The depreciation of the TRY in Q3 2018 significantly increased the cost of production given Turkey’s high reliance on the import of intermediate goods.

In June 2019, the production costs were 25% higher than in June 2018. This, however, represents the lowest rate in the last 12 months. The high production costs were eventually passed on to consumers which eroded purchasing power and slowed consumption. Since Turkey’s economic growth is consumption driven, these changes resulted in a contraction of economic growth.

The exchange rates of the Turkish Lira continued to fluctuate through Q2 2019. The Turkish Lira lost value against the USD starting in April, peaking at 6.06 TRY by May 2019 due to the cancellation of mayoral elections in Istanbul. Measures introduced by the Central Bank of the Republic of Turkey (CBRT), completion of the Istanbul elections in May, and the positive evolution in relations between Turkey and the USA strengthened and stabilized the Turkish Lira through the end of Q2.

**Highlights**

- Following the devaluation of the TRY in Q3 2018, the economy contracted in both Q4 2018 (3%) and Q1 2019 (2.6%).
- The inflation rates had gone down to 15.7% in June 2019, almost the same rate as June 2018.
- The Minimum Expenditure Basket now costs 339 TRY per refugee per month compared to 333 TRY in Q1 2019.
- The unemployment rate was over 14% in Q1 2019 but had gone down to 12.8% in May. High unemployment rates are affecting refugees’ labour involvement as well.
- The income generated by the refugees per person reduced from 142 TRY to 134 TRY in 2019.
- An increase in the top-up payments was approved by the stakeholders and will take effect in August 2019.

**Turkey Macroeconomic Situation**

The depreciation of the TRY in Q3 2018 significantly increased the cost of production given Turkey’s high reliance on the import of intermediate goods. In June 2019, the production costs were 25% higher than in June 2018. This, however, represents the lowest rate in the last 12 months. The high production costs were eventually passed on to consumers which eroded purchasing power and slowed consumption. Since Turkey’s economic growth is consumption driven, these changes resulted in a contraction of economic growth.

**Figure 1:** Exchange rate between TRY and USD 2018-2019
As shown in Figure 2, annual inflation rates declined in Q2 2019, from 19.5% in April to 15.7% in June, similar to that in June 2018 (15.4%). Whereas price levels were significantly higher in metropolitan areas such as Istanbul, Ankara and Bursa-Eskisehir-Bilecik, these areas generally experienced lower than average inflation rates. Conversely, the south-eastern provinces which had had lower price levels experienced the highest inflation rates of up to 22-24% in April and May before going down to 17-18% in June 2019. Considering that these provinces have a much higher refugee population, the economic situation in the region is concerning for the ESSN programme.

**ECONOMIC GROWTH**

Although national exports benefited from the depreciation of the Turkish Lira, its negative impact on stock values, investments as well as private consumption led to contraction in the Turkish economy. As shown in Figure 3, the economy contracted by 2.6% in Q1 2019 after the 3% contraction in Q4 2018.13

In the Government’s New Economic Programme, economic growth targets were set 2.3% for 2019.14 However, the Expectation Survey conducted by the CBRT put the growth rate at 0.04% in June 2019,15 and economic research experts predict 1% growth at the end of 2019.16 In June, the global credit rating agency Moody’s downgraded Turkey’s rate from Ba3 to B1 and changed the economic outlook to ‘negative’.17

**Figure 3: Quarterly Economic Growth in 2018 and 2019**

The economic contraction has been particularly pronounced in the construction, manufacturing and service sectors as shown in Table 1, the main sectors where refugees find employment. The professional, administrative and support services sector has also been experiencing contraction, from 1% in Q2 2018 to 13% in Q1 2019.

In contrast, information/communication and the public sector (public administration, education, human health, and social work activities) did not experience any contraction. The public sector had already started implementing austerity measures after a circular released in October 2018 by the Presidency.18

**Table 1: Quarterly Sectoral Growth in 2018 and 2019**

<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>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>7.3</td>
<td>-1.1</td>
<td>1.8</td>
<td>-0.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Manufacture</td>
<td>8.4</td>
<td>4.4</td>
<td>0.5</td>
<td>-7.4</td>
<td>-4.7</td>
</tr>
<tr>
<td>Construction</td>
<td>8.0</td>
<td>1.5</td>
<td>-5.6</td>
<td>-8.7</td>
<td>-10.9</td>
</tr>
<tr>
<td>Services</td>
<td>10.5</td>
<td>8.9</td>
<td>4.8</td>
<td>-0.3</td>
<td>-4.0</td>
</tr>
<tr>
<td>Gross National Product (GDP)</td>
<td>7.2</td>
<td>5.3</td>
<td>1.8</td>
<td>-3.0</td>
<td>-2.6</td>
</tr>
</tbody>
</table>
In line with other macro-economic indicators, the unemployment rate has risen steadily reaching 13.9% in the first half of 2019, forming the second peak since 2000 (Figure 4). As further shown in Figure 5, unemployment rates were highest in Q1 2019 but showed an improving trend in Q2 2019 even though they remained much higher than the previous year. Unemployment in the informal sector remained disproportionately high, at 34.4% compared to 33.7% the previous year. Given that the majority of refugees are employed in the informal sector, the high unemployment rates are concerning and will likely lead to competition between Turkish and the refugee populations in the job market, resulting in increased social tension.

