



World Food Programme

WFP / Deniz Akkus

Issue No. 8

Quarter 4, 2018

(October—December)

# 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 December 2018, the ESSN provided cash assistance to 1,519,591 million vulnerable refugees.



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

## Highlights

- The Turkish Lira has appreciated against the USD in Q4; as of December, the exchange rate is 1 USD to 5.28 TRY.
- Inflation has decreased during Q4. After peaking in October at 25.24%, it decreased to 21.62% in November and to 20.30% in December.
- The economic growth predictions for 2018 are below 4%; it is predicted to be even less in 2019. Official 2018 figures are expected to be released in Q1 2019.
- The Minimum Expenditure Basket for refugees is 337 TRY per person per month.

## Turkey Macroeconomic Context

### DEVALUATION OF THE TURKISH LIRA

**Exchange Rate:** Starting from mid-September, the Turkish Lira (TRY) gradually continued to regain its value against foreign currencies in Q4; 1 USD was around 6 TRY in early October but reduced to 5.28 TRY in December 2018.<sup>1</sup> At its peak, 1 Euro was 7 TRY in September, but decreased to 6.02 TRY by December. Experts expect the value of the dollar to fluctuate between 5.30 TRY and 5.50 TRY in the first quarter of 2019.<sup>2</sup>

**Trade Deficit:** The devaluation of the TRY enabled foreign traders to purchase more products from Turkey with the same amount of foreign currency. In October, export rates increased by 13.1% annually, reaching 15,732 billion USD, the highest export volume in the history of the Republic of Turkey.<sup>3</sup> In November, total export volume increased by 9.4% annually, and import volume contracted by 21%; as a

result, the foreign trade deficit has narrowed by 89.8% in comparison to November 2017.<sup>4</sup> The export rate continued to expand in December and the foreign trade deficit had reduced by 71.1% in comparison to December 2017. However, the foreign trade volume also decreased by 17.5% and actualized as 30.48 million USD in December 2018.

**Budget Deficit:** Driven by increasing export rates and tourism revenues, in October, the current account deficit of the January to October period became the lowest since July 2017.<sup>5</sup> In 2018, the budget revenue increased by 20.2% and tax revenues increased by 15.8%, however the budget expenditure increased by 22.4%.<sup>6</sup> By the end of the year, the budget deficit was reported to be 72.6 billion dollars. This figure is in line with expectations in the New Economic Program which the Government announced in August 2018 in reaction to the rapid changes in the currency rates.<sup>7</sup>

1. For historical exchange rate trends, refer to : <http://dolar.dovizgrafik.com/>  
2. <https://kanalfinans.com/raporlar/forex/dolar-kuru-usdtry-yorumlari-ve-analizleri>  
3. <https://www.dunya.com/ihracat/ihracatta-cumhuriyet-tarihi-rekoru-kirildi-haberi-431319>  
4. <https://ekonomi.isbank.com.tr/en/Pages/monthly-economic-review.aspx>  
5. <https://ekonomi.isbank.com.tr/en/Pages/monthly-economic-review.aspx>  
6. <https://www.ntv.com.tr/ekonomi/albayrak-butceacigi-2018de-hedefle-uyumlu-gerceklesti,BoTQOvyTbEezHrUe9mhQGw>  
7. [https://www.bumko.gov.tr/Eklenti/11246,yeni-ekonomi-programipdf.pdf?0&\\_tag1=03F8430E41D6C09174BC80D0975E9C5F93036164](https://www.bumko.gov.tr/Eklenti/11246,yeni-ekonomi-programipdf.pdf?0&_tag1=03F8430E41D6C09174BC80D0975E9C5F93036164)

**Results:** The devaluation of the Turkish Lira has reversed in Q4 2018. According to experts, along with the measures taken to control inflation in Turkey, a variety of factors have contributed to the recent appreciation of the Turkish Lira: the increase in the U.S. Federal Reserve System policy rate by 25 base points in December 2018, the decrease in global oil prices, and the easing of political tensions between Turkey and the USA and EU.<sup>8</sup> While the devaluation of the TRY against the USD contributed to an increase in Q4 exports, which narrowed the foreign trade deficit, the stagnancy in trade volume is a concern for the economic growth in Turkey.

