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Market Bulletin

World Food Programme—Turkey

HIGHLIGHTS

- The Minimum Expenditure Basket (MEB)¹ costs **583 TRY** per person per month as of June 2021, an increase of 16 percent from 505 TRY last year, June 2020.
- In June, the inflation rate reached **17.5 percent**. The food inflation rate increased to **20 percent**.
- The Turkish lira depreciated in Q2 2021 and traded around **8.6 against the USD** in June 2021.
- The economy grew by **7%** in Q1 2021. However, the lockdown in May 2021 may slow the growth rate for Q2 2021.

Macro-economic situation

As new variants of the coronavirus have emerged, Turkey enforced a full lockdown between April 29 and May 17, 2021. As a result of the restrictions, the economy slowed down and access to raw materials became difficult. After the end of the lockdown, a positive recovery observed in June 2021.²

The Euro Area –the largest export market of Turkey – experienced an economic contraction in early 2021 that led to a reduced level of imports to European countries in April 2021³, negatively affecting Turkey's export revenues after 4 consecutive months of increase.⁴ However, the economic activities increased globally towards the end of the first quarter of 2021

and continued in Q2 2021; the manufacturing PMI (Purchasing Managers' Index)⁵ increased in Euro Area to 63 in May and to 63 in June 2021, service PMI also increased to 55 in May and 58 in June 2021, reflecting a positive outlook.⁵ Furthermore, OECD revised its year-end global economic growth rate predictions upwardly, expecting 5.8 percent growth in 2021.⁶ Thanks to the widespread vaccination process and normalization steps, the Turkish economy followed the positive global trends.⁷ The imports increased by 46.9 percent in June 2021 compared to a year ago, and exports increased by 38.7 percent.⁸

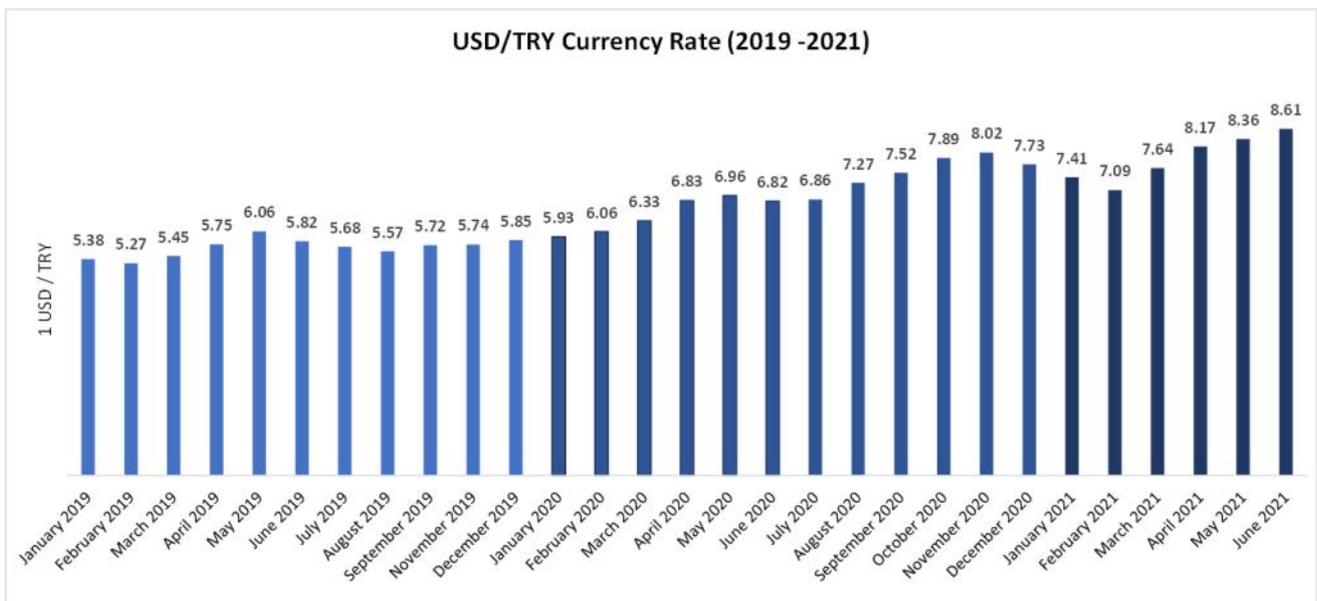
* Purchasing Managers' Index indicates how the market conditions and economic conditions are viewed by the purchasing managers in the manufacturing and service sectors that guides the companies' decision-makers.

