



World Food Programme

WFP / Deniz Akkus

Issue No. 7

Quarter 3 2018  
(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.

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

In September 2018, the ESSN provided cash assistance to **1,427,503** million vulnerable refugees.

## Highlights

- The Turkish Lira significantly lost its value against the US Dollar in Q3; the dollar peaked in August 13, reaching 7.04 TRY.
- The inflation rate demonstrated a steep increase through the quarter, reaching 24.52% in September.
- The MEB cost for refugees increased from 1,767 TRY in Q2 to 1,942 TRY in Q3 for a household of six, or 324 TL per person in Q3.
- The economic growth has started to slow down; it was 7.4% in Q1 and 5.2% in Q3. Experts project 4.1% growth for the end of 2018.
- High production costs were the primary driver of the decrease in economic growth; the real impact of the recession is expected to be sensed in 2019.
- The unemployment rate reached 11% in June, with potential to increase if the recession continues. Literature suggests that refugees are at higher risk of unemployment compared to the local population.

## Turkey Macroeconomic Context

### DEVALUATION OF THE TURKISH LIRA

**Exchange Rate:** Following the fluctuation of the Turkish Lira (TRY) against foreign currency in Q2 (with, for example the May exchange rate around 1 USD to 4 TRY), the TRY has experienced significant devaluation in Q3 2018. Significant devaluation started in July, with a peak on 13 August at 7.04 TRY to 1 USD. The TRY began to stabilize in September, at around 6 TRY to 1 USD, since when it has strengthened further. However, some experts argue that the risk continues and there is a possibility that USD could hit 8 TRY by the end of 2018<sup>1</sup>. Refer to Figure 1 for more details<sup>2</sup>.

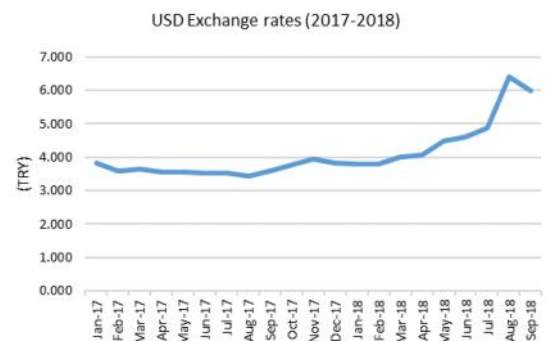


Figure 1: TRY/USD Exchange Rates<sup>3</sup>



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

1. <https://www.forbes.com/sites/rogeraitken/2018/08/16/turkish-lira-currency-crisis-not-over-could-hit-8-against-u-s-dollar/#3cae7f6e2301>  
2. For historical exchange rate trends, refer to : <http://dolar.dovizgrafik.com/>  
3. The data is retrieved from General Directorate of Budget and Fiscal Control on 15 October 2018: <http://www.bumko.gov.tr/TR,150/doviz-kurlari.html> & CBRT

**Trade Deficit:** The foreign trade deficit (the difference between import volume and export volume) fell by **76.85%** year-on-year in September. This is because the devaluation in the TRY has made Turkish exports much cheaper for foreign markets. However, the overall foreign trade volume has contracted by **2.99%** in this period.<sup>4</sup>

**Budget Deficit:** The central government budget deficit for the first half of the year was reported to be **45 billion TRY** compared with **24.3 billion TRY** in the same period of 2017. With the surplus announced by the Government in July (significantly lower than the surplus in July 2017), the budget deficit increased by **85%** during the first seven months of 2018.<sup>5</sup> The Government announced a budget deficit of **6 billion TRY** for September alone.<sup>6</sup>

**Financial Measures Implemented:** To protect the value of TRY against foreign exchange, the Government of Turkey took multiple measures in Q3. On 6 August, the Central Bank of Republic Turkey (CBRT) took action to provide a **2.2 billion USD** of liquidity to markets.<sup>7</sup> On 13 August, further measures taken by CBRT provided additional TRY, USD and gold liquidity to the financial system.<sup>8</sup> On 16 August, the Banking Regulatory and Supervision Agency (BRSA) took action to restrict bank currency swaps in an effort to protect the TRY.<sup>9</sup> Following these actions, further devaluation of TRY was averted, and the USD exchange rate started to stabilize at around **6 TRY**.

