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Emergency Social Safety Net Market Bulletin

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ESSN

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

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

In June 2018, the ESSN provided cash assistance to 1,361 million vulnerable refugees.

Highlights

- The yearly inflation rate reached **15.39** percent, the highest increase in the last 15 years. The inflation rate for food and non-alcoholic beverages was **18.89** percent.
- The highest increase in year-over-year Consumer Price Index was in Hatay, Kahramanmaraş and Osmaniye regions with **17.38** percent.
- The Turkish Lira lost **15** percent of its value against the US dollar in Q2, reaching a **20** percent loss for the first half of the year.
- The Minimum Expenditure Basket (MEB) cost an average of **2,307** TL for a household of six, or **385** TL per capita. When deflated to reflect refugee actual expenditure, the MEB cost is **1,767** TL for a household of six, or **295** TL per person.

Turkey Macroeconomic Context

Turkey's economy continued to experience volatility in Q2 2018. According to the Turkish Statistical Institute (TurkStat), annual consumer inflation reached **15.39** percent, hitting a record for the last 15 years. The monthly inflation (**2.61** percent) was higher than expected, raising concerns for the rest of the year. Prices for the food and non-alcoholic beverages recorded their highest increase in June with **5.98** percent on a monthly basis. The yearly increase in food prices was **18.89** percent. Hatay, Kahramanmaraş and Osmaniye experienced the highest (**17.38** percent) consumer price index increases when compared to the same month last year, June 2017. These provinces also have the highest increase in CPI (**12.58** percent) since the beginning of 2018.

Among the consumer price index components, transportation prices rose by **24.26** percent in June, registering the highest year-on-year increase. This was followed by furnishing and household equipment by **18.91**

percent, housing prices by **12.01** percent, health services by **10.83** percent, and education by **10.79** percent.

Even though the announcement of the June presidential election results after the first round eliminated political uncertainty and temporarily reversed the losses in the value of the Turkish lira, the global risk perception surrounding the Turkish economy prevented a sustained recovery of the currency¹. The ongoing devaluation of the Turkish lira continues to affect the economy negatively. Within the second quarter, the Turkish Lira lost **15** percent of its value against the US dollar. The accumulated loss in the value of the TL during the first half of the year reached **20** percent.

The Central Bank of Turkey (CBRT) raised its policy rates by **1.5** percent to **17.75** percent in June, to rein in the rising inflation. Following the most recent increase, the cumulative rise in the policy rates reached 5% since April.

1. Türkiye İstatistik Bankası, Economic Research, *Monthly Economic Review*: July, 2018.

Minimum Expenditure Basket Components

 **Food: 39%**

 **Rent: 31%**

 **Utilities : 12%**

 **NFIs: 9%**

 **Healthcare: 3%**

 **Education: 2%**

 **Transportation: 3%**

 **Communication: 2%**

Turkey's trade deficit narrowed by **8.9** percent on an annual basis in June, in line with the devaluation in the currency. On the other hand, the country's current account deficit, a measure that encompasses trade balance as well financial transfers such as net portfolio inflows and FDI (foreign direct investment), continued to widen for the third month in a row in early July, reaching **5.5** percent of GDP. A higher current account deficit implies increased vulnerability to potential external shocks, such as reversals in investor sentiment, or sudden outflows of foreign capital.

Citing the high inflation rate, devaluation of the Turkish Lira and increase in the energy prices as the primary reasons, Moody's has reduced the expected growth rate in 2018 from **4** percent to **2.5** percent for Turkey. Moody's had already downgraded Turkey's credit rating from Ba1 to Ba2 in March 2018², two notches below investment grade.

During the first five months of 2018, the budget performance deteriorated slightly. In this period, the budget revenues expanded by **18.3** percent while the budget expenditures increased by **20.9** percent, creating a 9 billion TL increase in the budget deficit that reached **20.5 billion** TL for the five month period. In 2017, Turkey's budget deficit was **1.5** percent of GDP, below the target indicated in the country's Medium Term Economic Programme. Currently, the budget deficit stands at **1.6** percent of GDP and the year-end target is **1.9** percent of the country's gross domestic product³. Analysts maintain that fiscal discipline will be particularly important in the upcoming period, at a time of rising interest rates and deteriorating current account deficit.