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 in the basket are retrieved from TurkStat monthly.

The food basket cost has generally remained high since the onset of high inflation in Q3 2018. Inflation control measures taken by the Government led to a temporary decrease in prices at the beginning of 2019 but overall prices have continued to increase; the current food basket cost is now 178 TRY per person per month (Figure 6), constituting 38% of the MEB.

In April and May 2019, food and non-alcoholic beverages were the primary driving force for inflation with rates of 31.9% and 28.4% respectively. Among the food items, the yearly increase in the fresh fruits and vegetable prices reached 74% in April and 51% in May before going down to 15% in June, perhaps due to the summer season.
Energy Prices

Energy prices have shown an increasing trend over the past years, owing to various global political-economic factors. Notable factors in the recent past were: tensions between the US and Iran; the decision by the Organization of Petroleum Exporting Countries (OPEC) to cut back production in March 2019 and their extension of supply cuts for another 9 months. A supply deficit is therefore likely in 2019 if these restraints continue, further hurting the Turkish economy which relies on fuel imports for energy. In Q2 2019, one litre of petrol reached 6.9 TRY, the highest since Q3 2018, while diesel prices remained the same between Q1 and Q2 at 6.4 TRY. The 12-litre gas bottle used by majority of refugees for cooking also reached the highest cost of 100.5 TRY by the end of June 2019 as shown in Figure 7 below.

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). The MEB has gradually increased since 2017 and, consistent with trends in inflation, further increased starting with Q3 2018 as shown in Figure 8.

Following the decrease in the MEB in the first quarter of 2019 to 1996 TRY, which might be due to Government initiated discount campaign on staple items, it increased through Q2 2019. In April, the MEB cost for a six-person refugee household was 2002 TRY, rising to 2019 TRY in May and 2031 TRY by the end of June.

The cost of the current MEB therefore exceeds the minimum wage of 2020 TRY (even though this was increased from 1603 TRY at the beginning of the 2019) suggesting the refugees will have difficulty in covering the cost of their basic needs.
Through the Emergency Social Safety Net (ESSN) programme, eligible refugee households in Turkey receive 120 TRY per person per month to meet their basic needs. A quarterly top-up is also provided, the value of which depends on the household size. For a family of six, for instance, each family member receives a monthly average payment of 133 TRY when the top-ups are included.

The ESSN assistance covers 39% of the MEB for refugees as of June 2019, down from 45% in June 2018. Besides the high inflation rates experienced in the past 12 months, the contraction in the economy, particularly in the sectors like construction and manufacturing, negatively affected the refugees’ ability to generate income.

WFP has been monitoring the expenditure, received assistance and income of refugees through Post-Distribution Monitoring (PDM) surveys since the programme started. The latest PDM data from December 2018 indicated that refugee families generate less income than a year ago. While previous data had shown that the poorest 20% of the ESSN beneficiaries who do not resort to income generating coping strategies were able to make 142 TRY per person on average, this figure went down to 134 TRY as of December 2018.

As shown in Figure 10 (updated retrospectively from December 2018), the gap left for refugee households to meet their needs (i.e. the value of the MEB less the ESSN assistance and refugees’ own income) has grown wider; as of June 2019, ESSN beneficiaries were short by 72 TRY per person per month to cover their costs, compared to 20 TRY gap in June 2018. The PDM exercises show that the growing gap pushes the refugees to resort to more coping strategies, and that their food consumption has deteriorated. Filling this gap is particularly important to sustain the programme gains since 2017.

There are two main concerns for the refugees in Turkey in the given situation; the increase in MEB and the decrease in income. The MEB in June 2019 is already the highest since the beginning of the programme despite the temporary decrease in Q1 2019. Even though the inflation rate went down to its lowest levels in the last 12 months, it is still high and, consequently, the cost of living continues to rise for both refugees and the host community. Given that the summer season alleviates the pressure e.g. no heating costs as opposed to the winter season, the MEB cost is expected to be even higher in winter.

Secondly, the decrease in the income generated by the refugees is worrying for their future in Turkey. The stakeholders decision to increase the top-ups, effective in August 2019, is expected to help refugees meet their needs. However, any loss or reduction in income weakens the refugees’ self-reliance and causes further dependency on assistance. Being self-sufficient is essential in the long run for refugees to overcome their vulnerability and adapt to the host country they live in.

Academic studies have found that scapegoating the refugees increases in countries experiencing economic problems. Moreover, the observed high unemployment rates would likely escalate refugee – host community tensions due to competition for jobs, especially in the informal sector.

The prevailing economic situation increases the vulnerability of refugees and necessitates continued monitoring of the developments in the Turkish economy as well as their impact on refugees and the host community.
The image has been retrieved from Consumer Price Index News Bulletin.

The CBRT suspended one-week repo auctions on May 9th. The auctions started again on May 21st, and the interest rates were reduced from 25.5% to 24%. In its meeting on June 12, the 24% interest rate remained unchanged.  

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.

Please refer to Market Bulletin Q4 2019 for the details of measures taken to and Q1 2019 for the impact of the measures on prices.

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.