Further actions were taken in September: on 20 September, the Ministry of Treasury and Finance announced a new economic program stating that inflation and the current account deficit will be prioritized.<sup>10</sup> On 13 September, CBRT announced a 625 base point increase in the interest rate, reaching a total of **24%**.<sup>11</sup>

**Results:** According to economists, this high increase in the interest rate reduces the likelihood of unpredictable economic fluctuations in the upcoming months. However, this alone is not considered enough to overcome the current economic

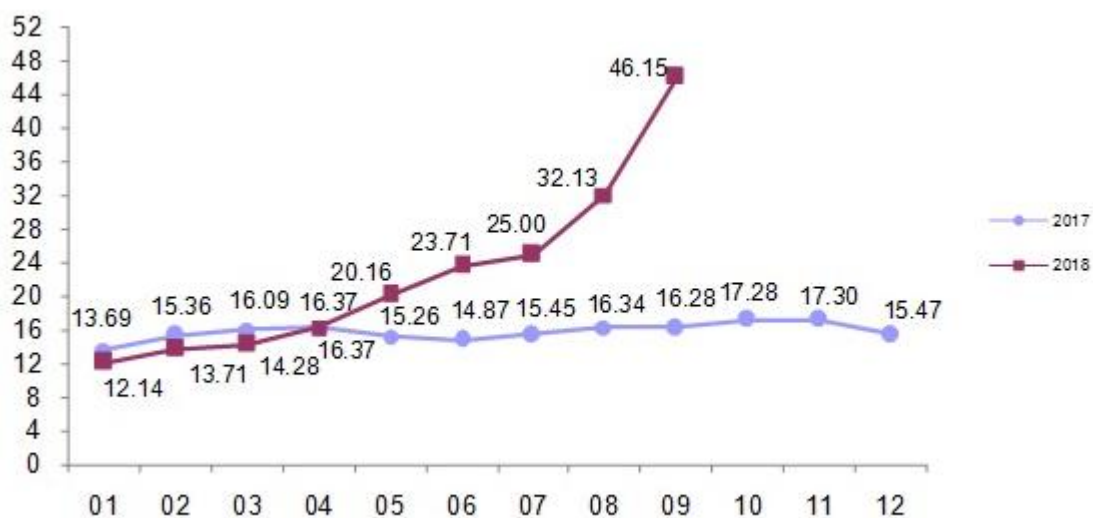
hardship.<sup>12</sup> It also has some negative consequences; small and medium-sized business enterprises with debt in TRY will be affected by this increase in interest;<sup>13</sup> high interest rates on credit can increase production costs which then contribute to higher prices in markets.<sup>14</sup> Despite this, most economists agree that the increase in the interest rate was an essential step to protect the TRY.

**Inflation:** Q2 ended with a record high annual inflation with the Consumer Price Index (CPI) rate, at **15.34%**.<sup>15</sup> In Q3, the year-over-year inflation rates have continued to increase each month: **15.85%** in July, **17.90%** in August, and reaching a record-high **24.52%** in September.<sup>16</sup>

There was variation across the sectors which comprise the annual CPI inflation rate. The highest sector increase was in furnishing and household equipment (**37.28%**), followed by transportation (**36.61%**). Of more relevance for the refugee population are food and non-alcoholic beverages (**27.70%**), health services (**17.16%**) and education (**10.67%**).

The primary driver of the high inflation rate is high production costs in September. While the Domestic Producer Price Index (D-PPI) increased some **15%** year-over-year in 2017, with minimal volatility, it increased drastically in Q3 2018. The D-PPI peaked at **46.15%** in September as seen in Figure 2.<sup>17</sup> The highest production price change has occurred in the energy sector with a **71.88%** annual increase, followed by the manufacturing sector by **44.77%**.<sup>18</sup>

These increases in production costs include the prices of raw materials as well as the energy required for processing and transporting goods. This results in higher prices of goods, directly impacting consumers and affecting supply and demand. Producers have the option to push prices down and earn less profit, however these risks having a longer-term effect on companies and can potentially lead to higher rates of unemployment.



**Figure 2:** TurkStat, Domestic Producer Price Index, September 2018<sup>19</sup>

**Economic Growth:** Industrial production growth rate has been decreasing since the beginning of the year.<sup>20</sup> The annual increase in production for the manufacturing sector was **5.6%** in August, but only **1.7%** in September, indicating that stagnation in economic growth is already observable. Economists emphasize that growth had started to slow down earlier in the year, before the economic volatility emerged in Q3. Economic growth was **7.4%** in Q1 but **5.2%** in Q2.<sup>21</sup> Economists expect an economic contraction in Q3 and Q4, and the overall yearly growth for 2018 to be **4.1%**.<sup>22</sup>

Amid this economic turbulence, numerous credit rating agencies have reduced Turkey's credit rating. Given that across all emerging markets, growth in Turkey is the most credit-dependent, this lower credit rating which has resulted in a steep decrease in credit flows, may predict negative growth for 2019, a phenomenon that has not been experienced since 2009.<sup>23</sup>

Unemployment rates also reflect the downward trend in the Turkish economy; while the unemployment rate in April 2018 was **9.6%**, its lowest level for the last two years, it gradually increased throughout Q2, reaching a seasonally adjusted figure of **11%** in June.

