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Photo: WFP

Market Bulletin

World Food Programme—Turkey

HIGHLIGHTS

- The Minimum Expenditure Basket (MEB)¹ costs **626 TRY** per person per month as of September 2021, an increase of 21 percent from 518 TRY last year, September 2020.
- The economy grew by **21.7 percent** in Q2 2021 whereas it had contracted by **10.4 percent** in Q2 2020 due to Covid-19 lockdown.
- In September, the inflation rate reached **19.6 percent**. The food inflation rate increased to **28.8 percent**.
- The Turkish lira depreciated in Q3 2021 and traded around **8.9 against the USD** in September 2021.

Macro-economic situation

The outbreak of the Delta variant of the Covid-19 resulted in economic uncertainty around the globe in Q3 2021; the Global PMI (Purchasing Managers' Index)* declined to the lowest in August since January 2021 especially in emerging markets.² Global economic activities continued in September, however, the deterioration in supply chains and the energy market led to a loss of momentum. The production cuts and supply shortages boosted the inflation rates around the world. Even though USD was appreciated despite the volatile environment, the PPI (Producer Price Index) inflation in the US reached its highest level in over a decade. In Euro Area, the PPI reached historically high levels and the CPI (Consumer Price Index) inflation was the highest in August in the last ten years. IMF economists mention that the global risk appetite is under pressure and the price inflation will be affected negatively if the disruptions in the energy and supply chains remain.³

The disruption in global supply chains, however, has affected the Turkish economy positively. Given its geographical proximity to Euro Area, providing a competitive advantage in logistics, and given that the industrial production is on the rise in Turkey (by 13.8% in August 2021), the export volume expanded rapidly by 51.9 percent in August 2021 compared to a year ago. Imports also rose by 23.6 percent in the same period.⁴ Revitalisation of tourism activities also contributed to the positive outlook for Turkey.⁵ However, as the World Bank predicted, despite the recovery after the Covid-19 interruption, the economic risks continue for Turkey due to the devaluation of the Turkish Lira and high inflation rates.⁶

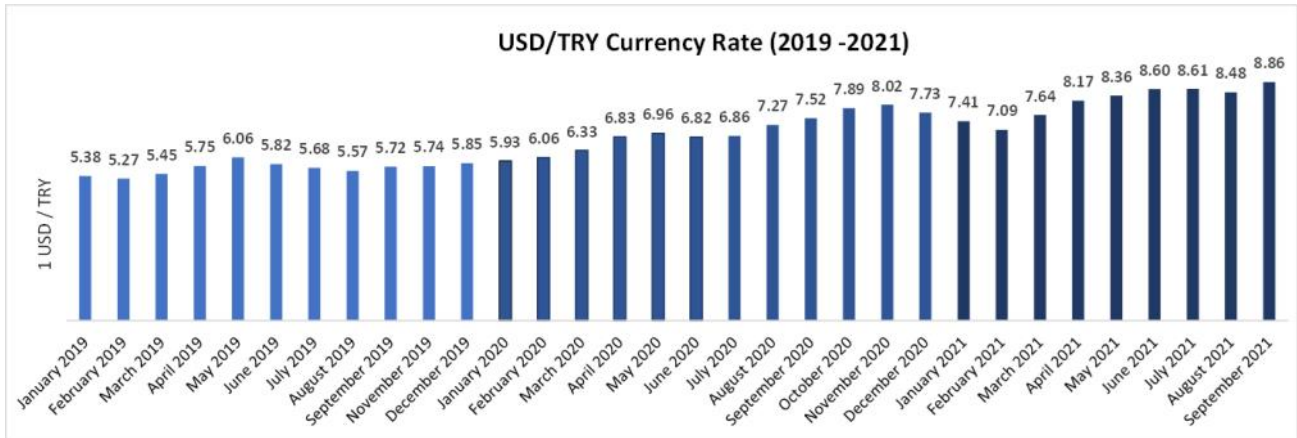
*Purchasing Managers' Index indicates how the market conditions and economic conditions are perceived by the purchasing managers in the manufacturing and service sectors that guide the companies' decision-makers. JPMorgan Global PMITM is used for the global PMI.