According to the unemployment data for March 2018 (released in June 2018), the unemployment rate in Turkey was **10.1** percent, lower than the **11.7** percent registered for the

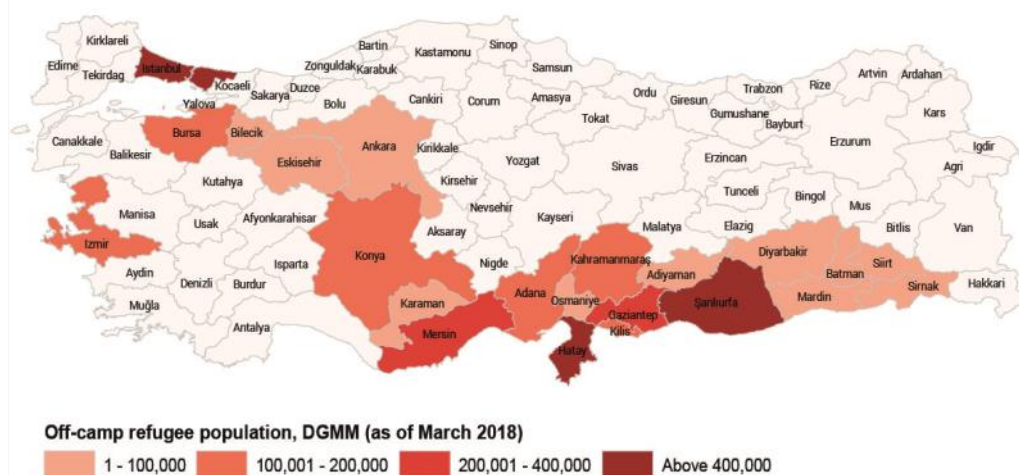
same period of the previous year. Non-agricultural employment stood at **11.9** percent, whereas youth unemployment rate was **17.7** percent. Labour force participation rate for males remained substantially above that of females, with **77.5** percent and **37.5** percent respectively. The rate of unregistered unemployment (those working without a social security scheme) was **32.4** percent in March 2018.

While Turkey's calendar-adjusted industrial production index rose by **6.2** percent in April, the pace of growth slowed down for the fourth consecutive month since December. The slowdown in the industrial sector was also reflected in the Manufacturing Purchasing Managers' Index (PMI), which reached its lowest level since April 2009⁴. The slowdown in industrial production and manufacturing activity are indicative of an upcoming slowdown in the previous high growth rates in the country.

In contrast, the consumer confidence index increased by **0.6** percent from **69.9** in May to **70.3** in June 2018. Compared with the previous month's results, consumers reported expecting an improved overall economic situation within the next 12 months, as well as a "better financial situation in the household" and a decline in the number of unemployed persons⁵. On the other hand, consumers reported a lower probability of savings for the next 12-month period.

The current economic conjuncture implies a looming slowdown in the previous high growth rates, and elevated inflation levels. This is expected to decrease the living standards and diminish the purchasing power of Turkish consumers and refugees alike, particularly affecting more vulnerable segments of the society, which traditionally lack access to safety nets which guard them during times of economic difficulty.

ESSN Market Bulletin: Geographical Focus



2. <https://www.bbc.com/turkce/haberler-turkiye-44300132>

3. <http://www.hurriyetdailynews.com/turkeys-budget-deficit-rises-ahead-of-snap-poll-133454>

4. <http://www.intellinews.com/turkey-s-industrial-output-growth-slows-to-6-2-in-april-but-better-than-expected-143374/>

5. <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=27865>

Minimum Expenditure Basket

Based on the data from TurkStat, the weighted average cost of the MEB has increased by 2 percent from Q1 to Q2, and 11.6 percent on an annual basis.

The MEB cost has been calculated using the methodology revised at the beginning of 2018. (Please refer to Q1 2018 Market Bulletin for details).

