



## World Food Programme — Turkey Market Bulletin

### Highlights

- Overall, the Turkish economy was moving in a positive direction in Q1 2020 until the Covid-19 outbreak was confirmed in the country in March 2020. Any impact on the economy will likely be observed in the result in Q2 2020 figures.
- Inflation rates were stable through Q1 2020 at around 12%; **11.86% in March**.
- The unemployment rate decreased from 13.8% to **13.6%** between January and February but is expected to be higher after the impact of Covid-19 on businesses.
- The Minimum Expenditure Basket<sup>1</sup> cost was also stable in Q1 2020 at **495 TRY** per person per month, but this is a **14%** increase compared to the cost of 434 TRY in Q1 2019.
- Food availability and accessibility is not a concern for the upcoming period, but economic uncertainty remains.

### Turkey Macro-economic Situation

By the end of Q4 2019, the Turkish economy had recovered from the 2018 contraction and, overall, grew positively by 1% during 2019. The positive start in Q1 2020 is reflected in the stable yearly inflation rates (around 12%) between January-March compared to 20% in Q1 2019. However, Q1 2020 was also characterized by unprecedented disruption to the global and national economies due to the outbreak of Covid-19. In Turkey, flights from China and other countries with confirmed cases were cancelled starting early February<sup>2</sup>; and borders with Iran and Iraq were closed in the second half of February<sup>3</sup>. The first case of Covid-19 in

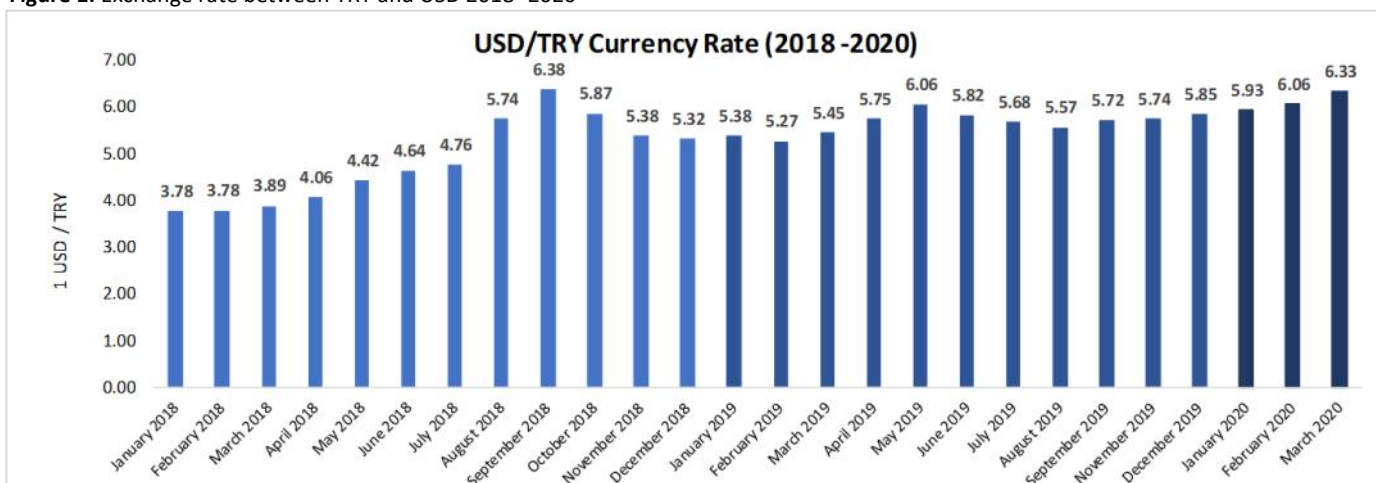
Turkey was confirmed on March 11th, 2020, triggering a set of precautionary actions (see call-out box 1) intended to reduce the spread of the virus through the promotion of social isolation, including the closure of businesses. The different preventative measures including restrictions have greatly affected international trade and led to significant slowdown of national economies<sup>4</sup>. The IMF considers this pandemic season to be the worst recession since the Great Depression, with a 3% contraction in global economy predicted for 2020<sup>5</sup>.

### Currency Exchange

The Turkish Lira has continued to depreciate against the USD since September 2019. As shown in **Figure 1**, the exchange rate deteriorated by 8% between the end of Q4

2019 and the end of Q1 2020, reaching the second highest level (1USD = 6.33TRY) since September 2018 during the economic contraction.<sup>6</sup>

**Figure 1:** Exchange rate between TRY and USD 2018 -2020

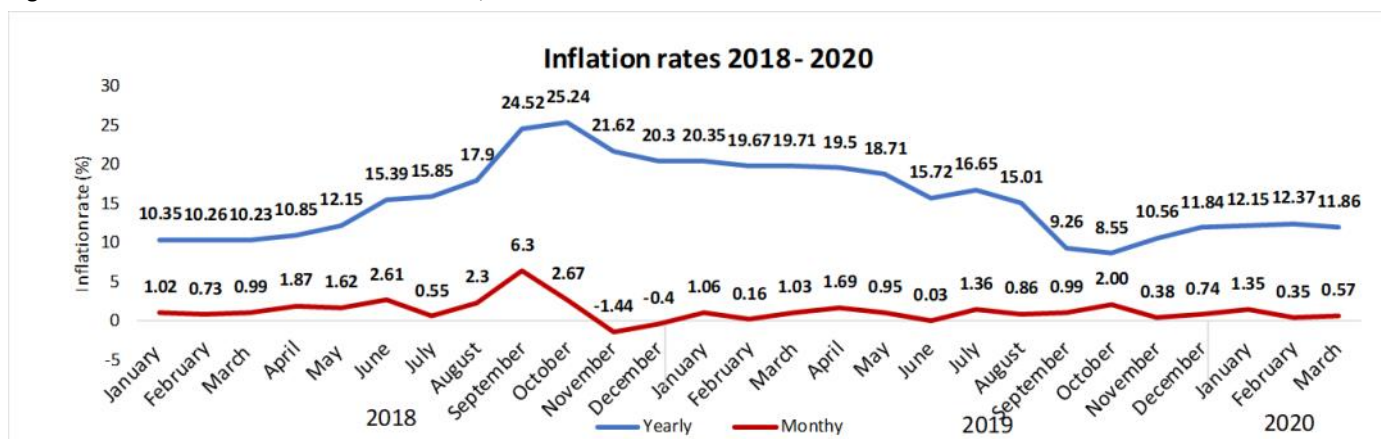


### Inflation

The annual inflation rate was fairly stable in Q1 2020, with levels similar to those observed in Q1 2018 prior to the economic downturn that started in Q2 2018, and significantly lower than Q1 2019 levels (**Figure 2**). The monthly inflation rate in January 2020 was slightly higher (1.35%) than expected (1.1%) as a result of the 4.7% monthly increase in food prices, which was mainly driven by the increase in the cost of fruits and vegetables.<sup>7</sup>

Even though there were concerns that potential panic buying in response to Covid-19 lockdown measures would increase the price of food and hygiene items, in fact data in March showed the contrary; the yearly inflation rate went down slightly to 11.86%, with the highest cost increase noted on health expenditure<sup>8</sup> with the inflation rate for the CPI Category C<sup>9</sup> (which includes hygiene items) was 10.49%, much less than the overall inflation rate.<sup>10</sup>

**Figure 2:** TurkStat’s Consumer Price Index Trend, March 2020<sup>11</sup>



### Economic Growth

In January and February 2020, the Turkish economy was moving in a positive direction, following positive growth registered in Q3 and Q4 2019 at 1% and 6% respectively. As indicated in **Table 1**, all sectors grew positively compared to the

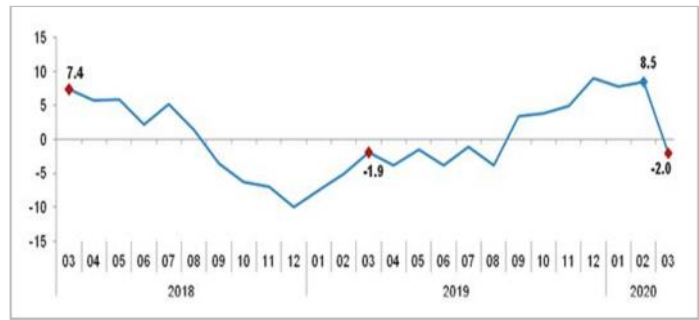
previous year<sup>12</sup> except for the construction sector, which continued to shrink, though at a slower rate. The manufacturing and service sectors were the leading sectors for growth with more than 5% growth between Q3 and Q4 2019.