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Currency exchange

The TRY-USD exchange rate peaked in September 2021 where the equivalent of 1 USD was the highest at 8.86 TRY. There was a slight appreciation of TRY in August. This was mainly because the USD devaluated globally⁷ before it gained value in September. Additionally, the Central Bank of the Republic of Turkey (CBRT)'s decision to reduce the policy interest rates by 100 base points to 18 percent in September increased the pressure on the Turkish Lira.⁸

FIGURE 1: EXCHANGE RATE BETWEEN TRY AND USD 2019 -2021



Inflation

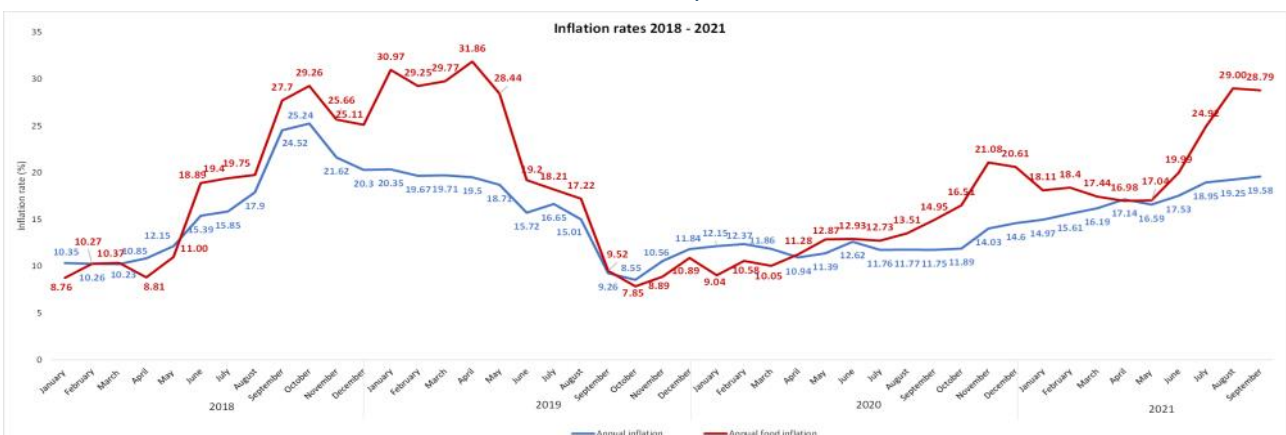
The annual inflation rate increased from 17.53 percent in June 2021 to 19.58 percent in September 2021, reaching the highest inflation rate in the last 30 months. High inflation is driven by many factors. First of all, dramatic increases in production costs resulted in high inflation rates on the consumer side: The Domestic Producer Price Index (D-PPI), which indicates the cost of production*, increased by 45.5 percent in August and 44.0 percent in September respectively, the highest rise since 2002. D-PPI increase was particularly high for intermediate goods – which has the highest share in Turkey's imports. For instance, between September 2020 and 2021 prices of two important input items, basic metals and energy, increased by 91 percent and 62.4 percent respectively.⁹

Food inflation was another driving factor of the high inflation rates in Q3 2021. While the annual and food inflations

were at the same rate in May (17%), the food inflation rate escalated and reached 29 percent in September 2021. Affected by climate changes, the agricultural PPI increased by around 25 percent annually in September.¹⁰ Among the agricultural input, the cost of fertilizers and soil improvers, which are mostly imported, increased by 67 percent between August 2020 and 2021.¹¹

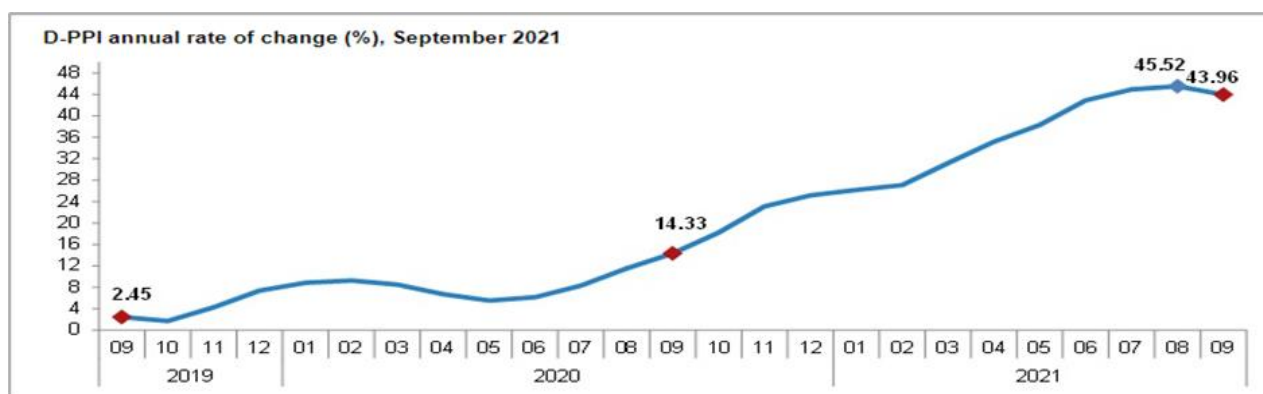
Commodity prices rose globally in Q3 2021 stemming from the supply chain crisis.¹² However, in Turkey, in addition to supply-side problems and food prices, deterioration of the TRY and increase in demand further played a role in high inflation.¹³ Thus, the inflation projections have been revised due to the negative outlook. CBRT increased its inflation rate forecast from 12.2 percent to 14.1 percent for 2021 and from 7.5 percent to 7.8 percent for 2022.¹⁴

FIGURE 2: TURKSTAT'S CONSUMER PRICE INDEX TREND, SEPTEMBER 2021



* Domestic Producer Price Index refers to the measure regarding the prices of products during the manufacturing phase, excluding the tax, transport, and other additional costs.

FIGURE 3: DOMESTIC PRODUCER PRICE INDEX TRENDS, SEPTEMBER 2021*



Economic Growth

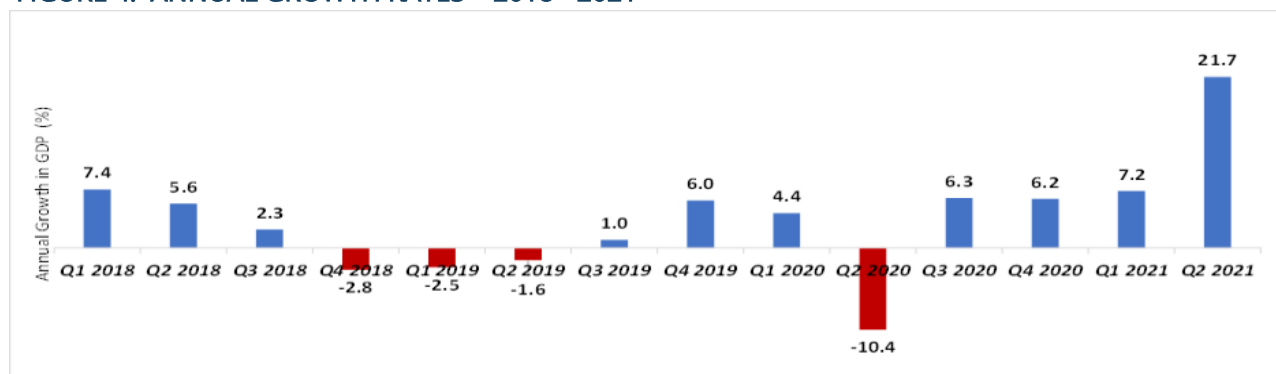
The economic growth rate for Q2 2021 was released in Q3 2021. The Turkish economy grew by 21.7 percent in Q2 2021, due to the low base effect; the economy had contracted by 10.4 percent in Q2 2020 because of the pandemic outbreak (Figure 4).¹⁵ The highest growth rate (45.8%) was recorded in the service sector, the most severely affected sector by the COVID-19. The manufacturing sector grew by 40.8 percent. The growth in the construction and agriculture sectors were 3.1 percent and 2.3 percent respectively.

Despite the slight decrease in September to 52.5 from 54.1 in August, thanks to the easing measures taken against the pandemic, the PMI (Purchasing Managers' Index) remains above the 50-point threshold which separates an overall

improvement in manufacturing conditions from a deterioration over the prior month. Triggered by the increase in new export orders and efforts to have a buffer for the disruption in supply chains, managers take action to secure their input for a continuation of production.¹⁶ This is promising for a positive growth for Q3 2021.