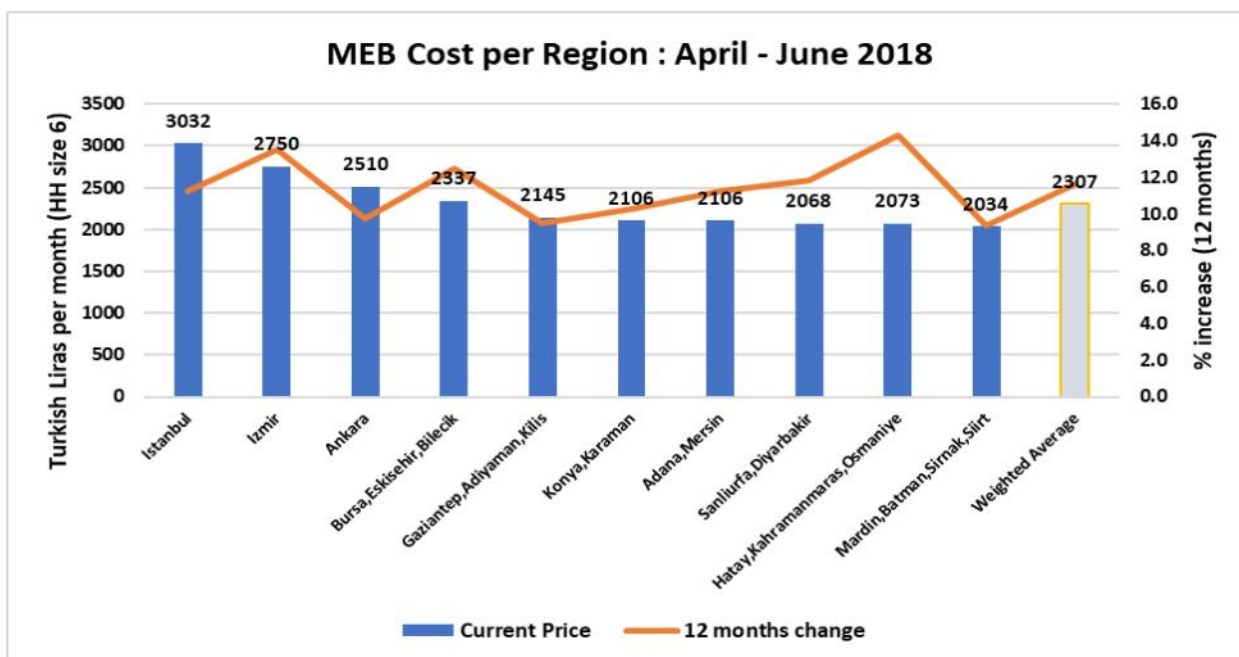
Figure 1 indicates the actual MEB costs in June 2018, across the eight regions included in the analysis. The orange line indicates the percentage price change between Q1 and Q2. The average weighted MEB for a household size of six is calculated as **2,307 TL** per month for Q2, indicating **2.03** percent increase compared to Q1.

In addition to Istanbul, Izmir and Ankara which are the most expensive regions, Bursa, Eskisehir and Bilecik also have higher MEB prices than average, becoming equal fourth most expensive regions in Q2. In Istanbul the

MEB cost has reached **3,032 TL**.

Mardin, Batman, Sirnak, Siirt, Sanliurfa, Diyarbakir, Hatay, Kahramanmaraş and Osmaniye provinces are the least expensive locations, with an MEB below 2100 TL. However, the annual MEB cost increase was the highest in Hatay, Kahramanmaraş- and Osmaniye in June 2018, with a 14.3 percent increase, followed by Izmir with 13.5 percent increase. The lowest rate of increase in MEB was seen in Mardin, Batman, Sirnak and Siirt with **9.4** percent and Gaziantep, Adiyaman and Kilis with **9.5** percent. Among the four regions that have MEB costs higher than the average, Ankara experienced the lowest increase; yet this was also **9.8** percent.

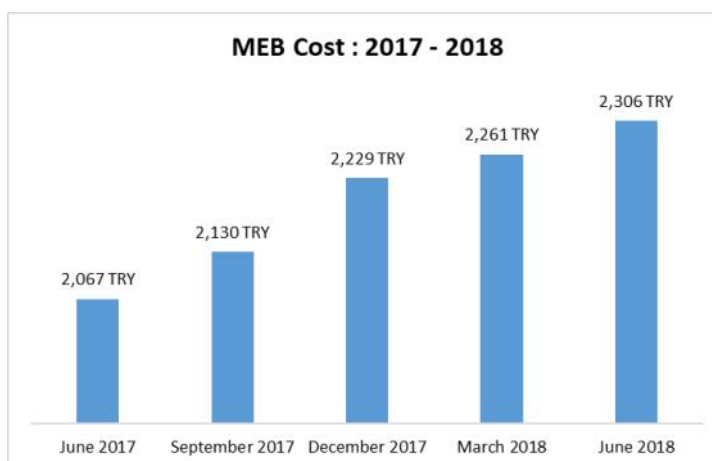
Figure 1: MEB Cost per Region in Q2 2018



The quarterly changes of the weighted average MEB costs over the past 12 months are demonstrated in Figure 2.

The MEB costs increased gradually during this period. The average weighted MEB has increased by **11.6** percent from June 2017 to June 2018. This was lower than the rise in CPI (**15.39** percent), as the CPI is more comprehensive and includes items and services that are not covered by the MEB.

Figure 2: MEB Costs between 2017 –2018



ESSN Q2
Milestones

Payment to **1,301** million beneficiaries in April.