Currency exchange

The USD rate appreciated in developing countries during the first half of the 2021 due to the 6.4 percent growth in the US economy in Q1 and the strong economic activities through Q2 2021.⁹ Among the developing countries, the Turkish Lira had a severe depreciation through Q2 2021 (from 7.64 in March to 8.61 in June) and devaluated by 17 percent against the USD compared to the end of 2020. USD had reached 8.7 TRY before the Central Bank of the Republic

of Turkey (CBRT) announced on June 17 that the interest rate would remain at 19 percent, and the tight monetary policies will continue until the inflation rates decrease significantly.¹⁰ The possible early election discussions, changes in the central bank management and political tensions caused by organized crime claims created an uncertain environment that prevents TRY from reappreciating.¹¹

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



Inflation

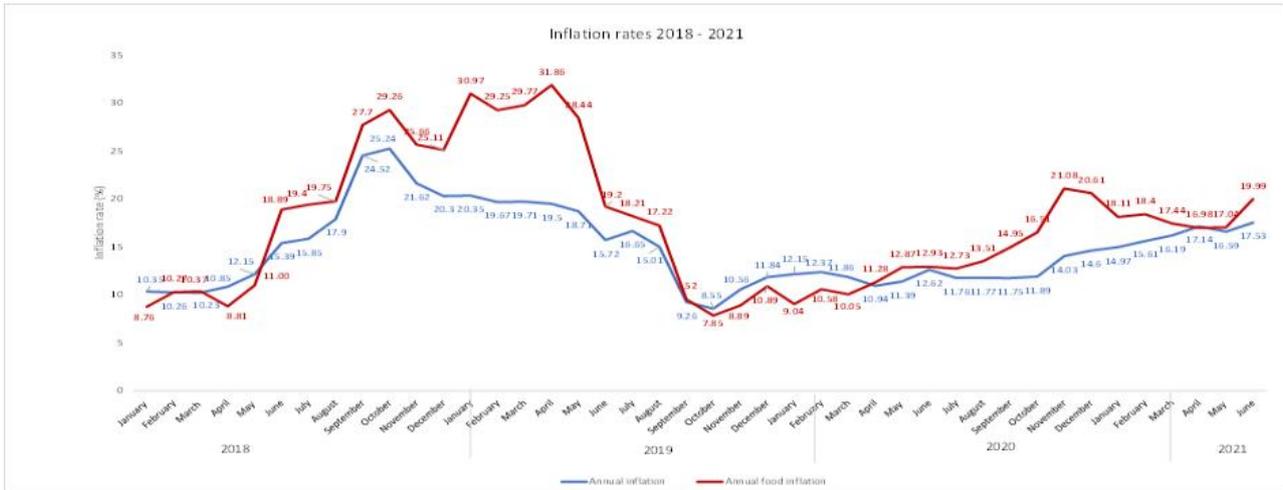
The annual inflation rate continued to be high in Q2 2021; in April 2021 it was 17.14 percent. Despite the slight decrease in May 2021 to 16.59 percent, it again increased up to 17.53 percent in June 2021; hitting a record high since the last two years.¹² The continuous increase in the Domestic Producer Price Index (D-PPI)*, which explains the production costs, was the driving factor for high inflation rates. D-PPI increase was particularly high for intermediate goods and in the manufacturing sector, pushing for higher consumer prices.¹³

The food inflation was balanced with the annual inflation in May (17%), yet it increased sharply to 19.99 percent as of June 2021. One of main reasons for increasing food inflation is the high input costs. Turkey depends heavily on imports for agricultural inputs. Devaluation of the Turkish Lira makes imports more expensive, leading to a rise in input

costs. In addition, climate change and the pandemic negatively affected production and, in some cases, interrupted supply chains, compounding the problem. Global warming in the recent decades causes downpours in some regions and droughts in others more frequently in 2021.¹⁴ In Turkey, the rainfall in May 2021 was 56 percent below the 'seasonal average', significantly affecting agricultural production.¹⁵ While this creates an additional irrigation cost for farmers and consequently higher production costs in the short term, in the long-run it is possible to observe decreased production and higher prices in the long-run. Furthermore, experts state that some of the top agricultural producing countries have stockpiled their products as a preventive measure to cope with the pandemic, impeding product availability in the markets.¹⁶

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

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



Economic Growth

The Turkish economy grew by 7 percent in Q1 2021, hitting a record high since the 2018 pre-crisis period (Figure 3).¹⁷ The growth in Q1 2021 has been driven by the manufacturing sector (grew by 11.7%) followed by the agricultural sector (7.5%) and service sectors including construction (5.3%). The Industrial Production Index significantly increased (by 66%) in April 2021 after recording a negative growth from

March to June 2020 and stable growth (at around 5-10%) since (Figure 4)*. Even though the recovery was partially disrupted by the nationwide lockdown in May 2021, the economic developments positively influenced expectations. While keeping the credit note at BB- with a stable outlook, the Fitch Ratings revised its growth projection for Turkey for 2021 from 6.3 to 7.9 percent.¹⁸

FIGURE 3: ANNUAL GROWTH RATES – 2018 - 2021

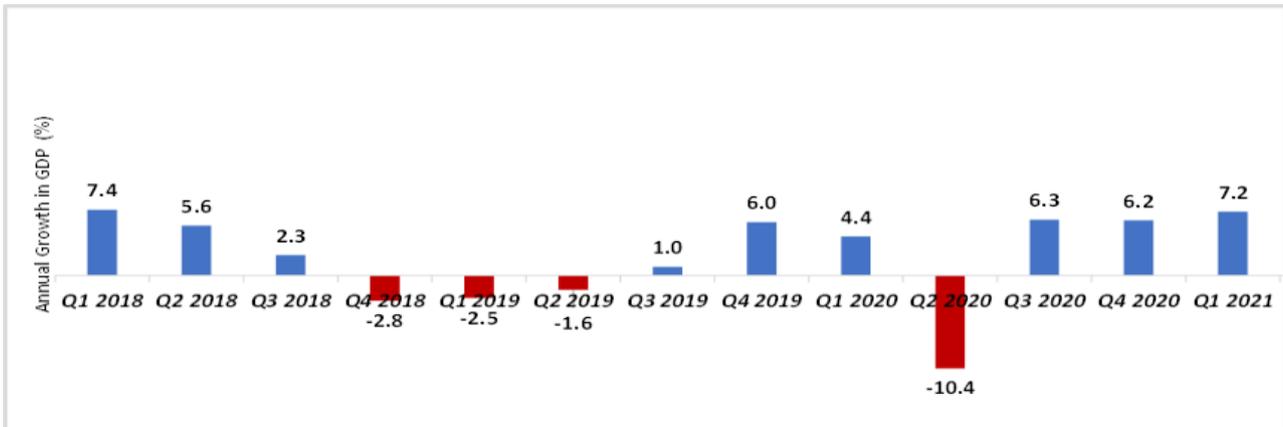
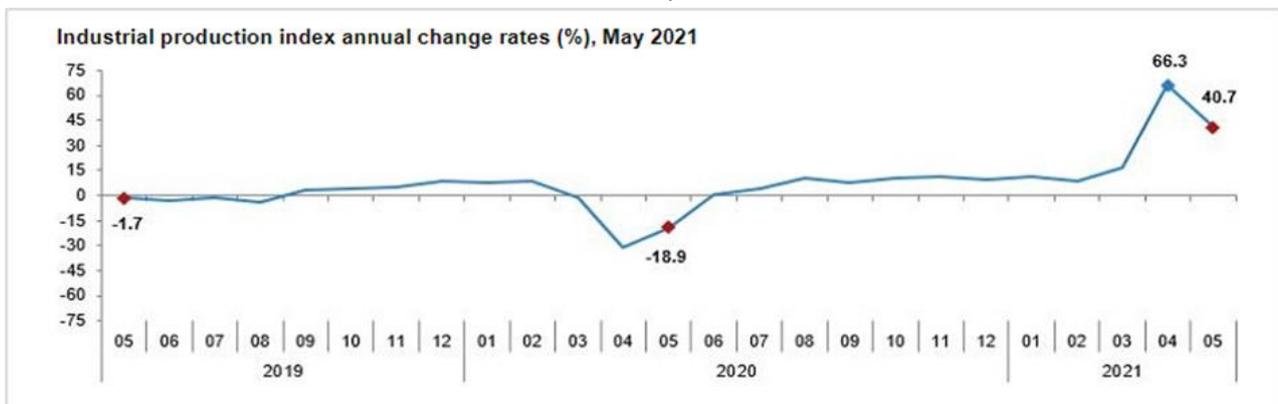


FIGURE 4: INDUSTRIAL PRODUCTION INDEX TRENDS, MAY 2021**



* The industrial production index (IPI) is a monthly economic indicator measuring real output in the manufacturing, mining, electric, and gas industries every year.

** The image has been retrieved from Industrial Production Index, June 2021.

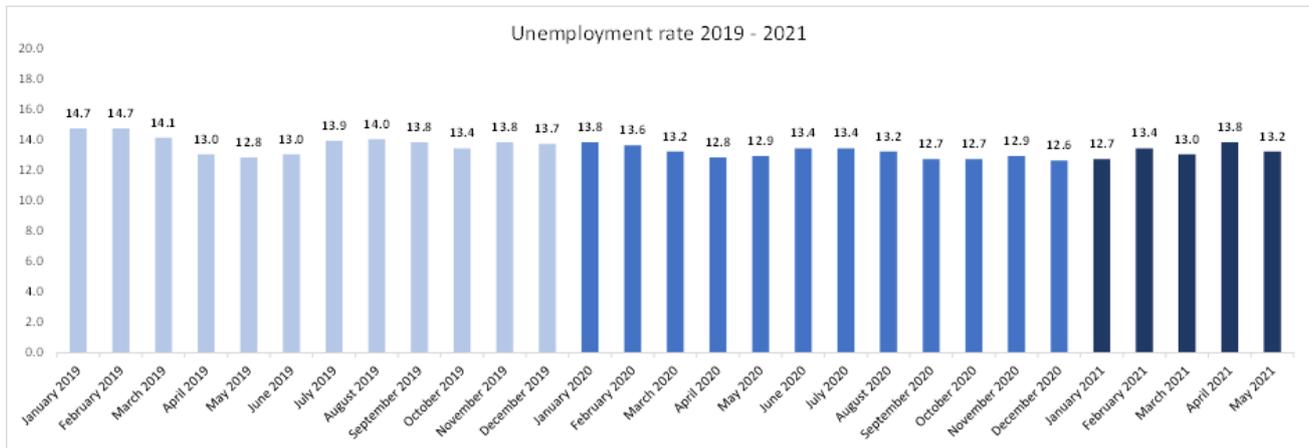
Unemployment

The increase in economic activities created a demand for the labour force; the employment rate has been gradually increasing since January (49.8%) and in April it reached 51.3 percent. However, due to the lockdown in May it decreased to 50.5 percent.¹⁹ Despite the positive developments, the unemployment rate remained high ranging between 12.7 and 13.8 percent in the first half of the year as the size of

working age people to enter the workforce also increased in the given period (Figure 5).

The youth (aged 15-24) unemployment decreased by 1.3 percent in May 2021 compared to May 2020 and actualized at 24 percent, whereas the youth employment rate increased by 3.3 percent to 31.9 percent in the same period.

FIGURE 5: UNEMPLOYMENT RATES BETWEEN 2019 AND 2021

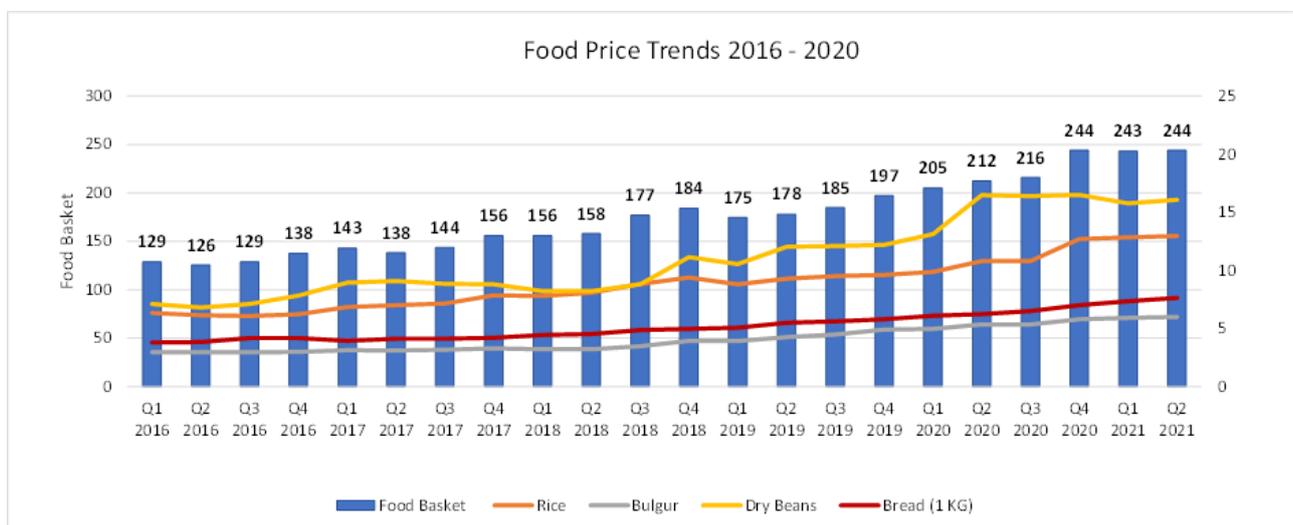


Food prices

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 food basket cost remained nearly constant between Q1 and Q2 2021, and costs 244 TRY as of June 2021. Despite the increase in the food inflation rates, higher prices of some items in the food basket were compensated by a decrease in other items' prices, leading to a stable food basket cost since Q4 2020. Between Q1 and Q2 2021, while there were price increases for sunflower oil (8%), bread (4%), cheese (3%),

and beans (2%), the prices of cucumber (38%) tomatoes (23%), egg (5%) and yogurt (3%) decreased. Among the items with high share in the food basket, rice costs 13.0 TRY/kg, and bulgur costs 6.0 TRY, and bread costs 7.6 TRY in Q2 2021. Though seasonality partially contributed to the decrease in fresh product prices, potatoes and carrots – which are other commonly used staple items – were among the commodities with the highest price increase by 42 percent and 36 percent respectively, between April and May 2021.²⁰

FIGURE 6: FOOD PRICE TRENDS BETWEEN 2016 AND 2021

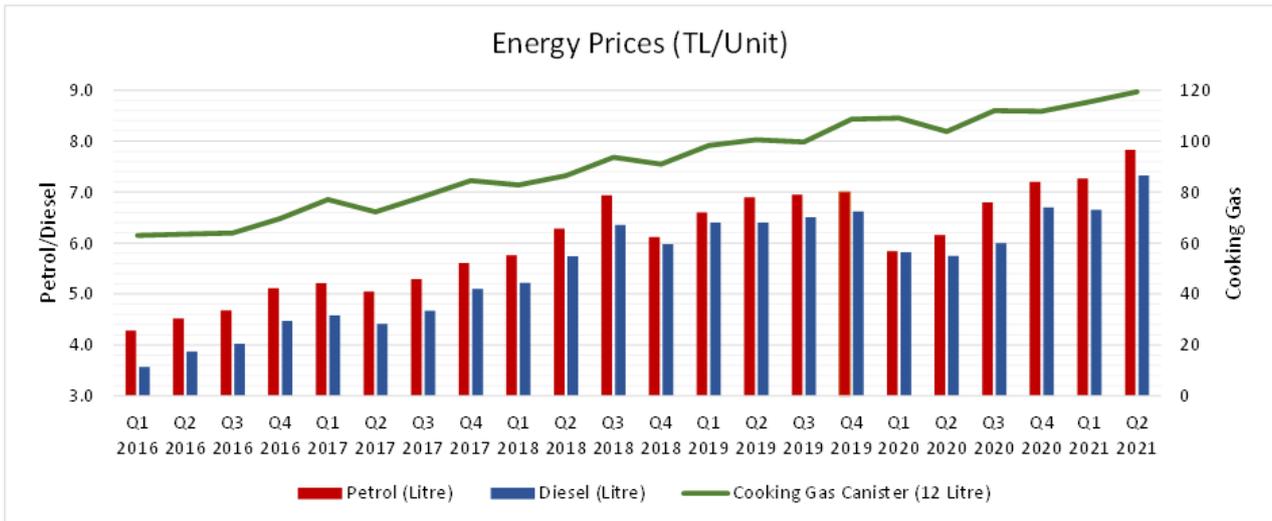


Energy prices

The global economic recovery after the interruption of the Covid-19 pandemic increased the energy demand, pushing the prices up. Furthermore, as the OPEC+ countries failed to reach an agreement in the first days of July, the price of Brent crude oil reached the highest level in 3 years at 77.2 USD per barrel.²¹

Along with the global price increase, the devaluation of the TRY against the USD also negatively affected the oil prices in Turkey. The litre price of petrol increased from 7.3 TRY to 8 TRY between Q1 and Q2 2021, and the diesel price increased from 6.7 TRY to 7 TRY per litre in the same period (Figure 7). The price for a 12-liter cooking gas canister reached 119 TRY, which was 115 TRY in the previous quarter.

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



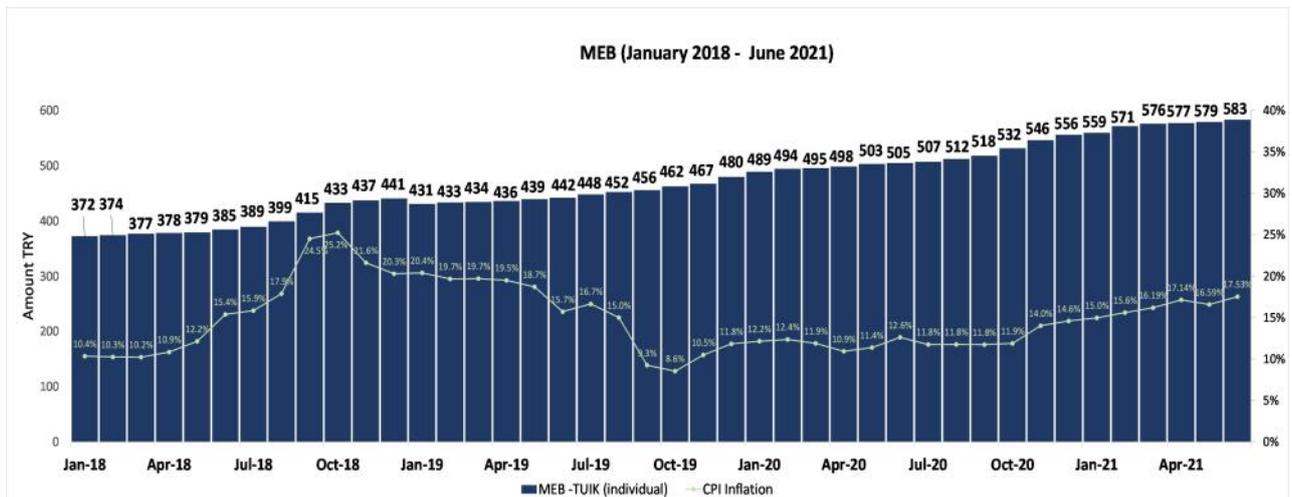
Minimum Expenditure Basket*

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.

(Figure 8). It is important to note that the MEB cost might not be fully aligned with the overall inflation rates given it only includes basic staple items which may have a relatively lower or higher price increase as compared to other items used to calculate the inflation rate.

The MEB increased by 7 TRY per person between Q1 2021 and Q2 2021, reached 583 TRY at the end of June 2021

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

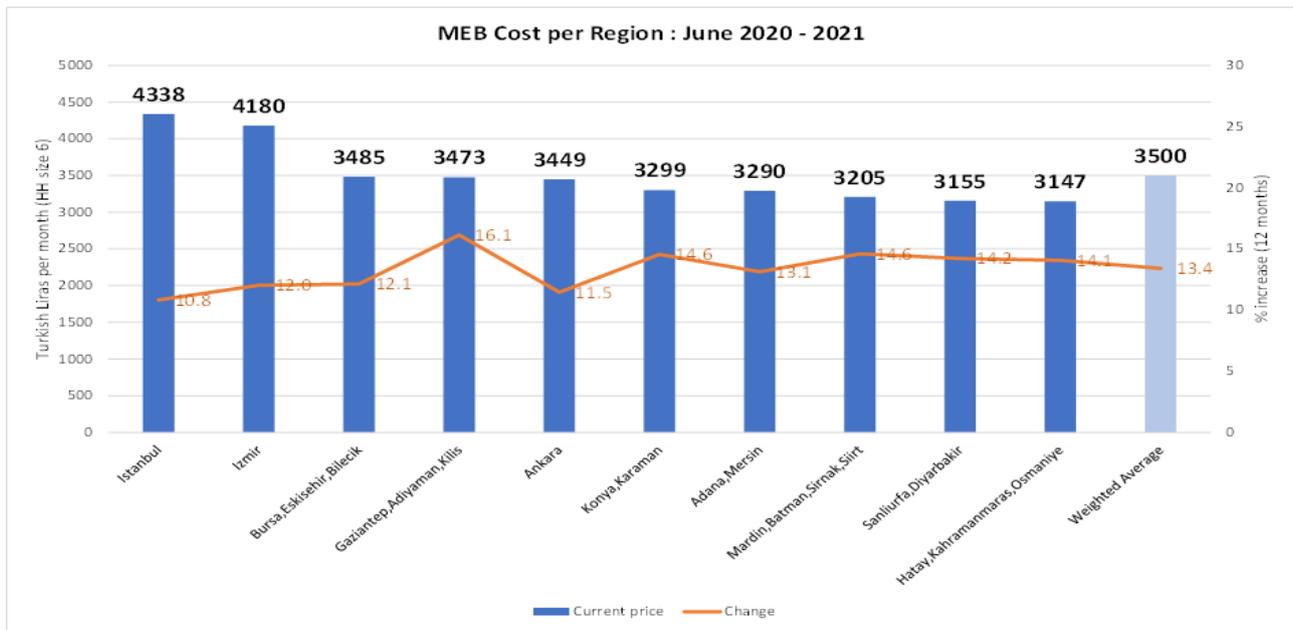


* The Minimum Expenditure Basket is constructed using TurkStat data.

Cost of living was the highest in Istanbul (on average 4338 TRY) followed by Izmir (on average 4180 TRY) whereas Hatay-Kahramanmaraş-Osmaniye region was the most affordable among all the regions with the minimum expenditure basket cost of 3147 TRY. However, having looked at the average annual price changes across the country, we see that the living costs have increased in the South-eastern and eastern regions the most. The 16 percent year-

ly increase in Gaziantep-Adiyaman-Kilis region (3473 TRY) outpaced Ankara (3449 TRY) and quite close to Bursa-Bilecik-Eskisehir region (3485 TRY). The living costs in Mar-din-Batman-Şırnak-Siirt with 14.6 percent annual increase and by Sanliurfa-Diyarbakir region with 14.1 percent annual increase in living costs, higher than the average yearly increase (13.4%). Ankara continuously has lower-than-average inflation rates. Given that the yearly inflation rate is already at 17.5 percent, the pressure on the purchasing power of consumers continues.

FIGURE 9: MEB COST PER REGION IN Q2 2021



Notes & Citations

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