As the year 2021 is coming to an end, globally volatile conditions lead to contradictory annual growth projections by different authorities. While Fitch revised Turkish economy's growth forecast as 5.6 percent in July (decreased from 5.9%)¹⁷, according to CBRT's monthly survey, the market actors' expectation for annual growth in 2021 increased from 6 percent to 8.2 percent between August and September.¹⁸

FIGURE 4: ANNUAL GROWTH RATES – 2018 - 2021**



Unemployment

The positive developments in economic growth in Q2 2021 resulted in increased employment figures: The employment rate increased by 0.9 percent between May and June 2021 and in return unemployment rate decreased to 10.6 percent in June 2021.¹⁹

Thanks to the new orders and outputs that are on the rise for the last four consecutive months, labour demand in the manufacturing sector continue to grow in Q3 2021, according to the Istanbul Chamber of Commerce.²⁰ The number

of paid employees in industry, trade, and construction increased by 9.4 percent in August 2021 compared to a year ago.²¹

Meanwhile, perhaps due to the decrease in purchasing power of the households on one hand and increase in employment opportunities on the other, more people decided to work. Thus, the size of labour force participation^{***}, which is the total number of working or willing-to-work people in the country, also increased from 50.2 percent to 51.2 per-

* The image has been retrieved from Domestic Producer Price Index, September 2021.

** Quarterly Gross Domestic Product, Quarter II: April-June, 2021. Turkish Statistical Institute.

*** Labour force participation rate is calculated as the ratio of the employees and the people seeking for employment together, divided by the population size.

cent between June and August 2021. As a result, despite the decline in unemployment rate in June, increasing number of people actively seeking for jobs led to an upward trend in unemployment rate which eventually reached 12.1 percent in August 2021. (Figure 5).²²

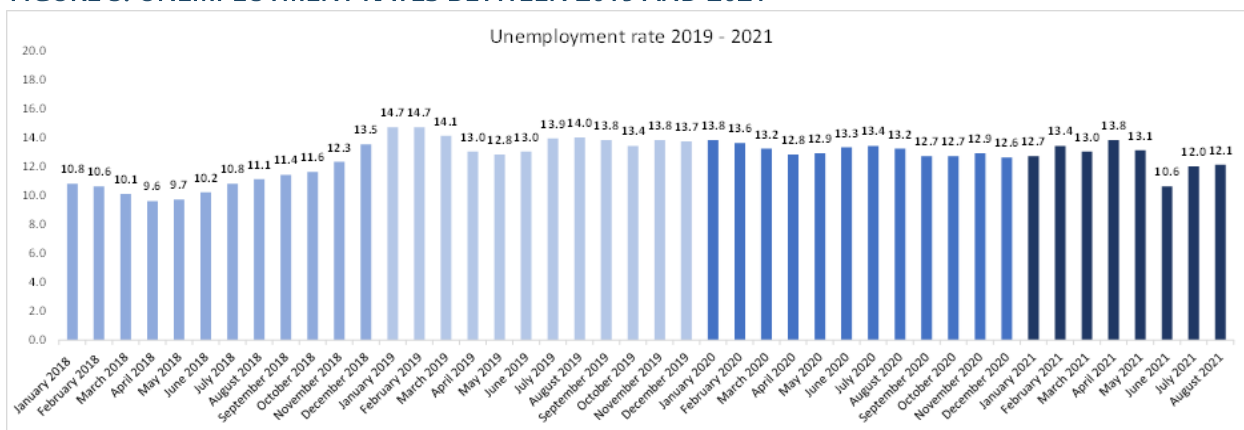
The youth (aged 15-24) labor participation was remarkable in August 2021, reaching 42.2 percent (3.3% increase than a year ago). Furthermore, the youth employment rate increased to 32.6 percent (a 3.4% rise compared to last year) and in return the youth unemployment rate decreased to 22.7 percent (representing a 2% decline compared to last year) in August 2021.

Aside of the employment figures, there is also progress in implementing strategies against informal employment,

thanks to close collaboration of Ministry of Labour and Social Security and the tax inspectors.²³ The unregistered employment (including agricultural work) decreased from 33.5 percent in August 2020 to 31.4 percent in August 2021.

In addition, the compensation of employees increased by 36.1 percent, however, the share of compensation of employees in the Gross Value Added at the current price decreased from 37.0 percent in Q2 2020 to 32.9 percent in Q2 2021. This indicates that companies made more profit than a year ago thanks to a surplus, yet, it was not reflected on the workers' salaries at the same rate. Given the high inflation rates, the purchasing power of the workers continue to decrease.²⁴

FIGURE 5: UNEMPLOYMENT RATES BETWEEN 2019 AND 2021*



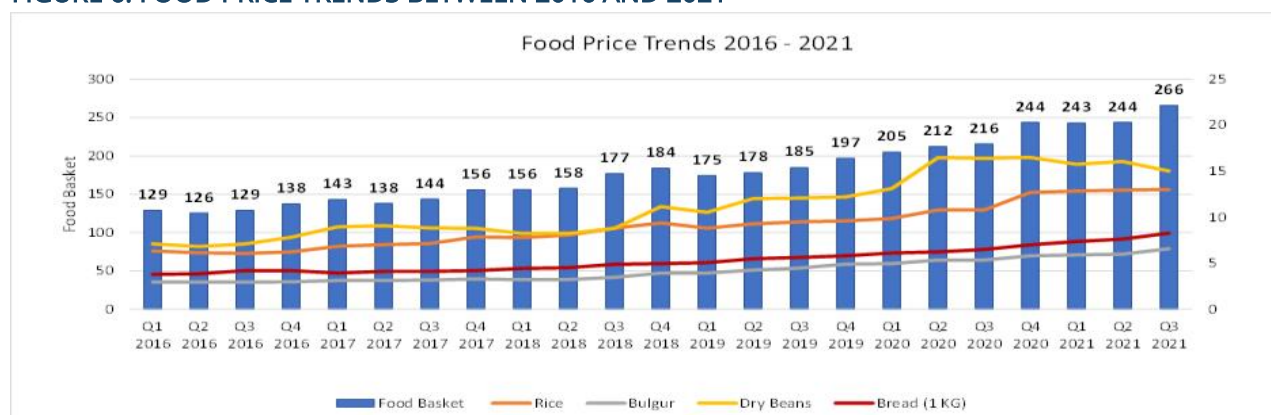
Food prices

WFP calculates the minimum cost of a nutritionally balanced food basket for Turkish people by using the prices of staple food items retrieved from TurkStat. The high food inflation rates resulted in a sharp increase of the food basket cost from 244 TRY in Q2 2021 to 266 TRY in Q3 2021 (9% quarterly). The annual increase of the food basket cost was 23 percent in September 2021.²⁵ In the basket, egg prices increased by 35 percent, following the increase in cucumber prices (38%). Bread prices increased by 8 percent and reached 8.3 TRY per kilogram. While rice prices remained unchanged, bulgur prices increased to 6.6 TRY (by 10%). Dry

bean was the only commodity that had a price decrease and costs 15 TRY/kg.

The driving factor of the food basket cost increase is the production cost. The yearly increase in Agricultural Production Price Index (PPI) was a record high in August (by 24.7%) before slightly decreasing in September 2021. Production costs are directly affected by imports given Turkey relies on imports of fertilizers, seeds, and petroleum to produce and distribute. Needless to say, devaluation of the TRY makes imports more expensive.

FIGURE 6: FOOD PRICE TRENDS BETWEEN 2016 AND 2021



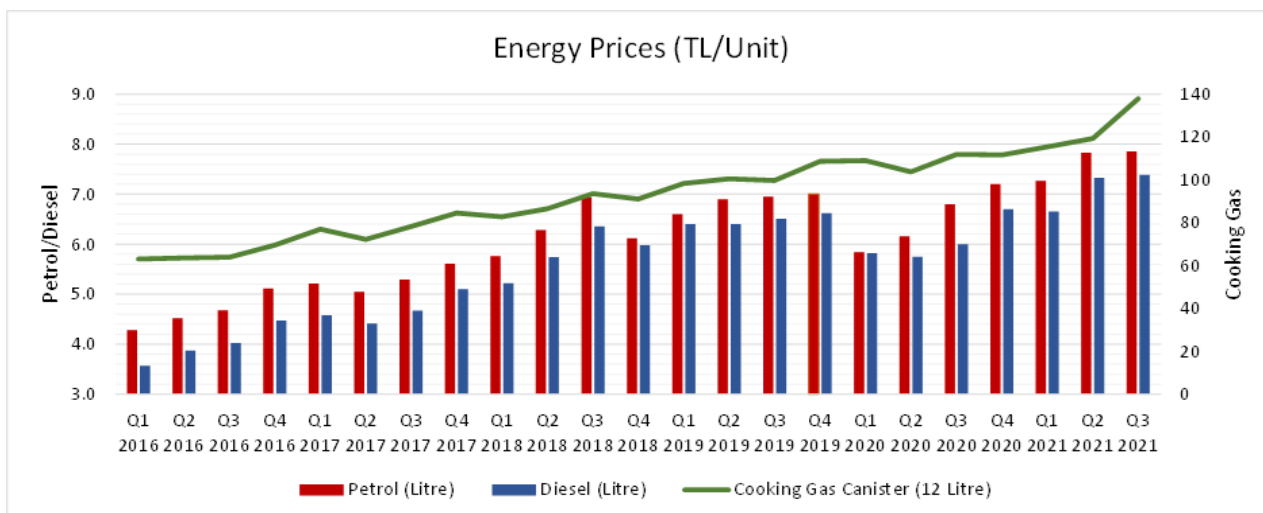
* Labour Force Statistics, August 2021. Turkish Statistical Institute.

Energy prices

In July, oil prices had a steep increase due to a dispute between OPEC+ countries over production quotas. It started to decrease slightly in August after they agreed on production by 400000 barrels per day.²⁶ However, in September as Hurricane Ida interrupted the US oil and gas production in the Gulf of Mexico, the oil prices reached the highest

level of the last 3 years.²⁷ In Turkey, while the liter prices for petrol and diesel increased only by 10 kurus, reaching 7.9 TRY and 7.4 TRY respectively, 12L gas canister price increased sharply by 16 percent from 119 TRY in Q2 2021 to 138 TRY at the end of Q3 2021.

FIGURE 7: ENERGY PRICE TRENDS (TL/UNIT) 2016—2021**



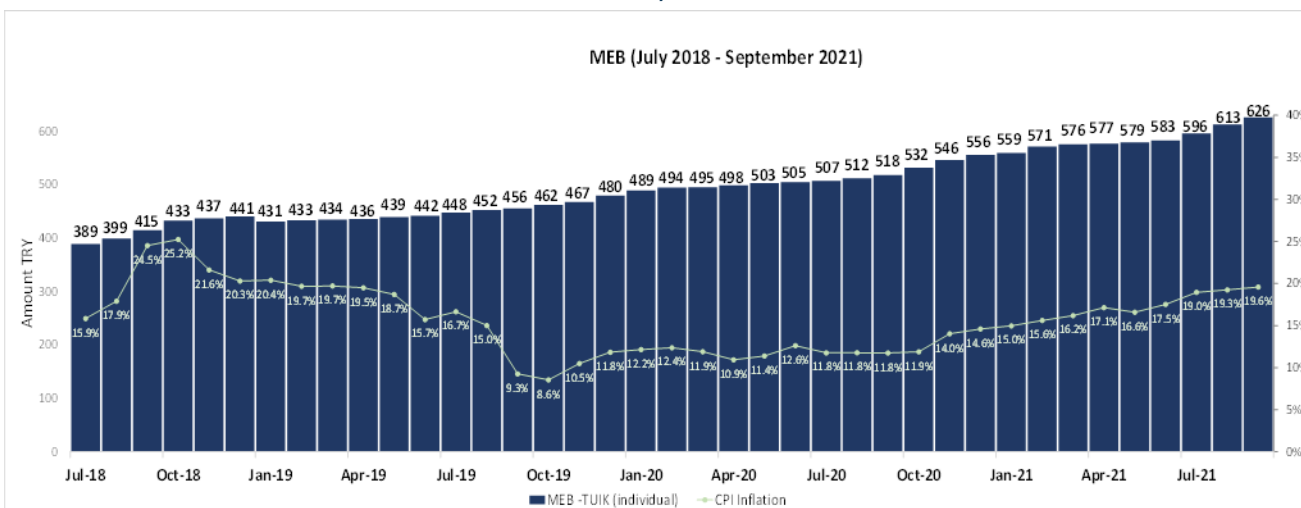
Minimum Expenditure Basket*

WFP calculates the MEB based on a six-person Turkish household, using commodity prices published by TurkStat (Turkish Statistical Institute). The TurkStat commodity prices reflect the preferences and brands of average Turkish consumers.

626 TRY at the end of September 2021 (Figure 8). In the MEB, the utility costs had the highest increase by 13 percent quarterly, followed by the education materials. Since the schools opened in September, households' expenditure on education is likely to increase.