**Table 1:** Quarterly Sectoral Growth in 2018 and 2020<sup>13</sup>

| Sector                       | Q1 2018 (%) | Q2 2018 (%) | Q3 2018 (%) | Q4 2018 (%) | Q1 2019 (%) | Q2 2019 (%) | Q3 2019 (%) | Q4 2019 (%) |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Agriculture                  | 8.1         | -0.9        | 2.4         | 0.3         | 2.6         | 3.6         | 3.6         | 2.5         |
| Manufacture                  | 8.1         | 4.4         | 1.2         | -7.7        | -4.2        | -3.4        | 1.4         | 6.3         |
| Construction                 | 6.8         | 1.5         | -6.3        | -7.8        | -9.3        | -12.7       | -8.3        | -3.8        |
| Services                     | 10.5        | 9           | 4.6         | -1.0        | -3.4        | 0.2         | 0.6         | 7.8         |
| Gross National Product (GNP) | 7.4         | 5.6         | 2.3         | -2.8        | -2.3        | -1.6        | 1.0         | 6.0         |

Even though the economy had a promising start in early Q1 2020, the Covid-19 outbreak confirmed in Turkey affected the March figures drastically. The measures taken on March 12<sup>th</sup> to prevent the spread of the virus included sudden closure of businesses, resulting in reduced economic activity (See the call-out box 1)<sup>14</sup>. The Industrial Production Index<sup>15</sup>, which had exceeded pre-2018 slowdown levels in February 2020 at 8.5%, plunged to -2.0% in March 2020 (Figure 3)<sup>16</sup>. Similarly, the manufacturing Purchasing Managers' Index (PMI) had exceeded the 50-point threshold again after 22 months reaching 52.4 in February but went down sharply to 48.1<sup>17</sup> in March.

Figure 3: Industrial Production Index Annual Change Rates - March 2020

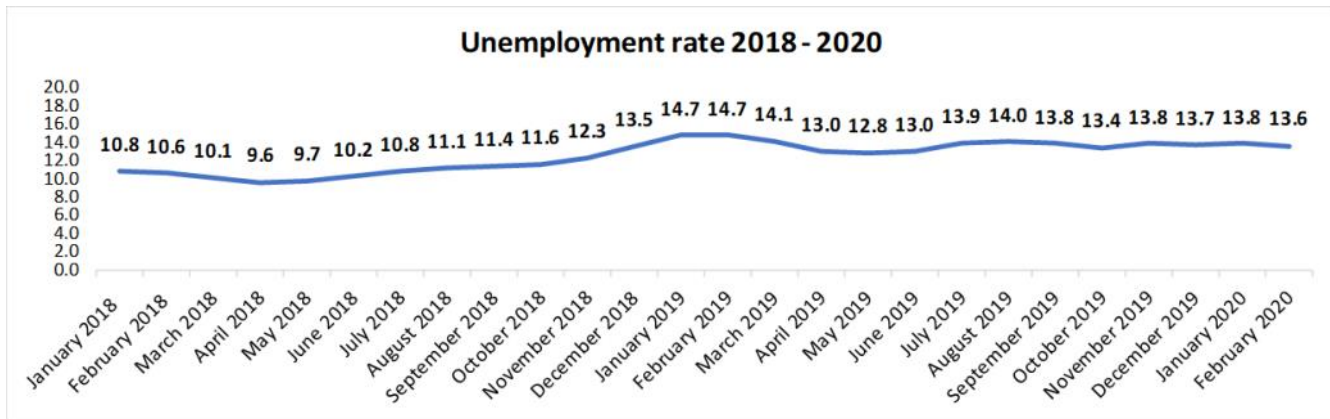


## Unemployment

The unemployment rate remained fairly stable in the first part of Q1 2020, changing from 13.8% in January to 13.6% in February (Figure 4), but remained higher than the pre-2018

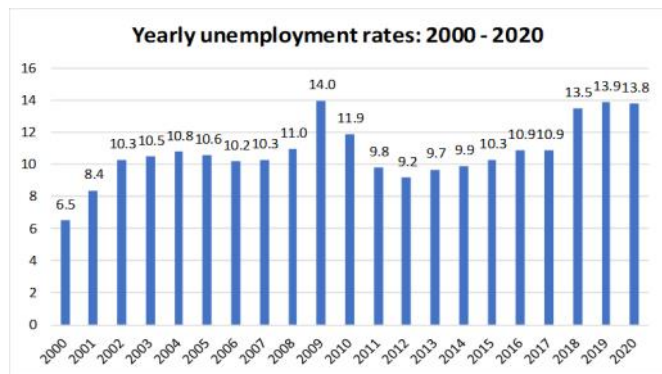
slowdown levels. By comparison, the yearly unemployment rate between 2018 - 2020 has remained much higher than the average observed in the years preceding the 2018 slowdown (Figure 5).

Figure 4: Unemployment rates between 2018 and 2020



The youth unemployment rate in February 2020 was 24.4%, 1.7% lower than in February 2019, but much higher than the level in February 2018 (19%)<sup>18</sup>. The informal employment rate went down from 33.5% in February 2019 to 30.0% in February 2020<sup>19</sup>. However, these figures might reverse as many businesses experienced sudden shutdown with the Covid-19 pandemic and may not be able to afford the social security cost of their employees.

Figure 5: Unemployment rates trend between 2000 and 2020



As the pandemic disrupted the cash flow in the economy, the Government took preventive measures to ease the pressure on businesses and provide a safety net for affected people (See the call-out box 2)<sup>20</sup>.

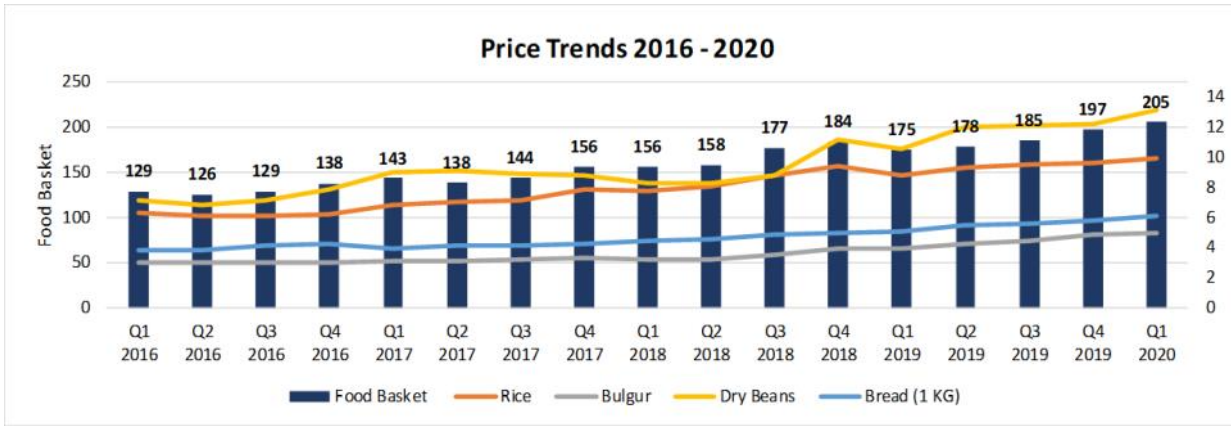
## Food Prices

WFP VAM and M&E unit monitors the prices of a minimum food basket for Turkish people that consists of nutritionally balanced staple food items<sup>21</sup>. The cost of the food basket per person increased from 197 TRY in Q4 2019 to 205 TRY in March 2020, an increase of around 3 TL increase per month (Figure 6). The food price increase was the leading factor for inflation in January and, even though the food inflation rate in March (10.05%) was below the overall inflation rate, the prices of processed food increased by 17.28%<sup>22</sup>. The price of bread in-

creased from 5.8 TRY per kilogram in Q4 2019 to 6.1 TRY in March 2020. Considering that a person is assumed to consume 7.5 kg bread per month in the food basket calculation, it contributed significantly to the increase in the food basket cost.

The Ministry of Agriculture and Forestry announced that the production, stock and supply chain for staple food items is still functioning and prepared for the next quarters<sup>23</sup>, so food prices are not expected to increase drastically.