Labor participation increased slightly to **48.2%** year-on-year in June. When looking at specific sectors, the data shows increases in employment in the industrial and service sectors but decreases in the agriculture and construction sectors as of June.<sup>27</sup> Given the negative economic growth in agriculture, and very low growth in construction (**0.8%**) and industry (**4.3%**), employees in these sectors are at risk of unemployment. Considering that the refugees in Turkey are also predominantly working in these sectors, a further increase in unemployment rates will likely affect them.

Credit rating agency	Former credit rating	Current credit rating	Outlook
Fitch <sup>24</sup>	BB+	BB	Negative
Moody's <sup>25</sup>	Ba2	Ba3	Negative
Standard & Poor <sup>26</sup>	B+	BB-	Stable

4. <https://www.haberturk.com/son-dakika-eylul-ayi-ihracat-rakamlari-belli-oldu-2163238-ekonomi>
5. [https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03\\_monthly/MER\\_201809.pdf](https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03_monthly/MER_201809.pdf)
6. <http://www.hurriyet.com.tr/ekonomi/eylulde-butce-acigi-6-milyar-40987867>
7. CBRT lowered the upper limit of the foreign exchange maintenance facility within the reserve options mechanism from 45% to 40%: [https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03\\_monthly/MER\\_201809.pdf](https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03_monthly/MER_201809.pdf)
8. CBRT dropped the TRY reserve requirement ratio by 250 bps for all maturity brackets: <https://www.dunya.com/finans/haberler/mb-piyasaya-hem-guvence-hem-paraverdi-haberi-425083>
9. BRSA increased the restricted amount of banks' currency swaps to 25% of bank's regulatory capital: <http://ekonomi.haber7.com/ekonomi/haber/2689735-bddk-swap-islemlerine-getirilen-kisitalamayi-artirdi-swap-nedir?detay=1>
10. <http://www.maliye.gov.tr/haberler/yeni-ekonomi-programi-yep-aciklandi>
11. <http://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2018/ANO2018-38>
12. <https://t24.com.tr/haber/ekonomist-ugur-gurses-2019-krizin-daha-agir-hissedildigi-yil-olacak,702255>
13. <https://www.gazeteduvar.com.tr/yazarlar/2018/09/14/531039/>
14. <http://www.milliyet.com.tr/yazarlar/gungor-uras/faiz-artti----ayse-teyzem-bu-isten-nasil-etkilendir--2384437/>
15. Market Bulletin, World Food Programme, Q2 2018,
16. <http://www.tuik.gov.tr/HbGetirHTML.do?id=27766#>
17. <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=27716>
18. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=27707>
19. Original graphic retrieved from TurkStat Press Release on 3 October 2018: <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=27716>
20. <http://www.tuik.gov.tr/HbGetirHTML.do?id=27904>
21. <http://www.tuik.gov.tr/HbGetirHTML.do?id=27827>
22. [https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03\\_monthly/MER\\_201808.pdf](https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03_monthly/MER_201808.pdf)
23. Brooks, R.; Lanau, S. & Ulku, U. Global Macro Views - Large Devaluations. Institute of International Finance, 28 August 2018.
24. <https://www.fitchratings.com/site/pr/10043511>
25. <https://www.marketwatch.com/story/sp-global-moodys-both-downgrade-turkeys-sovereign-ratings-2018-08-17>
26. <https://www.cnbc.com/2018/08/17/sp-cuts-turkey-credit-rating-deeper-into-junk-territory.html>
27. <http://www.tuik.gov.tr/HbGetirHTML.do?id=27696>

## Refugee Minimum Expenditure Basket

Data from the Turkish Statistical Institute (TurkStat) indicates that the weighted average cost of the refugee Minimum Expenditure Basket (r-MEB) has experienced a 10% increase from Q2 to Q3. The annual increase is currently at 19%.

TurkStat collects data of goods and services which reflects the purchasing patterns of average Turkish consumers. The r-MEB, however, is intended to reflect an actual minimum cost of living for refugees. Therefore the r-MEB is constructed using a reduced version of the TurkStat Consumer Price Index, which is essentially a Turkish MEB (t-MEB), and then deflated to align with refugee purchasing patterns. The deflation factor has been calculated to be 22%. The methodology of the deflation is explained in the Q1 2018 market bulletin.

The r-MEB cost has increased sharply between Q2 and Q3, rising from 1,767 TL to 1,942 TL per month for a six-person refugee family household (equating to 324 TL per person).

Figure 3 indicates the linear trend of the r-MEB costs since June 2017 with the abrupt rise in September 2018. The r-MEB cost has increased 10% in the past quarter, and the annual increase was 19%.<sup>28</sup> This is about 6% lower than the annual CPI inflation rate (24.52%) announced by TurkStat.

The r-MEB cost per region is depicted in Figure 4. In Q3, Istanbul, Ankara, Izmir and Bursa-Eskisehir-Bilecik regions have r-MEB costs higher than the national average. The highest r-MEB cost is in Istanbul at 2,567 TL per month and the lowest was in the Şanlıurfa-Diyarbakir region at 1,724 TL. The highest annual increase in the cost of the r-MEB was 21% seen in three regions of the country; Bursa-Eskisehir-Bilecik region, Izmir, and Hatay-Kahramanmaraş-Osmaniye region.

### Minimum Expenditure Basket Components

 Food: 39%

 Rent: 31%

 Utilities : 12%

 NFIs: 9%

 Healthcare: 3%

 Education: 2%

 Transportation: 3%

 Communication: 2%

MEB Cost (TL): 2017 - 2018

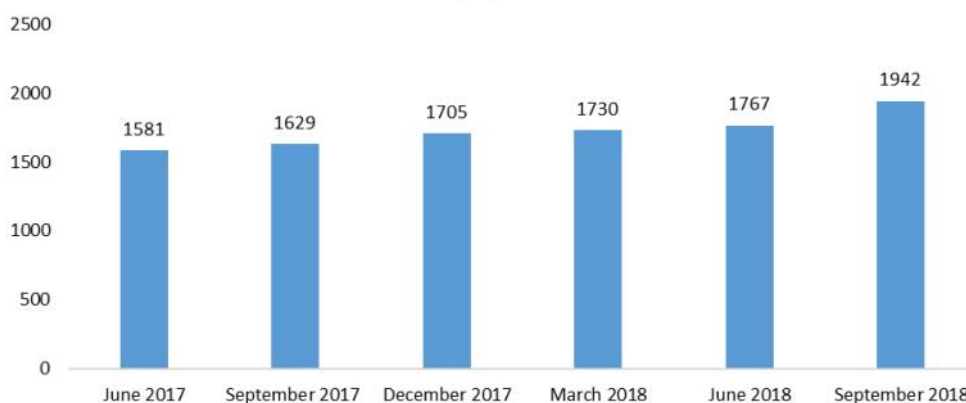


Figure 3: MEB costs between 2017-2018

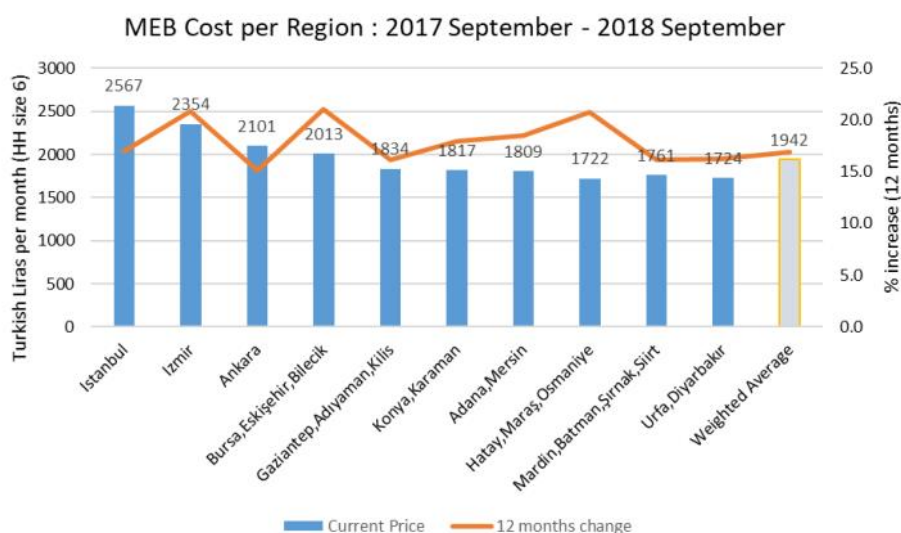


Figure 4: MEB Cost per Region in Q3 2018

28. The increase for t-MEB is 16.9%.

\*The total may not be 100% as the percentages are rounded up.

## Food Prices

The food basket represents the monthly minimum cost of a nutritiously balanced diet. In September 2018, using the prices provided by TurkStat,<sup>29</sup> the food basket cost **177 TL** per person per month, demonstrating a **33%** increase in comparison with September 2017. The quarterly change was **12%**. Note that this food basket cost is the un-deflated TurkStat figures, reflecting the commodities purchased by average Turkish consumers.

The monthly inflation rate for food and non-alcoholic beverages was **6.40%** for September 2018, the highest monthly inflation rate ever recorded for this category according to CBRT. The annual increase is **27.7%**. In Q3, unprocessed food prices increased by **34.4%** and the increase for processed food prices was **22.5%**. Among all the subcategories of food groups, fresh vegetables and fruit saw the highest annual increase, with prices **57.62%** higher than September 2017.<sup>30</sup>

While fresh vegetables and fruit had the highest increase of all the food groups, staple foods represent a larger proportion of the basket. Figure 5 depicts the increase in the grain and bread prices. In September 2018, rice prices increased **9%** quarterly, reaching **8.8 TL** per kg. The price of one kilogram of bread rose **8%**, to **4.9 TL** in September 2018.



Figure 5: Food Price Trends 2016-2018

Food costs represent the largest share in the Minimum Expenditure Basket, **39%** of the total, so these increases have important implications for refugee budgets and hence the transfer value they require through any assistance such as the ESSN.

t-MEB is used for the analysis in order to keep track of the average food prices.

## Energy Prices

**The Q3 quarterly increases in energy prices were much higher than previous quarters. Gas prices rose by 8% between Q2 and Q3.**

The devaluation of the TRY and the high inflation rates are reflected in Q3 energy prices. The price of petroleum has increased by **10%** in the past quarter, reaching **6.94 TL** per liter. The increase in diesel prices was 11%, resulting in a liter price of **6.35 TL**. The price for a 12-liter cooking gas bottle of propane or butane was **86.49 TL** in Q2 but reached **93.61 TL** in Q3 – an **8%** quarterly increase. Figure 6 indicates the changes in the energy prices from 2016 to 2018.

From the household consumption perspective, energy prices are concerning as winter approaches, requiring higher consumption of energy for heating, plus more electricity during the days with shorter daylight.

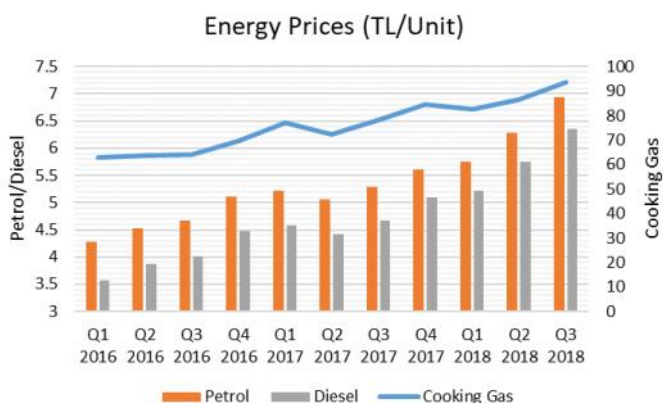


Figure 6: Energy Price Trends (TL/Unit)

As energy prices influence production costs in the industrial sector, they also indirectly affect inflation rates for consumer products. As energy is an import for Turkey and the currency exchange rates are volatile, it is difficult to predict likely changes in energy prices in the upcoming months and therefore it is impossible to quantify the future effect on production costs, production rates and economic growth.

The political and economic embargo imposed by the US over Iran further increases Turkey's economic uncertainty. After Russia, Iran is the country from which Turkey imports the most energy. In 2017, **19%** of the natural gas imported by Turkey was from Iran. Despite a US statement that it would implement sanctions for any countries which does not cut off trade with Iran starting from October 2018, Turkey announced that the trade with Iran will continue. Turkey and Iran had a trade volume of **10.7 billion USD** in 2017.\*

29. t-MEB is used for the analysis in order to keep track of the average food prices.

30. <http://www.tcmb.gov.tr/wps/wcm/connect/2bf6bde0-aafb-4dc3-9611-cf01ab8e837c/afiyateylul18.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-2bf6bde0-aafb-4dc3-9611-cf01ab8e837c-moZU4Aa>

## Emergency Social Safety Net Programme Implications

Through the provision of unrestricted cash transfers, the ESSN aims to assist refugees to meet their basic needs. In September 2018, **1,427,503** beneficiaries received ESSN assistance. The current cash transfer value of ESSN is **120 TL** per person per month. With additional quarterly top-up payments, each beneficiary receives an average of **133 TL** monthly, with some variation according to family size.

As explained above, the September r-MEB is **1,942 TL** for a 6 person household, equating to **324 TL** per person.

The current transfer value was last updated in June 2017, with quarterly top-ups added in August 2017.

WFP Turkey CO VAM/M&E Unit monitors the economic developments in Turkey in order to determine whether the assistance provided meet the needs of beneficiaries. The data collected through the third cycle of the Post-Distribution Monitoring exercise (PDM3) indicates that the poorest 20% of households are able to generate an income of 142 TL per person monthly, without the use of negative coping strategies.

This leaves a **182 TL** gap (**324 – 142**) to meet the cost of the MEB. The ESSN assistance covers **133 TL** of this gap, leaving **49 TL** (**182 – 133**) as unmet needs. The gap was only **30 TL** for Q2.

With the increased need for heating and electricity, energy consumption increases in winter. This coincides with the steeply increasing energy prices. As a result, the upcoming months are expected to be even more challenging for poor refugee households.

If annual inflation reduces to **20%** by the end of the year, the likely r-MEB value will reach **333 TL**, with the gap reaching **58 TL** per person per month. However, if annual inflation remains as it currently is (**24.52%**), the MEB will reach **344 TL**, leaving a gap of **69 TL** per person per month.

Furthermore, given the current economic situation in Turkey, the income generated by the refugees (included within the gap analysis calculations) should not be taken for granted. The above-mentioned issues relating to the devaluation of the TRY, the increase in energy prices and production costs, and the contraction in economic growth, all combine to result in higher rates of unemployment. This is already demonstrated in Q3 figures. According to academic literature, refugees are at higher risk of unemployment during recessions in comparison to the local population (see the call out box).

Because refugee income is not increasing in line with inflation, and is, in fact, at risk of a decrease, refugees are forced to adapt their behaviour in order to meet their needs. The PDM3 report indicates that the proportion of refugees resorting to negative coping strategies is starting to increase and similarly the amount of debt they have is also rising once again; in July **66%** of the beneficiaries reported that they had bought food on credit, and **59%** of them had borrowed money in the previous month.<sup>31</sup>

While the PDM3 results are still much better than the baseline situation, the gains are already being eroded. With limited income opportunities (likely to further reduce in 2019), and a steadily increasing cost of living, refugees will be forced to adapt their behaviour to make ends meet. Without additional assistance, it is expected that refugees will start to use more severe coping strategies and continue to take on new debt. Therefore, to mitigate the effect of the economic downturn on poor refugee households, a revision in the transfer value must be considered by ESSN stakeholders.

Studies indicate that migrants experience a higher risk of unemployment in recessions than the native population due to differences in human capital, language abilities and work experience. Also, the sectors where refugees most frequently work are those most affected by an economic contraction, such as construction and manufacturing\*. Different from the patterns followed by other migrants, returning home is not an option for refugees, as theirs is a forced migration\*\*.

Aside from the risk of unemployment, refugees are also subject to a potential reduction in wages or working hours when countries experience an economic slowdown. In some countries, the literature demonstrates that the poor economic conditions at the time refugees enter the labor force continue to negatively impact their wages for up to 10 years\*\*\*.

\* Papademetriou, D. G. & Terrazas, A. (2009). Immigrants and the Current Economic Crisis: Research Evidence, Policy Challenges, and Implications. Washington, DC: Migration Policy Institute.

\*\* Beets, G. & Willekens, F. (2009). The Global Economic Crisis and International Migration: An Uncertain Outlook. The Hague, Netherlands: Netherlands Interdisciplinary Demographic Institute.

\*\*\* Mask, J (2018). *Consequences of Immigrating During a Recession: Evidence from Refugee Resettlement Program*. Munich Personal RePEc Archive.

31. Emergency Social Safety Net: Post Distribution Monitoring Summary, Round 3. World Food Programme. 2018.

