonly consumed grain among refugees, any significant price fluctuation may have serious implications for refugee budgets, or alter their purchasing decisions, resulting in a switch away from rice toward cheaper commodities. On the contrary, the price of lentils decreased by 5.1 percent over the last three months. Figure 3 shows these changes.

As an attempt to control the quality of the food supply chain and reduce food inflation, the Food and Agricultural Product Markets Monitoring and Evaluation Committee met once

Figure 3: Staple Food Price Trends



again in mid-July, under the presidency of Deputy Prime Minister Mehmet Simsek.

In a statement issued by the Central Bank on July 16, the Committee made decisions regarding the incentive packages and implementation strategies in order to reduce the costs on the production side. The stated aim of the Committee is to enhance the efficiency in key logistics processes along with the fresh fruit-vegetable supply chain.

ESSN Q3 Milestones

Payment to ~863k beneficiaries in July.

Initial results of the ESSN baseline data (PAB) from over 8,000 beneficiary and non-beneficiary households were presented in July.

Payment to ~942k beneficiaries in August.

The first periodic top-up for ESSN beneficiaries was made in August, transferred at the same time as the regular monthly payment.

The first cycle of data collection activities for the Comprehensive Vulnerability Monitoring Exercise (CVME) concluded in August, with 600 households surveyed.

Payment to over one million beneficiaries in September.

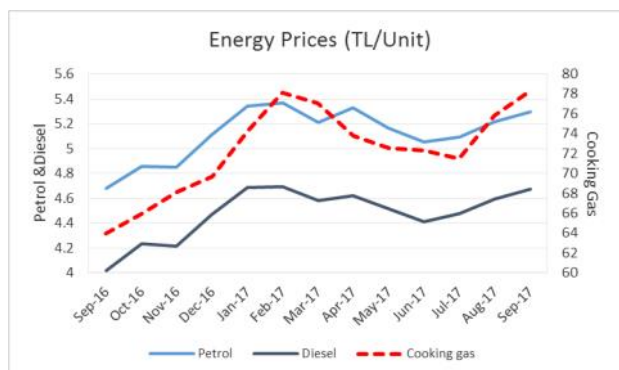
Energy Prices

Energy prices remained on the rise amid high oil prices and other input costs in September.

In Q3, the rise in international oil prices and other input costs pushed petrol, diesel and cooking gas prices up by 4.82, 5.93 and 8.32 percent respectively. Figure 4 illustrates these changes during September 2016 and 2017.

Annual energy inflation increased by 0.86 percentage points to 9.68 percent in September [retrieved from CBRT September monthly price developments report].

Figure 4: Energy Price Trends



Emergency Social Safety Net Programme Implications

In September, the Emergency Social Safety Net (ESSN) programme provided unrestricted cash transfers to almost 170,000 refugee households, which include over 1 million individual beneficiaries. The aim of the ESSN is to ensure that most vulnerable refugee households are able to meet their basic needs without having to resort to severe coping strategies. Market analysis is critical to understand if the cash transfer continues to provide a meaningful amount of purchasing power to beneficiary households.

Inflation remains one of the Turkish economy's pressing problems. Turkey's official inflation figures are in the double-digits, reaching an annual rate of 11.2% in September, TurkStat reported.

The first periodic top-up for beneficiary households was made in August. The value of the quarterly top-up varies according to household size: 250 TL (1-4 people); 150TL (5-8 people); 50TL (9+ people). This top-up is intended to provide greater purchasing power for smaller households, who receive smaller monthly amounts but do not benefit from the same economies of scale as larger households.

According to the most recent analysis, the average MEB is valued at 1,894 TL for a family of six, and 316 TL for each person. The updated WFP VAM gap analysis demonstrates a 166 TL gap in the ability to meet basic needs for an average refugee household. Therefore the 120 TL increased transfer value meets over 70% of the gap in average household basic needs. Due to econo-

mies of scale, it meets a larger proportion of needs for larger households—which is why the top-ups are larger for smaller households.

During the reporting period, the average MEB cost has increased by almost 1.74 percent in the last quarter, and by almost 10.3 percent in the past year. This 10.3 percent annual increase in the cost of MEB continues to degrade purchasing power, which is concerning for both ESSN beneficiaries and non-beneficiaries.

TurkStat prices are likely higher than actual prices paid by refugee households for methodological reasons (for more details, refer to the Q1 Market Bulletin). Therefore, the revised ESSN assistance amount may be more adequate to meet the needs gap for refugee households than indicated here.

WFP VAM/M&E unit will continue to closely track inflation rates and use the data for advocacy purposes to revise the transfer value if and when appropriate.



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