Highlights

- The economic contraction that started in Q4 2018 has lost momentum in Q3 2019, a positive growth in the next period depends on multiple factors.
- The yearly inflation rates decreased through Q3 2019, finishing at 9.26% in September 2019.¹
- In September 2019 the Minimum Expenditure Basket costs 349 TRY per refugee per month; it increased by 8% since September 2018 (324 TRY).
- The average assistance for an ESSN beneficiary increased to 145 TRY from 133 TRY, after the amount paid through top-ups increased.

Turkey Macroeconomic Situation

The Turkish Lira has remained weak against the US dollar since Q2 2018² when marked increases in the currency exchange rates were observed. In Q2 2019, the exchange rate peaked at 6.06 in May³ and gradually declined thereafter, reaching 5.57 in August, as the Turkish Lira regained value. However, owing to various global economic factors such as the trade war between the US and China, the Turkish Lira lost ground again in September 2019 (Figure 1).⁴

Figure 1: Exchange rate between TRY and USD 2018 -2019
The depreciation of the Turkish Lira affected foreign trade and led to a general contraction of the economy starting with Q4 2018 as depicted in Figure 3. A positive trend has however been observed between Q4 2018 and Q2 2019, probably driven by an increase in the net exports. The monthly improvement from June 2019 to July 2019 is reported to be the highest in the last 3 years and economists are optimistic about the upcoming months.

The depreciation of the Turkish Lira led to a reduction in the import of the intermediate goods that Turkey’s industry relies on, resulting in an ongoing decline in industrial production. This contraction was also experienced in other sectors of the economy. As indicated in Table 1, the contraction in the construction sector is the primary driver for the negative growth, having shrunk by 13% in Q2 2019 compared to the previous year. The manufacturing sector contracted by 3% which is the lowest in the last three quarters, while the indicators for the service sector stopped declining in the reporting period. On the other hand, the spring season positively affected the agricultural sector which grew by more than 3% in Q2 2019.

Outlook for Q4 2019

As shown in Figure 3 above, the economy has contracted at a progressively slower rate since Q1 2019. Economists agree that the Turkish economy has completed the downward trend and is steady in this period. Under the New Economic Programme released in September 2019, the year-end economic growth is projected to be 0.5% for 2019. Furthermore, the manufacturing Purchasing Managers’ Index (PMI) reached 50 after 17 months; this is also interpreted as indicating the end of the slowdown in the sector. The promising increase in production is particularly important for employment among both Turkish and refugee populations, which has been a concern for the last two quarters.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Q1 2018 (%)</th>
<th>Q2 2018 (%)</th>
<th>Q3 2018 (%)</th>
<th>Q4 2018 (%)</th>
<th>Q1 2019 (%)</th>
<th>Q2 2019 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>8.1</td>
<td>-0.9</td>
<td>2.4</td>
<td>0.3</td>
<td>1.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Manufacture</td>
<td>8.1</td>
<td>4.4</td>
<td>1.2</td>
<td>-7.7</td>
<td>-4.2</td>
<td>-3.3</td>
</tr>
<tr>
<td>Construction</td>
<td>6.8</td>
<td>1.5</td>
<td>-6.3</td>
<td>-7.8</td>
<td>-9.3</td>
<td>-12.7</td>
</tr>
<tr>
<td>Services</td>
<td>10.5</td>
<td>9</td>
<td>4.6</td>
<td>-1</td>
<td>-3.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>Gross National Product</td>
<td>7.4</td>
<td>5.6</td>
<td>2.3</td>
<td>-2.8</td>
<td>-2.4</td>
<td>-1.5</td>
</tr>
</tbody>
</table>

Outlook for Q4 2019

Given the downward trend in inflation, the Central Bank of the Republic of Turkey (CBRT) lowered the interest rate from 24% to 19.75% on July 25th, and to 16.50% on September 12th 2019. On July 31st, the CBRT released its inflation report where the expected year-end inflation reduced to 13.9% from 14.6% as formerly announced in April 2019. Furthermore, the Ministry of Treasury and Finance announced the New Economic Programme (2020-2022) in September and projected the 2019 year-end inflation rate to be 12%. This projection converges with findings of the expectation survey conducted by CBRT among finance experts and professionals who expect a year-end inflation rate of 12.7%.

The annual inflation rate was stable through the summer of 2019 (around 15%) and then dropped to 9.26% in September 2019, the lowest since January 2018 (Figure 2). At provincial level, Izmir had the highest inflation rate in September 2019, recorded at 10.98%, whereas Gaziantep-Adıyaman-Kilis had the lowest (7.29%). Istanbul, the most populated city in Turkey, had a near average inflation rate of 9.50%.