## INFLATION

The annual inflation rate peaked in October at 25.24%, decreased to 21.62% in November, and again decreased to 20.30% in December. The monthly change in food and non-alcoholic beverages prices were as follows: 3.22% increase in October, 0.74% decrease in November, and 1.08% increase in December. The annual food and non-food inflation rate was recorded as 25.11%.

When disaggregating by regions, the region of Mardin, Batman, Şırnak, and Siirt experienced high monthly inflation rates in Q4, along with Şanlıurfa-Diyarbakir and Ağrı, Kars, Iğdır and Ardahan. In 2018, the average inflation in the last 12-months was the highest in Hatay, Kahramanmaraş and Osmaniye, all regions where there is a dense population of refugees.

In October 2018, the Minister of Treasury and Finance announced a programme called “Enflasyonla Topyekün Mücadele” (Fighting Inflation All-out)<sup>9</sup> (see the box on the left). A specific website was designed for the campaign and it was received positively by the market. Many private businesses also participated in the discount campaign by reducing their prices by at least 10%.<sup>10</sup> In November, the Government introduced a tax reduction plan.

As the annual rate of inflation was declining, the Central Bank of the Republic of Turkey (CBRT) maintained the interest rate at 24% in its meeting held on December 13. (see the call out box).<sup>11</sup>

### Enflasyonla Topyekün Mücadele Fighting Inflation All-out

#### For consumers

- 10% discount campaign across private companies
- Freeze on energy price increases until end 2018 through modification of the taxation system
- Grants for part-time employment in private businesses to avert unemployment
- Acceleration of pending VAT rebates
- Revision of wholesale grocery law for lower prices
- Banks to give 10% discount on high-interest loans

#### For Businesses

- Low interest loans for longer periods for small and medium enterprises in export
- Financial contributions for enterprises with TRY debt
- KOSGEB (organization for SME development) postponed debt payments for three months
- Large support package for domestic production
- Banks deferring payments on loans

**Economic Growth:** While inflation and devaluation both decreased during Q4, a primary concern remains related to economic growth. In a July 2018 report, OECD had projected 5% annual economic growth for Turkey<sup>13</sup>, the minimum required growth for a stable economy. Following the economic changes in September/October, in November the OECD predictions were revised to 3.3% growth in 2018 and a 0.4% contraction in 2019. OECD expects this to be temporary if business, household, and investor confidence is restored, and expects a 2.7% growth in 2020.<sup>14</sup>



Figure 1: TurkStat, Consumer Price Index, December 2018

8. <https://www.bbvaresearch.com/en/publicaciones/turkey-inflation-surprised-on-the-downside/> & [http://bigpara.hurriyet.com.tr/video/dolar-neden-dusus-yasadi\\_ID101730/](http://bigpara.hurriyet.com.tr/video/dolar-neden-dusus-yasadi_ID101730/)  
9. <https://www.ntv.com.tr/ekonomi/bakan-albayrak-enflasyonla-topyekun-mucadele-programini-acikladi,f1LRxyYE6kWjQArjNWiAkg>  
10. <http://enflasyonlamucadele.org.tr/enflasyonla-topyekun-mucadele-programi/>  
11. <https://www.tcmb.gov.tr/wps/wcm/connect/TR/TCMB+TR/Main+Menu/Duyurular/Basin/2018/DUY2018-48>  
12. Original graphic retrieved from TurkStat Press Release on 3 January 2019: <http://www.turkstat.gov.tr/HbGetirHTML.do?id=30848>

In November 2018, the European Bank for Reconstruction and Development (EBRD) decreased its growth predictions for Turkey from 4.2% to 1% for 2019. While this number is below the Government's 2019 goals (2.3%), the EBRD predictions for growth in 2018 (3.6%) align with the Turkish Government's prediction (3.8%) for 2018.<sup>15</sup>

Economic growth in Turkey in the third quarter was actualized as 1.6%. While the biggest contribution was from imports (3.8 points) and exports (2.9 points), total investments negatively affected growth (-1.1 points).<sup>16</sup> When disaggregating the growth by sector, the service sector grew by 4.5%, whereas the construction sector, which is about a tenth of the Turkish economy and employs many refugees, contracted by 5.3% in Q3.<sup>17</sup> Figure 2 indicates the sectoral and national economic growth rates in 2018.

