WFP/Ozan Toptas

Emergency Social Safety Net (ESSN) Market Bulletin

Issue No. 4
Quarter 4 2017
(October-December)

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 December 2017, the ESSN provided cash assistance to 1.18 million vulnerable refugees.

Highlights

- Turkey's annual consumer prices remained high throughout the fourth quarter, peaking at 12.98 percent in November, and finishing the year at **11.92 percent in December**.
- High annual inflation was largely driven by an 18.24 percent increase in the cost of transportation, and a **13.79 percent increase in the cost food and non-alcoholic beverages**.
- In December 2017, the revised refugee Minimum Expenditure Basket cost an average of **1,962** TL for a household of six, or **327** TL per capita.
- The average cost of the MEB has increased by 3.6 percent in the last three months, and **10.7 percent in the last year**.

Turkey Macroeconomic Context

The Turkish economy grew by 11.1 percent in the Q3 2017. Analysts predict an annual growth rate exceeding 6.5 percent; official 2017 growth rates will be available at the end of Q1 2018. However, inflation remains high, reaching 11.92 percent in December 2017. The Central Bank is tightening monetary policy in response to the high inflation rates.

According to figures from the Central Bank of Republic of Turkey (CBRT) and the Turkish Statistical Institute (TurkStat), the Turkish economy grew 11.1 percent in Q3 2017. These are the strongest growth figures achieved in the last six years. TurkStat revised the growth rates for the Q1 and Q2 2017 up to 5.3 percent and 5.4 percent from the previously announced 5.2 percent and 5.1 percent, respectively.

Analysis from the Spanish Banking Group Banco Bilbao Vizcaya Argentaria (BBVA), a majority shareholder of Turkish Garanti Bank, and the Economic Research Division of Iş Bankasi highlighted that the steep annual growth figure was boosted by the low base effect in the same period of last year, a -0.8 percent growth rate in Q3 2016. The analysts noted the importance of this base effect – i.e. the annual growth figure may look unusually high due to the very low point of comparison last year.

BBBV and Iş Bankasi Economic Research Division also noted that increased private consumption and investment expenditures contributed to Q3 economic growth. The increase in private consumption expenditure was also due to a base effect, and increased demand resulting from a withdrawal of tax cuts for consumer items at the end of Q3. After

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 average MEB is population weighted, using DGMM refugee figures per province.

For more information on the methodology, please refer to the Q1 Market Bulletin.

Minimum Expenditure Basket Components

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

declining for the last four quarters, machinery investments contributed positively to the growth of investment expenditures in Q3 2017. The Iş Bankasi analysts predicts that the Turkish economic growth will continue in Q4, resulting in an annual growth rate exceeding 6.5 percent. TurkStat will release the official 2017 growth rate figures on 29 March 2018.

The national Consumer Price index (CPI) remained in double digits, showing an 11.92 percent increase in the last month of 2017. This constitutes the highest inflation rate since 2014. The CPI increase was mostly driven by increases in prices of transportation, food and non-alcoholic beverages. According to Iş Bankasi analysts, the CPI was also impacted by pressure from the rise in oil prices and the weakening of the Turkish lira in the foreign exchange markets.

In response to the sustained high inflation rates of 2017, CBRT increased the late liquidity window rate by 0.5 basis points, from 12.25 percent to 12.75 percent. This CBRT rate increase did not meet market expectations; experts predicted that this below-expectation increase will delay the strengthening of the Turkish currency. As predicted, even after this increase, the Turkish Lira weakened to 3.88 against the U.S. dollar. Following the increase in interest rates, CBRT announced its plans to further tighten monetary policy and maintain this stance; this is to ensure price stability until inflation improves, and is closer to CBRT targets.

According to the Istanbul Chamber of Commerce, the Purchasing Manufacturers Index (PMI) increased from 52.9 percent in November to 54.9 percent in December. The increase in the December PMI underlined the sustainable strengthening of the Turkish production sector for the tenth month in a row. Despite the PMI's strong track record in 2017, the Consumer Confidence Index ended the year with slight decrease in December. According to a TurkStat and CBRT survey, the Consumer Confidence Index decreased slightly, from 65.2 percent in November to 65.1 percent in December.

The unemployment rate decreased from 13 percent in January 2017 to 10.3 percent in October 2017. From September to October alone, the 0.3 percent decrease in unemployment represented 360,000 people entering the workplace.

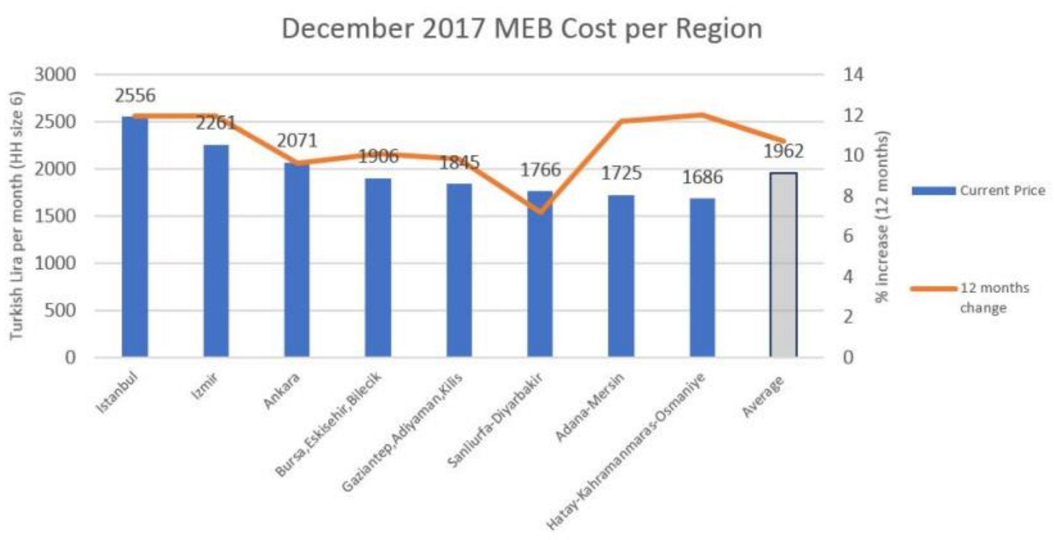
Minimum Expenditure Basket

Analysis indicates that the weighted average cost of the MEB has increased by 3.6 percent in Q4, and 10.7 percent in the last year.

Actual MEB costs across the eight regions for December 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. Istanbul is notably the highest, reaching over 2,500 TL in Q4.

The least expensive regions remained the same as in previous months: Adana-Mersin at 1,725 TL, and Hatay-Kahramanmaras-Osmaniye at 1,686 TL. The weighted average MEB cost across the eight regions was 1,962 TL. This represents a 3.57 percent increase from Q3. This quarterly increase is more than double the Q2 to Q3 change, which was only 1.74 percent.

Figure 1: MEB Cost, December 2017

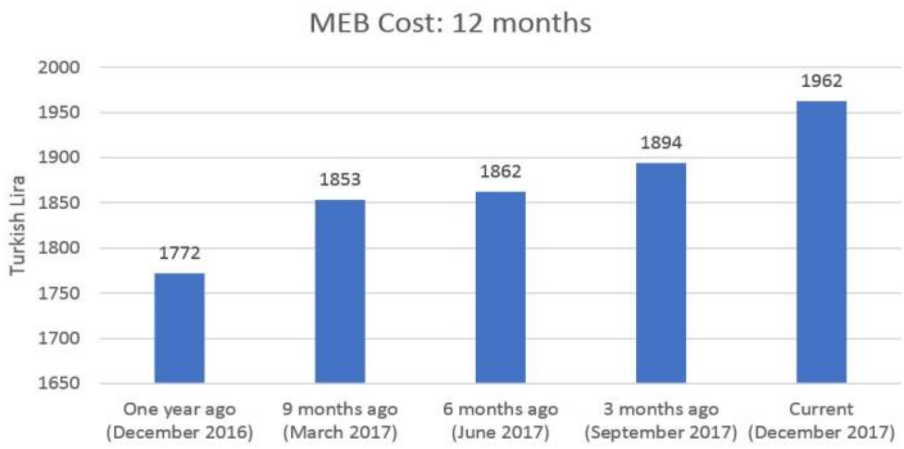


The orange line in Figure 1 demonstrates the percentage change in the cost of the MEB year-on-year. Almost all areas varied between 9.62 percent [Ankara] and 12.04 percent [Hatay-Kahramanmaras-Osmaniye]. The exception was Sanliurfa-Diyarbakir, which witnessed an annual MEB cost increase of only 7.19 percent. The same trend (lower inflation in this region) was also identified in Q3, and is due to a relatively low percentage change in the costs of food and rent in Sanliurfa-Diyarbakir.

Figure 2 demonstrates the weighted average cost of the MEB over the past 12 months. The December 2017 MEB is 10.7 percent higher than the December 2016 MEB—this is slightly lower than the annual inflation rate of 11.92 percent.

The reason the MEB cost increase is less than the annual CPI inflation rate is largely due to steep increases in the cost of transportation, which accounts for only three percent of the MEB but for 16 percent of the national consumer price index.

Figure 2: MEB Trend Analysis



***N.B.**: Q1 and Q2 Market Bulletin MEB figures have been amended to align with methodological revisions in Q3, applied moving forward. These revisions include population weighting the average MEB, and edits to the education costs included. Figure 2 shows the all MEB figures constructed with consistent methodology.*

Food Prices

Food and non-alcoholic beverages, representing one fifth of the national Consumer Price Index (CPI), demonstrated an annual inflation rate of 13.79 percent in December 2017.

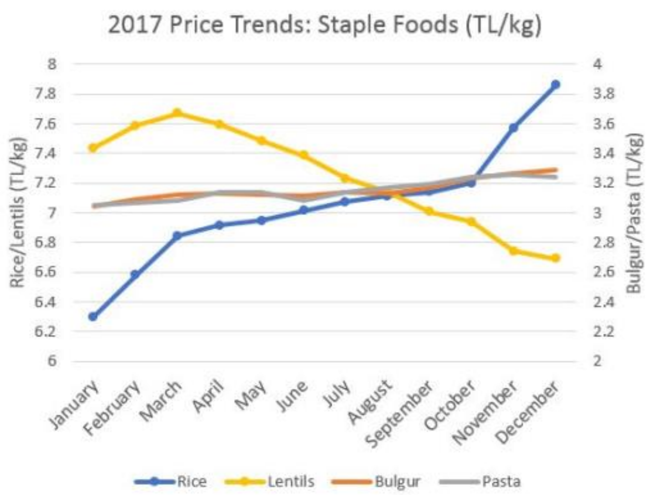
In December 2017, annual food and non-alcoholic beverage inflation increased by 1.52 percentage points, reaching an annual increase of 13.79 percent. As food represents 30 percent of the refugee MEB, this has a significant impact on household budgets.

According to the CBRT monthly price developments report, annual unprocessed food inflation (comparing December 2016 with December 2017) was at 15.55 percent due to the negative base effect from fresh fruits and vegetables — essentially inflation rates of these commodities were unusually low last year, so annual inflation appears higher in December 2017.

Prices for processed food items increased by 12.20 percent annually for December 2017; this was 6.67 percent in December 2016. Hence, an upward trend in annual food inflation persisted in December.

During Q4 of 2017, prices of pasta, bulgur (wheat) and rice increased by 1.36 percent, 3.75 percent, and 10.07 percent, respectively. Annual rice prices increased by almost 25 percent *over the year?* According to local producers this increase is largely due to the decreased rainfall. A few specific rice varieties, such as Baldo, have been particularly affected by the price hikes. On the contrary, the price of lentils decreased by 4.5 percent during Q4. Figure 3 shows these changes.

Figure 3: Staple Food Price Trends



In Q4, Mehmet Simsek, the Deputy Prime Minister and Head of the Food and Agricultural Product Markets Monitoring and Evaluation Committee, announced further policy reforms targeting additional support for agricultural production. This includes expanding the programme of reduced interest rates applied to loans for grains processing, and construction of grain storage facilities.

ESSN Q4 2017 Milestones

- Payment to 1.06 million beneficiaries in October.
- The first round of remote Post-Distribution Monitoring data was collected and cleaned by the end of November.
- Payment to 1.12 million beneficiaries in November.
- The second cycle of data collection activities for the Comprehensive Vulnerability Monitoring Exercise (CVME) concluded in November, with 600 households surveyed.
- December sweepbacks of over 2000 accounts, including uncollected cards and dormant accounts.
- Payment to 1.18 million beneficiaries in December.

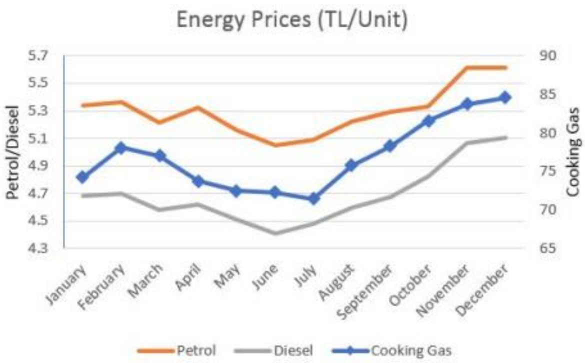
Energy Prices

Energy prices continued to increase throughout Q4, with particularly steep increases for diesel and cooking gas.

Energy prices increased by 0.50 percent in December, mainly due to increases in solid fuel and fuel prices [retrieved from CBRT December monthly price developments report]. This contributes to an annual energy inflation rate of 10.41 percent.

Figure 4 illustrates increases in the prices of petrol, diesel and cooking gas over 2017. In the past quarter, diesel and cooking gas have increased by 9 percent and 8 percent respectively. It is important to note that the price of cooking gas has increased almost 14 percent over the past year, which can have significant implications for poor households

Figure 4: Energy Price Trends



Emergency Social Safety Net Programme Implications

In December, the Emergency Social Safety Net (ESSN) programme provided unrestricted cash transfers to almost 200,000 refugee households, covering 1.18 million individual beneficiaries. The transfers are intended to allow beneficiaries to meet their basic needs. Regular analysis of the Turkish economy is essential to understand if the ESSN cash transfers are sufficient to meet the programme objective.

The Q4 bulletin allows for reflection on the 2017 trends, and provides analysis on whether ESSN transfers are keeping up with inflation. This Q4 analysis demonstrates an annual inflation rate of almost 12 percent, and an MEB annual inflation rate of almost 11 percent. In practice, this means that the cost of meeting basic needs for a household of six people increased from 1,772 TL (December 2016) to 1,962 TL (December 2017).

In December 2016, all beneficiaries received 100 TL per person month. By December 2017, beneficiaries received 120 TL per person per month, in addition to quarterly top ups according to household size. This equates to an average of 133 TL per person per month (slightly more for smaller families). Therefore the transfer value has increased 33 percent over the past year, which clearly exceeds the inflation rate.

Although the transfer value has been adjusted so it is not significantly undermined by inflation, it is still necessary to analyse whether the cash is sufficient to meet basic needs. In order to calculate this, a first step is subtracting the education costs from the MEB, as it is assumed this is covered by complementary assistance, such as the Conditional Cash Transfer for Education. The revised MEB, divided by 6, results in per person monthly needs of 320 TL.

The ESSN baseline data indicates that the very poorest households are able to spend 132 TL per person per month. This analysis excluded households engaging in any negative coping strategies. Therefore the 132 TL reflects the pre-assistance expenditure of only the poorest households not relying on negative coping. This results in a final gap analysis calculation: 320 TL (unmet needs) - 132 TL (households able to cover for themselves) = 188 TL.

The average ESSN transfer value is currently 133 TL, or 71% of the estimated gap in ability to meet needs. Due to economies of scale, this percentage varies according to household size—with a larger proportion of needs met for larger households. It is also important to note that TurkStat prices are likely higher than actual prices paid by refugee households (for more details, refer to the Q1 Market Bulletin). Therefore, the percentage of needs met may be slightly higher than 71%.

If inflation continues at the same rate in 2018, the proportion of needs met will be reduced if the transfer value is not adjusted.

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

In Partnership with
Program Ortakları

Coordinated by
Koordinasyonuyla

With the support of
Destekleyen