Figure 6: Food price trends between 2016 and 2020



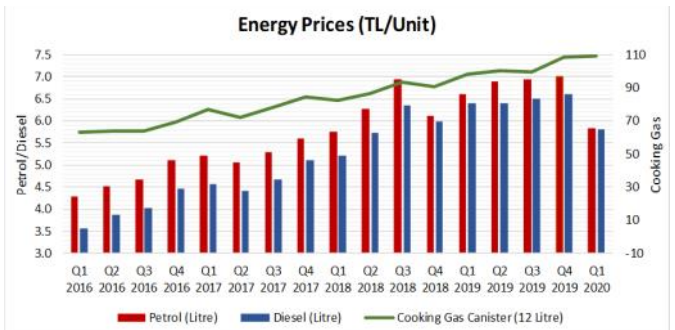
### Energy Prices

The interruption caused by Covid-19 preventive measures on daily life and economic activities reduced the demand for energy, therefore prices went down. The production increase by Saudi Arabia and Russia in March dropped global oil prices further.<sup>24</sup> In Turkey, petrol prices first increased to 7.07 TRY in January due to geopolitical instability, then went down to 5.8 TRY in March 2020, the lowest cost in the last two years (Figure 7)<sup>25</sup>. Diesel prices also dropped from 6.6 TRY to 5.8 TRY, while the cost of a cooking gas canister remained the same.

The reduced energy costs affected the transportation costs positively as the inflation rate for transportation went down by 1.91% between February and March 2020<sup>26</sup>. However, experts

state that the decrease in the oil prices will only play a partial role of stabilizer for the economy during this shock period.<sup>27</sup>

Figure 7: Energy Price Trends (TL/Unit) 2016-2020



### Minimum Expenditure Basket<sup>28</sup>

The MEB calculation is based on a six-person Turkish household, and the item prices for commodities are retrieved from TurkStat (Turkish Statistical Institute). The TurkStat commodity prices reflect the preferences and brands of average Turkish consumers.

The average cost of a MEB was 495 TRY per person as of March 2020 (Figure 8). As previously mentioned, despite the expectation of cost increases during the Covid-19 pandemic, the MEB cost remained stable in Q1, showing an increment of only 1 TRY between February and March.

Figure 8: MEB costs for a 6-People Household, between 2017-2020

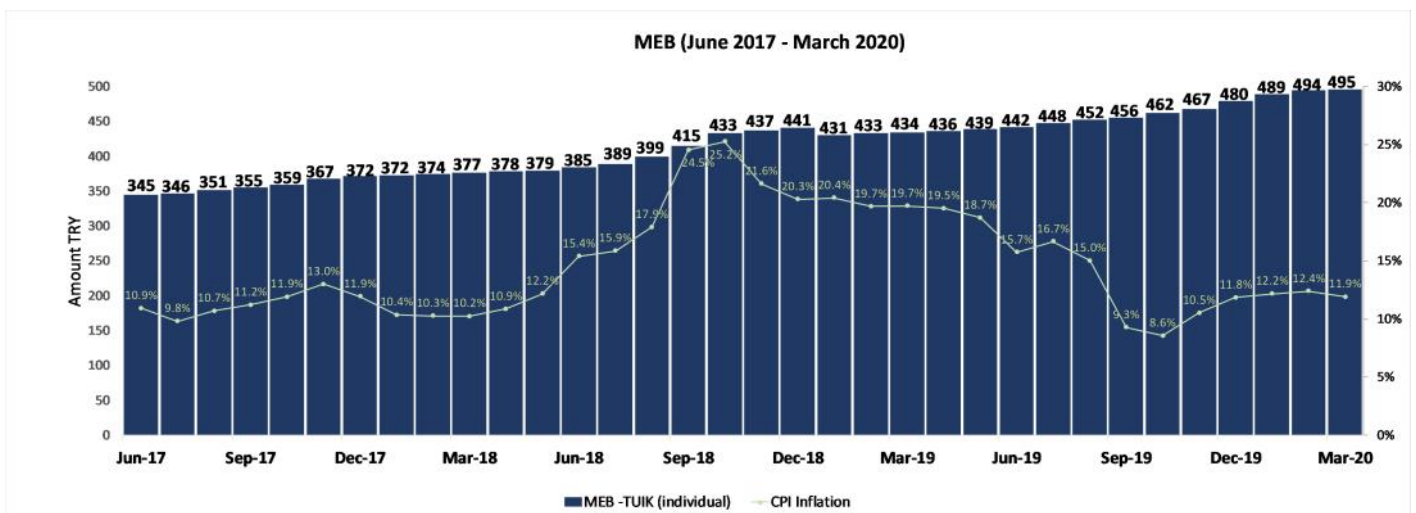
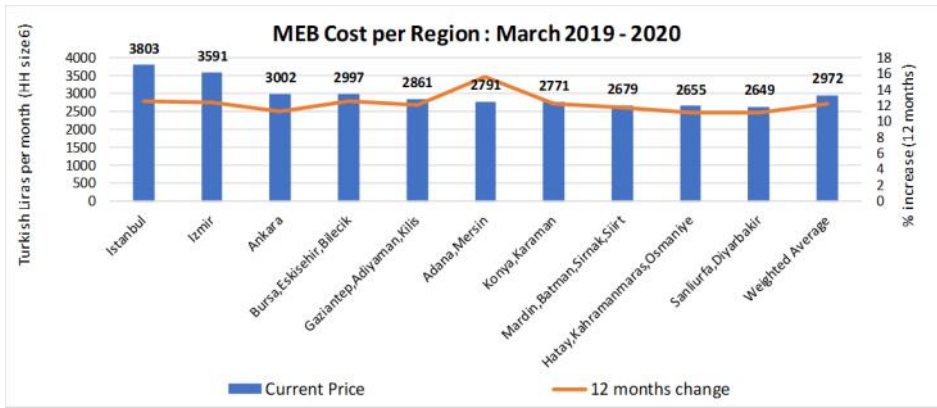


Figure 9: MEB Cost per Region in Q1 2020



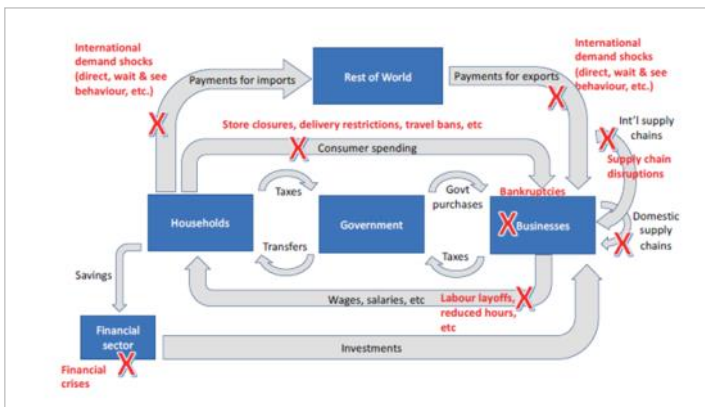
Istanbul remains the most expensive region with a MEB cost of 634 TRY, closely followed by Izmir at 599 TRY. As shown in **Figure 9**, Bursa-Eskişehir-Bilecik region (499 TRY) has caught up with the MEB cost in Ankara (500 TRY), due to the ongoing low inflation rates in Ankara.

## Implications of the CoViD-19 Pandemic

As previously indicated, the Covid-19 outbreak prompted the Government to institute measures intended to reduce the spread of the pandemic, summarized in **call-out box 1**. Similar to the other countries affected by the global crisis, these measures directly and indirectly affect the entire functioning of the economy, leaving the Government, businesses and individuals in hardship. In **Figure 10** below, Baldwin & di Mauro

(2020) illustrate how the economy functions and how the lockdown measures interrupt this mechanism.

Figure 10: Covid-19's multiple strikes in the circular flow of income diagram<sup>29</sup>



Since the first Covid-19 case in Turkey was later than in the other countries, thanks to earlier measures such as suspension of some international flights, Turkey had some time for preparatory actions to prevent the spread of Covid-19.

Even as the preventive measures were implemented, access to food and other essential commodities was secured; the markets remain open through the weekdays and there are alternative shopping options; many local stores and market chains developed websites and applications for grocery shopping online, and also started to accept orders through phone or WhatsApp messages.<sup>30</sup>

However, the current shutdown of many businesses, especially the manufacturing and service sectors which are not only important for economic growth<sup>31</sup> but also a source of employment for many, affected the cash flow significantly. In order to prevent businesses from bankruptcy and workers from unemployment, the Government has taken certain measures (see **call-out box 2**).

### Call out box 1: Measures against spread of Covid-19

- Restaurants, cafes, cinemas, theatres, mosques, bars, nightclubs, amusement parks, sports centres, public baths, wedding halls, and hairdressers were closed
- Public gatherings and meetings were suspended
- Schools and universities switched to distant learning, affecting the support personnel (e.g. shuttle and catering services)
- Sports events took place without spectators between March 12-19, then all games were suspended
- Flights between Turkey and 71 countries were cancelled
- Inter-city transportation was permitted with half capacity at first, then on April 3<sup>rd</sup>, banned for 31 provinces
- Public staff started working in shifts and flexible hours
- People over age 65 or with chronic diseases were restricted from going outside and, from April 4<sup>th</sup>, youth under 20 were also restricted
- Market hours were shortened and capacity reduced
- Partial curfews are implemented during the weekends

The impact of the virus is expected to be more severe in all economic sectors; according to the World Economic Situation and Prospects report<sup>32</sup>, there is a 15% shrinkage expected for world trade in 2020. An estimated 34.3 million people around the world are expected to fall below the extreme poverty line in this year. The increase in unemployment is very likely to cut cash flow and reduce market demand. Businesses may therefore rely more on credit for capitalization<sup>33</sup>, reduce the number of employees and/or wage levels. As noted in a recent WFP analysis on the impact of Covid-19, the main driver of vulnerability among households in the short term will be due to the loss of employment or reduction in wages, given that the macro-economic environment has so far been fairly stable with negligible change in the cost of the Minimum Expenditure Basket<sup>34</sup>.

At macro level, the food supply is not a major concern given that Turkey is a food producing country. However, Turkey exports fresh food products and imports cereals and oil seeds. In March 2020, there was a 35% increase in vegetable and fruit exports, while the import of both cereals and oil seeds decreased by more than 20%<sup>35</sup>. This is probably a result of a combination of factors as illustrated in Figure 10 as well as the depreciation of the Lira which effectively made exports cheaper and imports more expensive. This decrease in imports could also suggest increased reliance by the manufacturing sector on

locally produced raw materials rather than imported intermediate goods in response to the global disruption of supply chains.

Provided food and energy prices remain stable, how domestic production adjusts to these dynamics will be a key determinant in how the MEB cost changes in the medium term (Q2/Q3 2020); Continued utilization of locally produced raw materials in the manufacturing sector would mean a stable MEB cost in the medium term, while reliance on imported intermediate goods would mean the cost of final products also increases due to depreciation of the Turkish Lira.

Overall economic growth will however be affected as predicted by both the World Bank and IMF<sup>36</sup>. As the summer season is ahead, the agriculture sector might draw a more positive picture than the other sectors in the upcoming period because it is the harvest season that reduces the prices of fresh products and provides employment opportunities for seasonal workers to generate some income. However, agriculture's share in GDP was only 6.4% for 2019, and therefore its impact on the economy would remain limited.

## Notes & Citations

1. The Minimum Expenditure Basket is constructed based upon the monthly basic needs of a person living in a 6-people household, and by using TurkStat data.
2. <https://www.aa.com.tr/tr/koronavirus/saglik-bakani-koca-cinden-gelen-butun-ucuslarin-ay-sonuna-kadar-durdurulmasi-kararini-aldik/1722807> & <https://www.hurriyet.com.tr/ekonomi/son-dakika-46-ulkeye-daha-ucuslar-durduruldu-41474440>
3. <https://www.aa.com.tr/tr/koronavirus/turkiye-ile-iran-arasindaki-kara-hudut-kapilari-kapatildi/1742497>
4. Baldwin & di Mauro (2020). Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes. London, CEPR Press.
5. <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/World-Economic-Outlook-April-2020-The-Great-Lockdown-49306>
6. [https://evds2.tcmb.gov.tr/index.php?evds/serieMarket/#collapse\\_2](https://evds2.tcmb.gov.tr/index.php?evds/serieMarket/#collapse_2)
7. [https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03\\_monthly/2020/MER\\_202002.pdf](https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03_monthly/2020/MER_202002.pdf) & <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=33864>
8. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=33864#>
9. The category is defined as 'C' that refers to the "CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold".
10. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=33864#>
11. The image has been retrieved from Consumer Price Index News Bulletin, December 2019.
12. The figures for Q1 2020 had not been released by TurkStat during the report writing period.
13. The figures might be slightly different from the previous reports due to recalculations.
14. <https://www.tccb.gov.tr/haberler/410/118070/-kovid-19-ile-mucadelemizi-milletimizle-birlikte-kararilikkla-surduruyoruz->
15. Industrial Production Index refers to the economic indicator measuring real output in industries, that calculation includes the physical input and output, inflation adjusted sale figures, hours of labour contributed by the workers and such. For details: <https://www.investopedia.com/terms/i/ipi.asp>
16. <http://www.tuik.gov.tr/HbGetirHTML.do?id=33798>
17. [https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03\\_monthly/2020/MER\\_202004.pdf](https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03_monthly/2020/MER_202004.pdf)
18. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=27688>
19. <http://www.tuik.gov.tr/HbGetirHTML.do?id=33786>
20. <https://www.tccb.gov.tr/haberler/410/118070/-kovid-19-ile-mucadelemizi-milletimizle-birlikte-kararilikkla-surduruyoruz->
21. The items include, rice, bulgur, bread, cheese, yogurt, eggs, oil, dry beans, tomatoes, cucumber, sugar, salt, and tea.
22. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=33864#>
23. <https://www.aa.com.tr/tr/koronavirus/bakan-pakdemirli-temel-gida-urunlerinin-uretim-stok-ve-tedarik-zincirinde-sikinti-yok/1770111>
24. [https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03\\_monthly/2020/MER\\_202004.pdf](https://ekonomi.isbank.com.tr/contentmanagement/Documents/eng03_monthly/2020/MER_202004.pdf)
25. <https://biruni.tuik.gov.tr/medas/?kn=84&locale=tr>
26. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=33864>
27. Benassy-Quere, A. et al (2020). "Covid-19: Europe needs a catastrophe relief plan" in Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes. London, CEPR Press.
28. The Minimum Expenditure Basket is constructed using TurkStat data.
29. The image is retrieved from: Baldwin & di Mauro (2020). Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes. London, CEPR Press.
30. [http://onmarket.com.tr/iletisim/whatsapp\\_icon/](http://onmarket.com.tr/iletisim/whatsapp_icon/) & <https://www.sokmarket.com.tr/cepte-sok> & <http://www.fmcgturkiye.net/2020/04/20/migros-telefonla-siparis-uygulamasini-devreye-soktu/>
31. <http://www.tuik.gov.tr/HbGetirHTML.do?id=33786>
32. [https://www.google.com/search?q=United+Nations+World+Economic+Situation+and+Prospects&rlz=1C1GCEU\\_enTR856TR856&oeq=Unit-ed+Nations+World+Economic+Situation+and+Prospects+&aq=chrome..69i57j0l7.2014j0l7&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=United+Nations+World+Economic+Situation+and+Prospects&rlz=1C1GCEU_enTR856TR856&oeq=Unit-ed+Nations+World+Economic+Situation+and+Prospects+&aq=chrome..69i57j0l7.2014j0l7&sourceid=chrome&ie=UTF-8)
33. Baldwin & di Mauro (2020). Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes. London, CEPR Press.
34. World Food Programme (2020). Covid-19 Pandemic in Turkey: Analysis of Vulnerabilities and Potential Impact Among Refugees, WFP Turkey Country Office, Ankara: April 2020.
35. [http://tuik.gov.tr/PreTablo.do?alt\\_id=1046](http://tuik.gov.tr/PreTablo.do?alt_id=1046)
36. <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/World-Economic-Outlook-April-2020-The-Great-Lockdown-49306> & <https://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update>
37. <http://www.tuik.gov.tr/HbGetirHTML.do?id=33603>

### Call out box 2:

#### Economic Measures

- 1000 TRY assistance for 2 million low-income families
- Increase of lowest retirement pension to 1500 TRY
- A total of 7 billion TRY support for the people working for minimum wage
- Increase of the SASF funding amount to 180 million TRY
- The 1000 TRY Bayram bonus payment for the retired paid in April 2020
- Credit card payments were suspended till June 2020
- Banks to provide credit to businesses, up to 25,000 TRY, dated for 36 months with no payments in the first six months, the current credit payments suspended to June 2020
- For the artisans, credit to be provided up to 25,000 TRY for 12 months period with no payment in the first three months
- Banks to provide credit to businesses to cover the monthly personnel expenses
- Credit offered to businesses for capital continuity as additional support for those that experienced a cut in the cash flow
- VAT declaration and payments were suspended
- VAT for air cargo was reduced to 1% for three months
- 6 Million TRY support for the firms producing disinfectants, protective gowns, goggles, and masks
- Custom taxes were waived for masks, ventilators, and ethyl alcohol
- Export businesses to be supported with stock financing facility