Industrial production decreased by 6.5% in November 2018 compared to November 2017. Considering that a significant number of refugees work in factories, the 7.1% decrease in the manufacturing index is also noteworthy. The stagnation led to downsizing; unemployment rates increased from 10.9% in June to 11.6% in October. Entrepreneurs also abstained from investment; in Q4, the TRY credits only rose by 2.8% and foreign exchange credits by 1.2%, the lowest in 2018. Furthermore, the registration for non-performing loans<sup>18</sup> increased by 47.2% by the end of December 2018 compared to December 2017.<sup>19</sup> There were around 400 companies that declared concordat in Q4 (a pre-bankruptcy status which allows for a restructuring agreement between the debtor and the creditor); this is considered an indicator economic

difficulty. 100 of these companies have rescheduled their payments in cooperation with the Banking Association at the beginning of 2019.<sup>20</sup>

Measures taken like providing grants for part-time employment, postponing tax payments and giving loans for domestic production investments, aim to ease the bureaucratic processes for entrepreneurship.<sup>21</sup> Resulting from these revisions, Turkey became the 43rd country out of 190 in the World Bank's 2019 Ease of Doing Business Report.<sup>22</sup> Despite the efforts to rejuvenate the Turkish economy, 2019 is expected to be a difficult year.<sup>23</sup>

### Tax Reduction Plan

- Motor vehicles below 1600 cc: excise duty reduced from 45% to 30% Domestic appliances exempt from excise duty
- Value-Added Tax reductions:
  - ⇒ Commercial vehicles (18% to 1%)
  - ⇒ Furniture (18% to 8%)
  - ⇒ Housing (18% to 8%)\*
- Land title deed fees reduced from 4% to 3%\*

\*These reductions started earlier, but have been extended through the Tax Reduction Plan

Sector	Q1 (%)	Q2 (%)	Q3 (%)
Agriculture	5.6	-2.8	1.0
Manufacture	8.7	4.5	0.6
Construction	6.7	1.0	-5.3
Services	10.5	8.9	4.5
<b>Gross National Product (GNP)</b>	<b>7.2</b>	<b>5.3</b>	<b>1.6</b>

Figure 1: Quarterly Sectoral Growth, 2018

13.<http://www.oecd.org/eco/surveys/Turkey-2018-OECD-economic-survey-overview.pdf>

14.<http://www.oecd.org/eco/outlook/economic-forecast-summary-turkey-oecd-economic-outlook.pdf>

15.<https://www.dunya.com/ekonomi/ebird-turkiye-buyume-tahminini-asagi-cekti-haberi-431351> & [https://www.bumko.gov.tr/Eklenti/11246,yeni-ekonomi-programipdf.pdf?0&\\_tag1=03F8430E41D6C09174BC80D0975E9C5F93036164](https://www.bumko.gov.tr/Eklenti/11246,yeni-ekonomi-programipdf.pdf?0&_tag1=03F8430E41D6C09174BC80D0975E9C5F93036164)

16.[https://www.ntv.com.tr/ekonomi/ucuncu-ceyrek-buyume-rakamlari-aciklandi,3bZlIxeSqUWC9Dhz1LKUIQ?\\_ref=infinite](https://www.ntv.com.tr/ekonomi/ucuncu-ceyrek-buyume-rakamlari-aciklandi,3bZlIxeSqUWC9Dhz1LKUIQ?_ref=infinite)

17.<https://www.dunya.com/ekonomik-veriler/ucuncu-ceyrek-buyume-rakami-aciklandi-haberi-434332>

18. Nonperforming loans are landed when a debtor unable to make the scheduled payments. For more details: <https://www.investopedia.com/terms/n/nonperformingloan.asp>