Given the high inflation rates, the MEB increased by 42 TRY (7%) per person between Q2 2021 and Q3 2021, reaching

FIGURE 8: MEB COSTS FOR A 6-PEOPLE HOUSEHOLD, BETWEEN 2018-2021



** Consumer Price Index, Consumer Item Prices, National Average, September 2021. Turkish Statistical Institute.

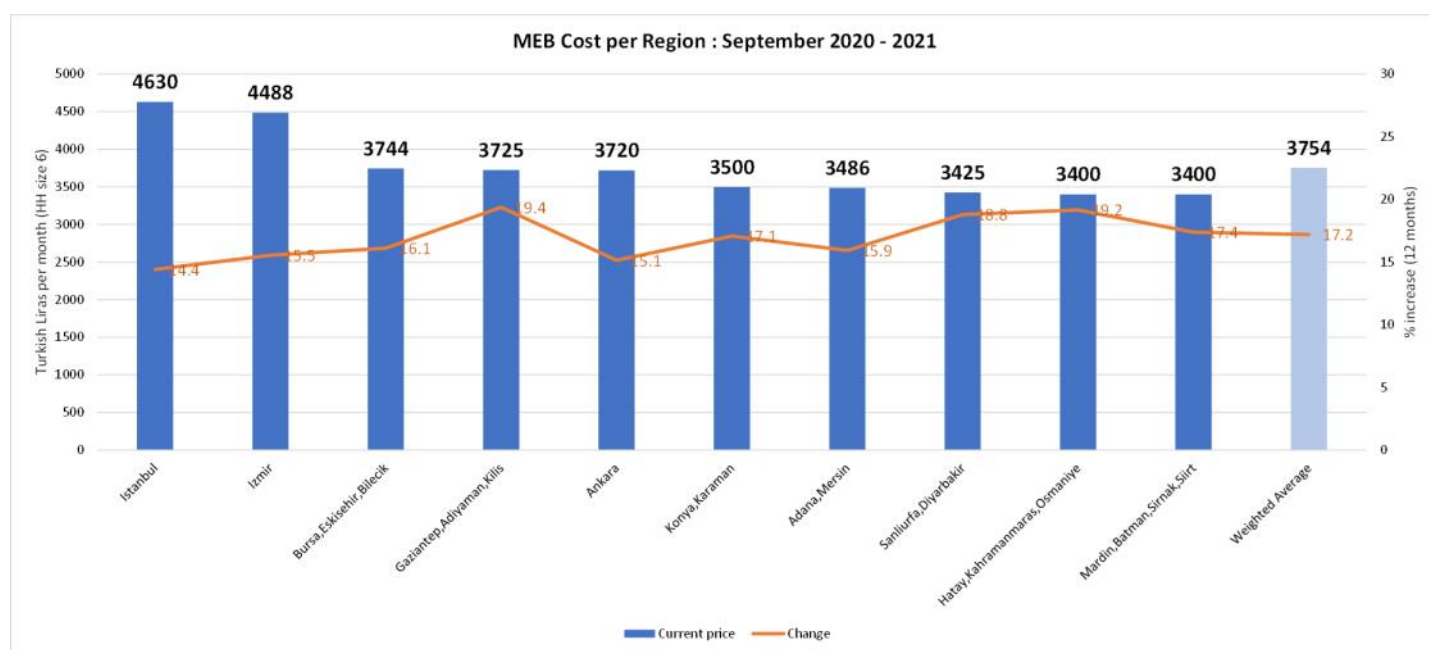
* The Minimum Expenditure Basket is constructed using TurkStat data.

Cost of living was the highest in Istanbul (on average 4630 TRY) followed by Izmir (on average 4488 TRY) whereas the Mardin, Batman, Sirnak, Siirt region and the Hatay, Kahramanmaraş, Osmaniye region were the most affordable ones among all the regions with the minimum expenditure basket cost of 3400 TRY. However, having looked at the average annual price changes across the country, we see that the living costs have increased in the southeastern and eastern regions the most. The 19.4 percent yearly increase in the Gaziantep-Adıyaman-Kilis region (3725 TRY)

led the region to outpace Ankara (3720 TRY), which is the second largest province in Turkey and to converge the Bursa-Bilecik-Eskişehir region (3744 TRY).

Annual increase in the living costs of Hatay-Kahramanmaraş-Osmaniye (19.2%) and the Sanliurfa-Diyarbakir region (18.8%) were higher than the average (17.2%). Ankara consistently has lower-than-average inflation rates. Given that the yearly inflation rate is already 19.6 percent, the pressure on the purchasing power of consumers continues.

FIGURE 9: MEB COST PER REGION IN Q3 2021



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