Analysis of the aggregated Social Cohesion Survey data from 6115 participants completed.

Payment to **1,345** million beneficiaries in May.

Second round of PDM data collection completed.

1035 Applicant Contact Monitoring (ACM) surveys conducted in 165 districts in 35 provinces.

CVME round three completed with 1300 surveys across 52 locations in Turkey.

A total of 62 focus group discussions conducted in 20 provinces with 571 refugees.

Payment to **1.361** million beneficiaries in June.

Food Prices

The prices for food and non-alcoholic beverages, which make up 23 percent of the CPI, increased by 18.89 percent in the last twelve months, significantly impacting the annual inflation rate.

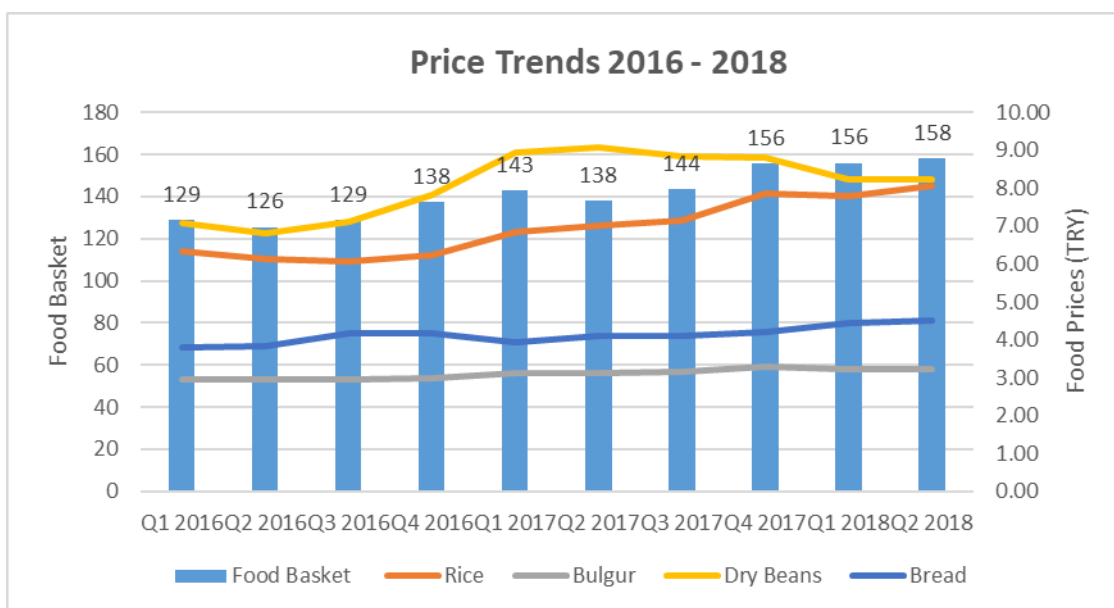
In June 2018, the annual increase in the food and non-alcoholic beverage inflation was **18.89** percent. This is reflected in the monthly food basket as equivalent to a 20 TL increase per person compared to the same month of last year. In Central Bank of the Republic of Turkey (CBRT)'s analysis, the increase in the unprocessed food prices led by fresh fruit and vegetables was cited as the driving factor behind high inflation rates. According to experts, the unusual weather conditions underlie the increase in the food prices and override the seasonal reversing effect, which was **-2** percent between May and June 2018⁶.

TurkStat announced the year-on-year inflation rate for the processed food prices as **14.47** per-

cent. The price increase for bread, which is an essential processed food, was relatively lower compared to other items, at **11.74** percent. The quarterly change in bread prices between Q1 and Q2 2018 was **1.85** percent.

The price of rice, the second leading component in the food basket, increased by **3.55** percent from Q1 to Q2 2018, and **15.1** percent annually. Bulgur (wheat) prices increased by **3.19** percent annually and the quarterly change was 0.03 percent. Dry bean prices registered an annual decrease of **9.4** percent; following a declining trend since Q3 2017.