19.<https://ekonomi.isbank.com.tr/en/Pages/monthly-economic-review.aspx>

20.<http://www.hurriyet.com.tr/ekonomi/konkordatodan-geri-donus-41089210>

21.<https://www.aa.com.tr/tr/ekonomi/enflasyonla-topyekun-mucadele-programi-aciklandi/127663>

22.<http://www.doingbusiness.org/en/data/exploreconomies/turkey>

23.<https://www.ft.com/content/5e0f5cbe-fc4a-11e8-aebf-99e208d3e521>

## Refugee Minimum Expenditure Basket

### Minimum Expenditure Basket Components

 **Food: 40%**

 **Rent: 29%**

 **Utilities : 11%**

 **NFIs: 11%**

 **Healthcare: 3%**

 **Education: 2%**

 **Transportation: 2%**

 **Communication: 2%**

The high inflation rates affected the Minimum Expenditure Basket (MEB); the monthly cost for a refugee family with 6 people as calculated based on the refugee purchasing patterns (r-MEB) has increased to 2,025 TRY, despite still being 22% less than their Turkish counterparts (t-MEB=2,644 TRY). Figure 3 depicts the quarterly rise of the r-MEB between 2017 and 2018 for a refugee family of six. The individual cost of the r-MEB costed at 324 TRY at the end of Q3 increased to 332 TRY in October, 335 TRY in November and 338 TRY in December 2018.

Among the ten regions where the refugees are most concentrated, Istanbul, Izmir, Ankara, Bursa-Eskişehir-Bilecik regions continue to have higher r-MEB costs than average. As seen in Figure 4, the Hatay-Kahramanmaraş-Osmaniye region has the lowest r-MEB, closely followed by the Şanlıurfa-Diyarbakır region. The yearly changes in the prices were particularly significant for the Bursa-Eskişehir-Bilecik, Adiyaman-Kilis and Hatay-Kahramanmaraş-Osmaniye regions with 20.7%. Despite being the third most expensive region, the lowest yearly increase was in Ankara at 14.7%.

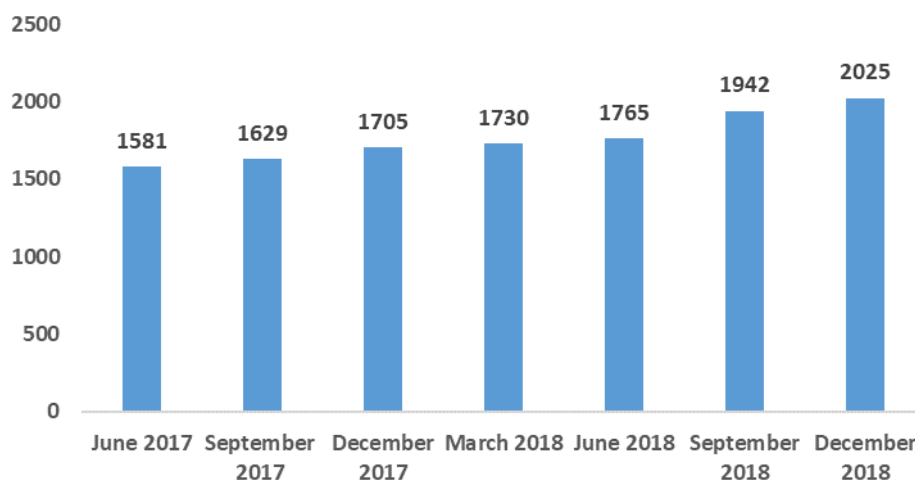


Figure 2: rMEB costs between 2017-2018



Figure 3: MEB Cost per Region in Q4 2018

24. For methodological details see: WFP Turkey Market Bulletin Q1 2018.

## Food Prices

WFP monitors the cost of a monthly nutritionally balanced food basket; it is at minimum cost, but respects the dietary habits of refugees. The food basket costs are calculated using the monthly consumer item price data released by TurkStat.<sup>25</sup> The average food basket cost in Turkey has increased by 7 TRY from 177 TRY per person per month in Q3 to 184 TRY in Q4 2018. The increase from the Q4 2017 to Q4 2018 is 18%. Note that this food basket cost is the un-deflated TurkStat figure, reflecting the commodities and brands purchased by average Turkish consumers (unlike the r-MEB figures presented above).