Figure 2: TurkStat’s Consumer Price Index Trend, September 2019

Figure 3: Quarterly Economic Growth in 2018 and 2019

Table 1: Quarterly Sectoral Growth in 2018 and 2019

ECONOMIC GROWTH

As shown in Figure 3 above, the economy has contracted at a progressively slower rate since Q1 2019. Economists agree that the Turkish economy has completed the downward trend and is steady in this period. Under the New Economic Programme released in September 2019, the year-end economic growth is projected to be 0.5% for 2019. Furthermore, the manufacturing Purchasing Managers’ Index (PMI) reached 50 after 17 months; this is also interpreted as indicating the end of the slowdown in the sector. The promising increase in production is particularly important for employment among both Turkish and refugee populations, which has been a concern for the last two quarters.
Unemployment

Despite the improvements above, the slowdown in the economy is also reflected in the unemployment rate, with this year recording the highest levels in the last ten years (Figures 4 & 5).\(^9\)

Informal employment reached 36% in July 2019 compared to 34.3% in July 2018.\(^20\) As refugees are overwhelmingly employed in the informal sectors, the increase in unregistered Turkish employees might lead to high competition, potentially causing social tensions.

![Figure 5: Unemployment rates trend between 2000 and 2019](image)

Food Prices

WFP monitors food prices and calculates the minimum cost of a food basket that is nutritionally balanced and meets Syrian refugees’ food preferences. The retail prices of the food items\(^{21}\) in the basket are retrieved from TurkStat monthly.

As seen in the Figure 6, the food basket costs 185 TRY as of September 2019. The item prices also show increases: the average\(^{22}\) price per kilogram of bread, which has the highest share in the basket with an estimated consumption of 7.5 kg/person/month, reached 5.6 TRY in Q3 2019 compared to 5.5 TRY in Q2.

The food price inflation rate went down in line with the overall inflation rate. The yearly food inflation in September was 9.52% compared to 9.26% overall inflation. Due to the summer season, the prices of fresh fruit and vegetable went down by 5.29%, which also played an equalizing role given that the inflation rate for the processed foods was as high as 17.25%.\(^{23}\) Prices of fresh products are likely to start increasing now the summer has ended.

![Figure 6: Food price trends between 2016 and 2019](image)
Energy Prices

As global trade tensions eased, energy prices became relatively stable through Q3 2019 across the world. However, the attack on the Saudi Arabia oil facilities increased oil prices and created pressure on the importing countries, including Turkey. In the following days, once Saudi Arabia announced that the oil supply is back to the level prior to the attack and relationships between Turkey and the US evolved positively, the prices stabilized again.

The price per litre for petrol was 6.9 TRY, stable through Q2 and Q3 2019 (Figure 7). Diesel prices increased from 6.4 TRY to 6.5 TRY between the two quarters. Prices for a bottle of cooking gas went down slightly from 100.5 TRY to 99.7 TRY in Q3 2019, still high compared to the previous years. Natural gas prices increased by 15% on July 31st and by another 15% increase on August 31st.

Refugee Minimum Expenditure Basket

Every month, WFP assesses the minimum cost of living for a refugee based on the basic needs required to have a decent life through the Minimum Expenditure Basket (MEB). In line with the inflation, the MEB has gradually increased since 2017, with an upsurge in Q3 2018 (Figure 8). The MEB reached 2094 TRY for a six-person refugee household in September 2019. This figure is 63 TRY more than the MEB cost in the previous quarter (2031).

Mardin has the lowest MEB cost with 1877 TRY in Q3 2019, closely followed by Sanliurfa. Except for the Adana region, the yearly increase is higher than average across Southeast Turkey, an area where significant number of refugees reside.

As seen in Figure 9, the MEB remains higher than average in Istanbul, Izmir, Ankara and Bursa. It is highest in Istanbul with a cost of 2667 TRY. Izmir and Gaziantep continue to experience the highest increase in MEB, whereas the lowest is observed in Ankara and Bursa regions. The MEB cost in Izmir is increasingly similar to that of Istanbul while Ankara and Bursa are also similar.

Figure 7: Energy Price Trends (TL/Unit) 2016-2019

Figure 8: MEB costs for a 6-People Refugee Household, between 2017-2019

Figure 9: MEB Cost per Region in Q2 2019
The Emergency Social Safety Net (ESSN) programme assists over 1.6 million refugees with 120 TRY per person in order to meet their basic needs. Each household also receives a quarterly top-up based on the household size. In July 2019, the stakeholders agreed to increase the top-ups due to the high inflation as reflected in the MEB and the refugees’ consequent decrease in purchasing power. The average monthly payment per person for a six-person household was 133 TRY till August 2019. After the increase in the top-up values effective from 1 September 2019, it became 145 TRY per person per month.

In September 2018, the ESSN covered 41% of the MEB for refugees. In the following six months, the coverage went down to 39% in July 2019 and to 38% in August 2019. After the increase of the top-ups, the ESSN covers 42% of the MEB as of September 2019.

The income generated by the beneficiaries had decreased from 142 TRY to 134 TRY in December 2018, thus, the gap households had to cover to meet their basic needs had widened. In July 2019 the gap was 76 TRY per person and reached as high as 80 TRY in August 2019 before the adjustment. In September 2019, the gap is 70 TRY following the increase in the assistance, which otherwise would have been 82 TRY (Figure 10).

The increase in the top-ups may not fully cover the MEB for the refugees, however, it is expected to contribute to improvements in various beneficiary outcomes such as food consumption and level of coping strategies, both of which had shown negative trends since November 2018. With the increase in the assistance provided, further deterioration in the gains previously made by the programme may be prevented. Additionally, as the contraction in Turkish economy lost momentum and the inflation rates are gradually decreasing, the rate of increase in the MEB cost might also slow down.

On the other hand, the winter season is approaching and heating and winterisation expenditures play an important role in household budgets. The increase in the cost of natural gas and electricity, twice in the same quarter, is concerning for the upcoming months as their consumption increases in the winter period. Moreover, there are typically fewer employment opportunities for refugees in the winter as the sectors in which they work such as agriculture and construction are more vibrant in the summer.

Given that the income generated by refugees had already decreased after the economic hardship in Q3 2018, and that the unemployment rate is high, achieving self-reliance remains difficult. Even though the economic contraction is likely coming to an end and economic production seems promising, it is not known how long it will take for the economy to recover, and before any positive impact can be seen for the refugees. The developments in the next quarter will determine the performance in 2019 and direction of the Turkish economy.

Figure 10: Assistance, Income and Gap Breakdown of Minimum Expenditure Basket in 2018 - 2019
Refugee Minimum Expenditure Basket Breakdown

<table>
<thead>
<tr>
<th>Minimum Expenditure Basket Components</th>
<th>Share of MEB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>38%</td>
</tr>
<tr>
<td>Rent</td>
<td>30%</td>
</tr>
<tr>
<td>Utilities</td>
<td>11%</td>
</tr>
<tr>
<td>Non-food Items</td>
<td>10%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>4%</td>
</tr>
<tr>
<td>Education</td>
<td>2%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2%</td>
</tr>
<tr>
<td>Communication</td>
<td>2%</td>
</tr>
</tbody>
</table>

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

Notes & Citations

2. Some of the reasons for the depreciation include diplomatic tensions between the US and Turkey due to the sanctions imposed by the US on two Turkish ministers, the lawsuit against an American priest in Turkey, and suspension of the delivery of the F-35 to Turkey: [https://www.bbc.com/turkce/haberler/turkiye-45141721](https://www.bbc.com/turkce/haberler/turkiye-45141721)
3. The mayoral elections in Istanbul was cancelled and repeated in May 2019. The value of TRY was affected from the political uncertainty in this period.
4. The mayoral elections in Istanbul were cancelled and repeated in May 2019. The value of TRY was affected from the political uncertainty in this period.
7. The image has been retrieved from Consumer Price Index News Bulletin, June 2019.
16. The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing. The headline PMI is a number from 0 to 100. A PMI above 50 represents an expansion when compared with the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change. The further away from 50 the greater the level of change.
17. [https://tr.tradingeconomics.com/turkey/manufacturing-pmi](https://tr.tradingeconomics.com/turkey/manufacturing-pmi)
18. The figures might be slightly different from the previous reports due to recalculations.
23. These food items include rice, bulgur, sunflower oil, dry beans, salt, sugar, eggs, cheese, tomatoes, cucumbers, yoghurt, bread and tea.
25. [https://birunutuik.gov.tr/medias/1ka=90&locale=tr](https://birunutuik.gov.tr/medias/1ka=90&locale=tr)
27. The Minimum Expenditure Basket is constructed using TurkStat data. The TurkStat commodities reflect the preferences and brands of an average Turkish consumer. To align with the refugee purchasing patterns, the prices are deflated by 22%. For more details on the deflation, please refer to this document.
29. See Market Bulletin Q2 2019 for details of the calculation.