Figure 3: Food Price Trends 2016 - 2018



Energy Prices

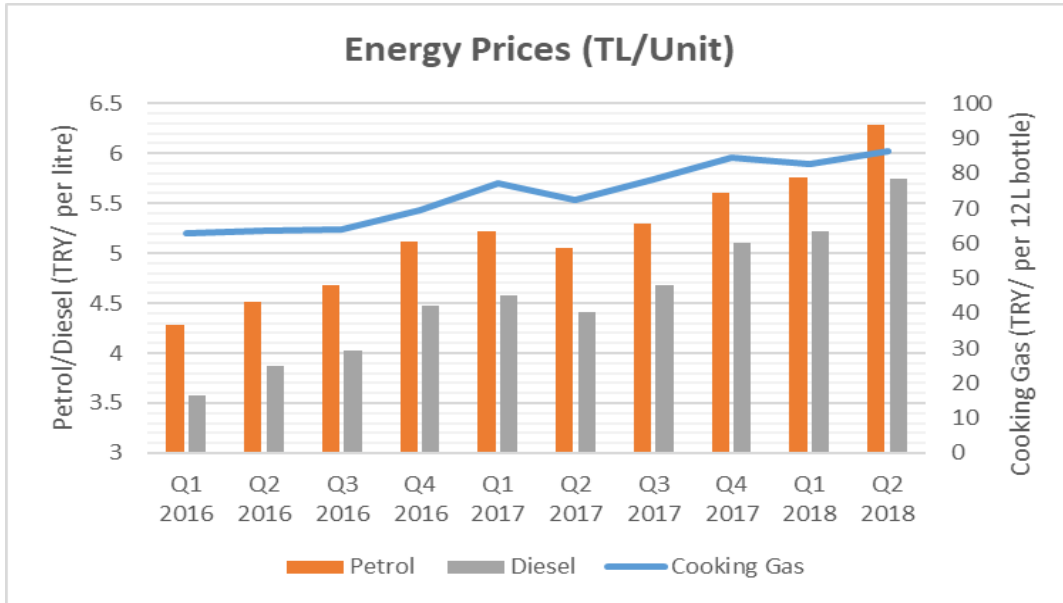
Overall energy prices continued to increase in the second quarter of 2018. Cooking gas prices that had declined in Q1 increased by 4.5 in Q2 2018.

The energy prices continued to increase in Q2 2018. The annual inflation rates for petrol, diesel and cooking gas prices were **30.1** percent, **24.4** percent, and **19.7** percent respectively. The quarterly increase in diesel prices was **9.9** percent, followed by petrol prices with **9.1** percent. Following a decline registered during the first quarter of 2018, cooking oil prices rose by **4.5** percent in the second quarter, reaching its 2017

year-end levels. Since Turkey imports a significant proportion of its energy needs, the recent devaluation in the currency was also carried over to the energy price inflation rates. Figure 4 depicts the quarterly energy prices since 2016.

6. BBVA Inflation Report for June 2018

Figure 4: Energy Prices (TL/Unit)



Emergency Social Safety Net Programme Implications

The ESSN program aims to help the refugee population in Turkey meet their basic needs through cash transfers. At the end of June 2018, 1,361,343 beneficiaries received ESSN assistance. The ESSN cash transfer value is calculated based on the cost of the MEB; WFP VAM and M&E monitor the developments in the Turkish economy to determine whether the assistance provided continues to meet the needs of beneficiaries.

The MEB cost **64 TL** more per household in Q2 compared to Q1, having reached **2,307 TL** for a household of six. As noted above, this data is collected from the Turkish Statistical Institute. Due to a variety of factors, including limited purchasing power, refugee consumption choices differ from those of the host community. Therefore, using refugee expenditure data, the MEB has been deflated to reflect actual expenditure decisions (please refer to Q1 2018 Market Bulletin for more details). The Q2 MEB for refugees was **1,767 TL**, with a **2.1** percent increase that is equal to **68 TL**.

The MEB cost per person in Q2 2018 was therefore **295 TL**. The pre-assistance baseline data from February – May 2017 on refugees indicate that even the poorest households are able to generate an income that provides **132 TL** per person, leaving a **163 TL** gap (295 – 132 TL). The ESSN transfer value is **120 TL** per month and reaches an average of **133 TL** per month when the quarterly top-ups are included. While the

ESSN assistance was covering **85 percent** of the basic needs of the refugees in Q1 2018, the increase in the MEB in Q2 reduces it to **82 percent**, and almost one fifth (**18 percent**) of the identified gap remains unmet.

Therefore an average refugee household was short of **30 TL** per person per month in Q2 (**163 TL** gap versus 133 TL provided) in order to meet its minimum basic needs. Furthermore, the impact of the rising energy prices are likely to be felt more substantially following the summer months. Given the rising food and energy prices, elevated core inflation levels (which covers rent, clothing, education, health, communication and transportation prices), combined with the expected slowdown in growth and other risks surrounding the Turkish economy, it is of utmost importance to continue providing support for the most vulnerable segments of the refugee population. The projected reduction in the purchasing power of the refugees is concerning and indicates the value of the assistance should be revised in order to protect households against the rising prices and deteriorating economic outlook.



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