The yearly inflation rate for food and non-alcoholic beverages decreased from 29.26% in October to 25.66% in November and to 25.11% in December. While the absolute figure remains high, the decrease is attributed to unprocessed foods, such as a fruit and vegetables.<sup>26</sup> Food costs represent the largest share in the Minimum Expenditure Basket, 40% of the total, so changes in the food basket have a large effect on refugee budgets.



Figure 4: Food Price Trends 2016-2018

## Energy Prices

The decrease in oil prices globally and the appreciation of the Turkish Lira against the US dollar resulted in decreases in energy prices in Turkey.<sup>27</sup> In May 2018, the Government changed the taxation system in oil consumption to a sliding scale<sup>28</sup> allowing for changes in tax rates according to the price of the oil. This helps to stabilise the consumer price paid. By doing so, the Government was able to absorb the increase in the prices through lowering the taxes in August and September.<sup>29</sup> Furthermore, given positive changes for the Turkish Lira, the price of petrol decreased six times in Q4, resulting in a total price decrease of 1.16 TRY per liter, giving a December price of 6.1 TRY/liter. Similarly, diesel prices

decreased four times, resulting in a total price decrease of 0.73 TRY, giving a December price of 6 TRY/liter.<sup>30</sup> Cooking gas, which was 93.6 TRY/12 Lin Q3 reduced to 91 TRY in Q4 as seen in the figure below.

While there were concerns over the US sanction on Iran and the countries trading with Iran, Turkey was exempted from these sanctions. This is a clear indication of the improving relationship between the US and Turkey.<sup>31</sup> Iran is the second country Turkey imports natural gas from, after Russia; Turkey and Iran have an annual trade volume of 10.8 billion USD.<sup>32</sup>

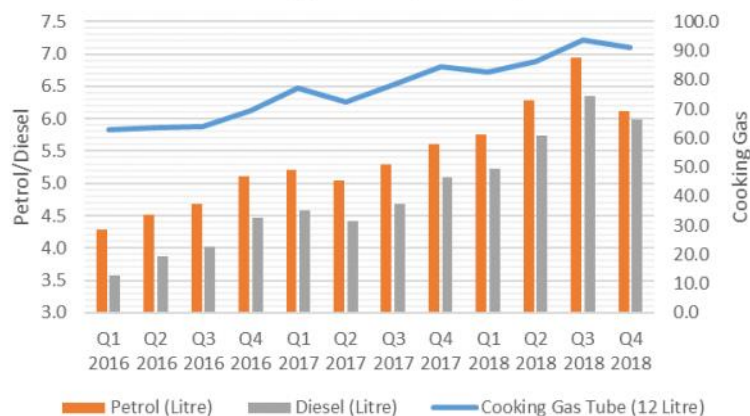


Figure 5: Energy Price Trends (TL/Unit)

25. <https://biruni.tuik.gov.tr/medas/?kn=102&locale=en>

26. <https://www.tcmb.gov.tr/wps/wcm/connect/428f5a92-656d-4043-98b2-e6627b1b035a/afiyatkasim18.pdf?MOD=AJPERES&CID>

27. <https://ekonomi.isbank.com.tr/en/Pages/monthly-economic-review.aspx>

28. The purpose of sliding scale is to protect the purchasing power of people by making price adjustments based on an associated factor, e.g. inflation and cost of living. For more details about sliding scales see: <https://www.investopedia.com/terms/s/sliding-scale.asp>

29. <http://www.hurriyet.com.tr/ekonomi/akaryakitta-esel-mobil-sistemi-donemi-40839980>

30. <https://www.haberturk.com/8-aylik-esel-mobil-uygulamasinda-benzin-ve-motorinin-fiyati-nasil-degisti-2295874-ekonomi>

31. <https://www.bloomberg.com/opinion/articles/2018-11-05/u-s-sanctions-on-iran-why-is-turkey-exempt>

32. <https://www.deik.org.tr/basin-aciklamalari-turkiye-iran-iliskilerinde-yeni-donem>

33. For calculation details see: WFP Turkey Market Bulletin Q3 2018.

## Emergency Social Safety Net Programme Implications

The ESSN aims to assist refugees to meet their basic needs by providing unrestricted cash transfers for refugees. In December 2018, 1,519,591 people benefited from the ESSN programme. The current cash transfer value of the ESSN is 120 TL per person per month. With additional quarterly top-up payments, each beneficiary is provided an average of 133 TL monthly, with some variation according to family size.

As stated above, the r-MEB represents the calculated cost of living for refugees. In December 2018, the rMEB cost 2,024 TRY for a 6-people refugee household, and 338 TRY per person per month. Considering that the refugees on average are able to generate 142 TRY per person monthly<sup>33</sup>, this leaves a 196 TRY gap (338 – 142) to meet the cost of the MEB. After ESSN cash transfer covers 133 TRY of this gap, the net unmet need is 63 TRY (196 – 133). The gap continues to widen; it was 18 TRY in Q1, 20 TRY in Q2, reached to 49 TRY in Q3 and 63 TRY in Q4.

In winter months, heating costs represent a higher proportion of refugee budgets. The decreasing energy costs explained above come at an important time given it is the peak of winter months, easing some of the burden on refugee expenditure though overall costs remain high.

While the increase in inflation rates slowed through Q4 and the Government implemented a variety of measures to improve Turkey's economy, 2019 is still predicted to be a year of economic stagnation which has implications for refugees.

The CBRT Expectation Survey of December 2018 indicates that the participants predict a 16% inflation rate in 2019 and 12% in 2020; if these predictions are accurate, and no additional measures are taken, the outlooks for refugees is even more difficult than today.<sup>34</sup>

In the Q3 2018 Market Bulletin, it was explained that the refugees are at higher risk of unemployment in economic recessions. As refugees primarily work in the informal sector, there is no reliable data relating to refugee employment in Turkey. However, given that the unemployment rate is increasing, and there is a reduction in growth in the sectors of manufacturing and construction which employ high numbers of refugees, this may result in a future reduction in refugee income. This could, in turn, result in increasing use of coping strategies.

It is important to note that the overall economic conditions also affect Turkish people, and may create additional tension related to job market competition or access to services. Increasing use of coping strategies may also exacerbate social tensions. Therefore, social cohesion between the host and refugee communities becomes an ever-more important concern. ESSN stakeholders must therefore continue to monitor macroeconomic trends, the cost of living, employment figures and social cohesion in order to determine appropriate programmatic adjustments.

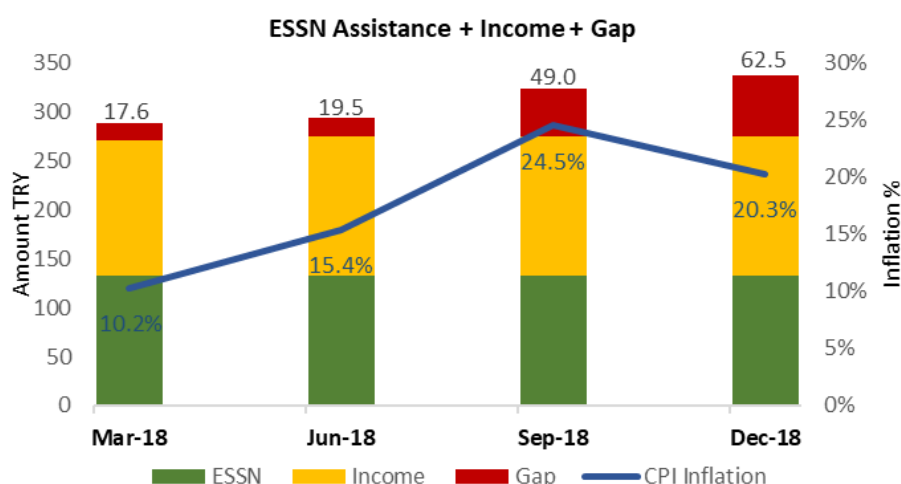


Figure 6: MEB for refugees in Q4 2018

34. <http://www.tcmb.gov.tr/wps/wcm/connect/085d78c0-9809-4b33-a6b6-21e0a22a6405/BA-Rapor-Int.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE->