



World Food Programme

SAVING LIVES
CHANGING LIVES

Photo: Didem Akan/WFP

Market Bulletin

World Food Programme—Turkey

HIGHLIGHTS

- The Minimum Expenditure Basket (MEB)¹ costs **TRY 878** per person per month as of March 2022, an increase of 52 percent from 576 TRY last year, March 2021.
- The inflation rate reached **61.1** percent. The food inflation rate increased to 70.3 percent.
- The Turkish lira continued to depreciate. In March 2022, the average exchange rate is **14.6 TRY/USD**.
- The Ukrainian war increased energy costs globally. The impact on Turkish economy is remarkable as Türkiye relies on energy imported from Russia. The war also raises concerns over global food supplies.

Macro-economic situation

Due to disruption of the global economic recovery by the increasing Omicron caseloads and the rising inflation as a result of the disruptions in the supply chain, the IMF reduced its global economic growth forecast from 4.9 percent to 4.4 percent in January 2022.² The Russian military intervention in Ukraine on February 24th resulted in further uncertainty; sanctions against Russia by other countries and Russia's retaliatory measures intensified political tension and adversely affected the global economy, particularly the energy prices.³ Russia is the third largest oil producer after the US and Saudi Arabia, and the largest oil exporter in the world. Its main market is the OECD Europe Countries, representing 60 percent of its total oil

exports.⁴ Moreover, 32% of the gas demand of the European countries are supplied by Russia, and Ukraine is the transit country for 25 percent of this gas flow.⁵ Türkiye is among the main energy importers. Russia provides for 45 percent of Türkiye's natural gas need, and it is also Türkiye's second largest oil provider after Iraq.⁶

Along with energy, Russia and Ukraine are core global food exporters. A total of 64 percent of the sunflower oil exports are from Ukraine (42%) and Russia (22%).⁷ One fourth of the global wheat supply is also provided by these countries (9% from Ukraine and 14% from Russia). Russia has the largest share of

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the food imports in Türkiye as well.⁸ 39 percent of the 'domestic wheat supplies' in Türkiye comes from Russia and Ukraine,⁹ yet, this is mostly to process and export to other countries. For instance, 84 percent of wheat flour imports of Syria, as well as 50 percent of pasta imports, and 65 percent of vegetable oil (which is mostly sunflower) imports are supplied by Türkiye.¹⁰ As the conflict continues, the already increasing trends of global energy and food supply costs are under inflationary pressure. With a foreign trade volume of 33 billion USD with Russia and 7.5 billion USD with Ukraine,¹¹ Türkiye's food imports, energy supplies, as well as tourism revenues are likely to be negatively affected by the ongoing war.¹² Tourists from Russia make the largest group (4.7 million) who visited Turkey in 2021 and the Ukrainian visitors are the third largest tourist group (2 million).¹³ Tourism agencies do not expect any

guests from Ukraine in 2022 whereas the number of Russian visitors is predicted to be around 2.5 million.¹⁴

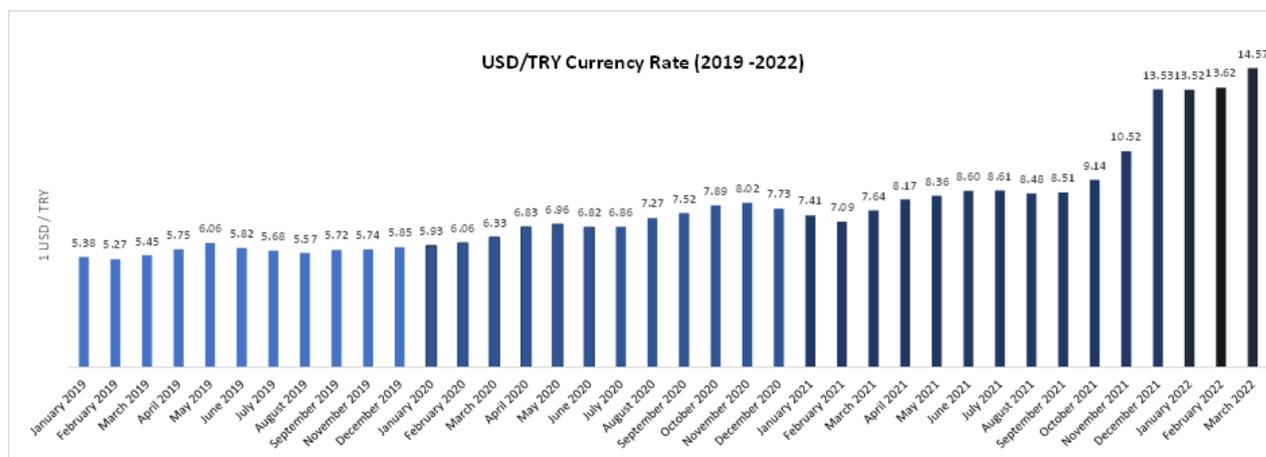
Even before the war, due to the rapid increase in energy prices in January, the current account deficit quadrupled and reached 7.1 billion USD, resulted in the rise of 12-month cumulative current account deficit to 20.2 billion. With the high inflation rates in commodity items in February, it further increased to 21.8 billion USD.¹⁵ The budget performance had a surplus of 69.7 billion TRY as a result of transferring Central Bank of Republic of Türkiye (CBRT) profits to the budget, increase in tax revenues, and increase in foreign trade in January and February. However, TRY diverged negatively from other emerging market currencies in March and Consumer Price Index (CPI) continued to increase.¹⁶

Currency exchange

Following steep depreciation of the currency at the end of 2021, thanks to the economic measures and contribution of the new foreign-exchange protected deposit account system,^{*} the currency rate was stable at around 13.5 and 13.6 in January and February 2022. However, the Ukrainian war increased geopolitical risks and weakened risk appe-

title, leading to increase of currency rate to 14.6 in March 2022.¹⁷ In this period, the interest rate remained at 14 base points for four consecutive months. According to the survey conducted by CBRT, market participants expect the USD exchange rate to be 16.85 TRY at the end of 2022.¹⁸

FIGURE 1: EXCHANGE RATE BETWEEN TRY AND USD 2019 -2022



Inflation

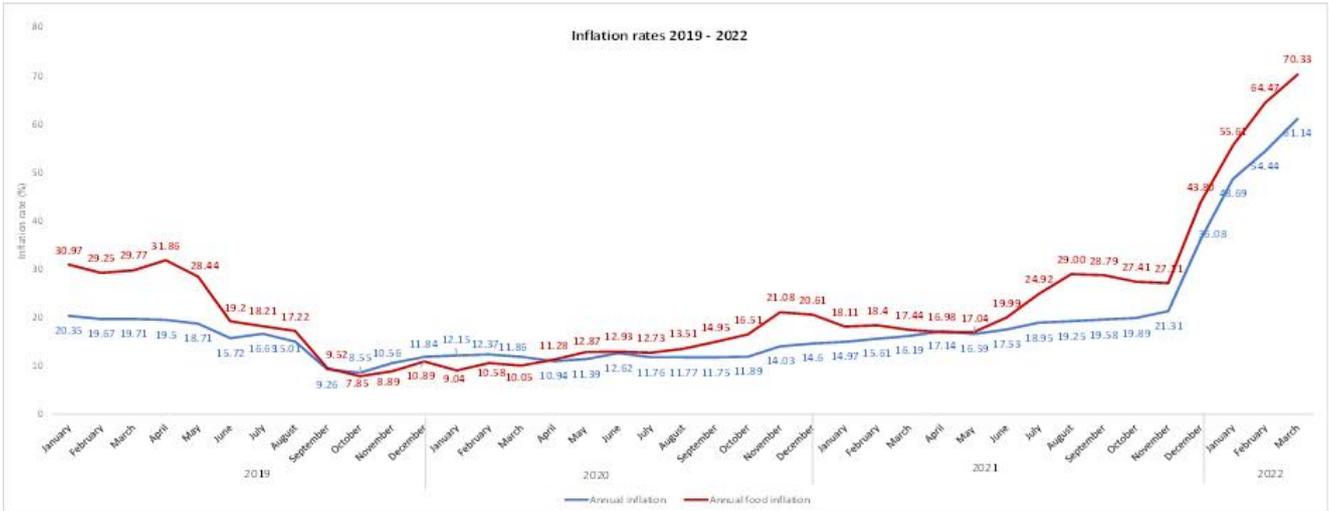
The rapid devaluation of TRY in Q4 2021 resulted in high production costs due to Türkiye's dependency on imported intermediate goods and energy. Furthermore, increase in administered prices, rise in wages and service prices created inflationary pressure.¹⁹ As a result, the year 2022 started with the annual inflation rate at 48.7 percent.²⁰ The situation in Ukraine increased global supply costs – particularly energy prices – putting more pressure on the inflation in Türkiye. The annual inflation rate reached 54.4 percent in February 2022 and 61.1 percent in March 2022, which are the record high levels since 1995.²¹ Due to the recent developments, CBRT increased year-end inflation predictions from 23.2 percent to 42.8 percent during the reporting

period.²²

Transportation has become the primary driving force of inflation (68.9% in January and 64.5% in February) due to high fuel prices. Following the war in Ukraine, transportation price inflation hit the highest level of 99.1 percent in March 2022. The food cost (70.33% in March 2022) was the second highest driver of the annual inflation. As energy prices affected the cost of industrial production – which makes 25 percent of the Turkish economy – the annual inflation of household appliance (69.3% in March 2022) went head-to-head with food inflation.

*The Foreign-exchange protected deposit account system refers to the TRY deposit accounts that guarantee the opportunity cost that may arise in the case of appreciation of foreign currency that exceeds the determined TRY interest rate.

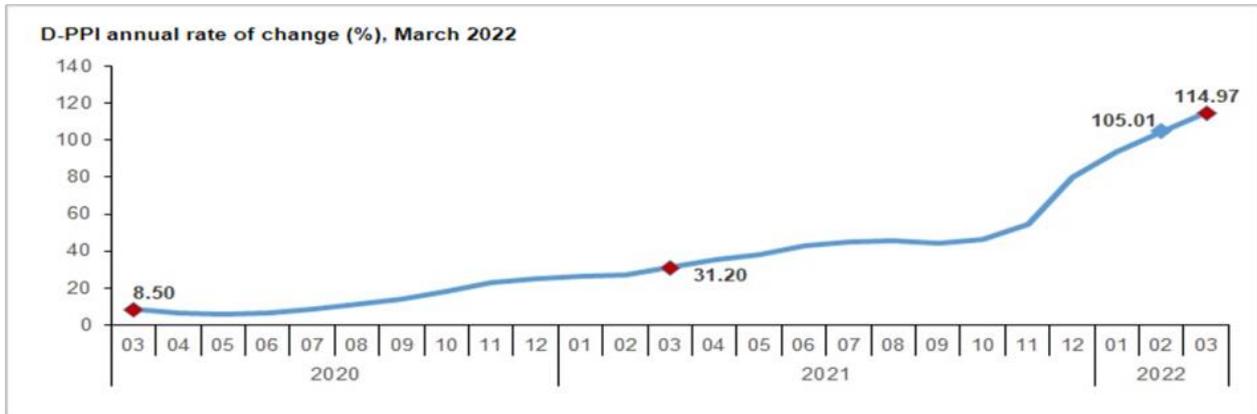
FIGURE 2: TURKSTAT'S CONSUMER PRICE INDEX TREND, MARCH 2022



In Q1 2022, the inflation of the production costs was even higher than the annual inflation on the consumers' end. The Domestic Producer Price Index (D-PPI) was on the rise since Q4 2021 and reached 115 percent in March 2022 – highest in the last 27 years.²³ Among the four core sectors in industry, the yearly increase of production cost for “Electricity, gas, steam and air conditioning” sector was the highest, 247.5 percent. The manufacturing sector – which makes 87 percent of the industry – experienced 112.1 percent cost increase compared to March 2021.

Even though the government reduced the Value Added Tax (VAT) on electricity bills from 18 percent to 8 percent for residential, industrial and agricultural use, the high production costs are concerning for the annual inflation (CPI) in the upcoming period primarily because of the increase in energy costs, global price increases in supply chains, and depreciation of TRY.²⁴ The CBRT Survey results show that market participants revised and decreased their year-end inflation forecast to 40.47 percent in the first week of April from 29.8 percent in January 2022.²⁵

FIGURE 3: DOMESTIC PRODUCER PRICE INDEX TRENDS, MARCH 2022



Economic Growth

Economic recovery from the Covid-19 has been the focus globally in 2021, and the Turkish economy grew by 11 percent in line with the expectations.²⁶ In January, stating that the global economy did not have the expected momentum, The World Bank and IMF downgraded their global economic growth projections for 2022 to 4.1 and 4.4 percent respectively, while the projections for Türkiye remained the same at 3.3 percent.²⁷ Due to the Ukrainian war, the global economy growth forecasts were further decreased to 3.2 and 3.7 percent for the end of 2022, and expectation for Turkish economy was revised to 2 percent growth.²⁸

While the war slowed down the supply chains, the uncertainty it created repressed customer demands in March 2022 and the increasing prices deterred purchasers from economic activities. Because of the decrease in new orders and difficulty of accessing raw and intermediate material supplies, the manufacturing PMI (Purchasing Managers' Index) that has been above the 50-point threshold for 10 consecutive months slightly decreased to 49.4 points.²⁹ In line with that, the industrial production index* slowed down between February (13.3%) and March 2022 (9.6%).

* The industrial production index (IPI) measures the monthly change in real output in the manufacturing, mining, electric, and gas industries, relative to a base year, which is 2015 for IPI in Türkiye.

Overall, the devaluation of TRY had created opportunities to expand the exports. The exports annually increased by 17.1 percent in January and by 24.9 percent in February 2022.³⁰ Russia received the largest share of Türkiye's exports that is worth 8.5 billion USD in this period.³¹ However, the exports to Russia and Ukraine decreased by 40 percent and by 80 percent, respectively between March 2021 and March 2022 due to the war.³² This resulted in a lesser increase in export volume of Türkiye in March 2022 at 19.8 percent. Despite the loss of momentum, the quarterly export volume in value in Q1 2022 has been the highest in history³³ with the contribution of devaluation in TRY in the global market that made it appealing.

On the other hand, Türkiye continue to import intermediate goods (81.8% of the total import value in this period). The rise of industrial production in January and February also increased the demand for energy, and thus, the import of oil in Türkiye increased by 34.9 percent compared to a year ago.³⁴ As a result, the imports (42.0%) in Q1 2022 increased more than the exports (20.6%), and therefore, the foreign trade deficit increased by 138.5 percent in the January-March period.³⁵ The export/import coverage ratio is 95 percent and 73.4 percent with and without energy trade.³⁶ The developments in energy supplies and costs in the upcoming months will determine the economic growth figures in Türkiye.

FIGURE 4: ANNUAL GROWTH RATES – 2018 - 2021*

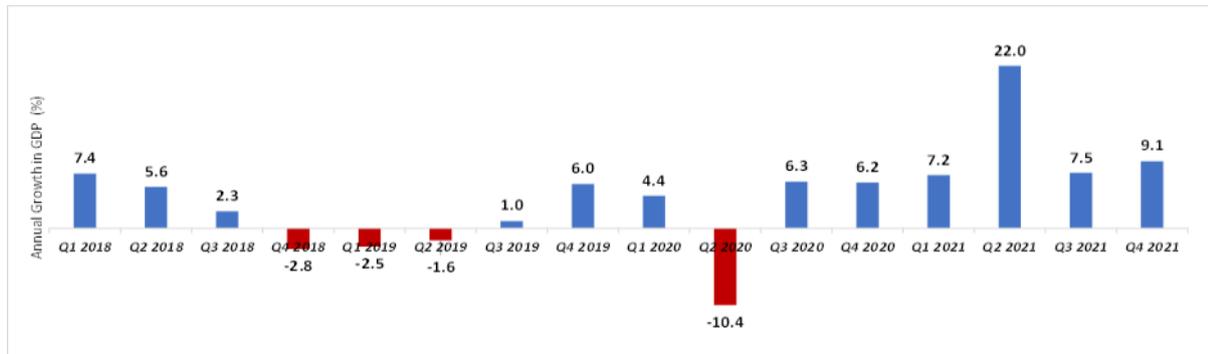
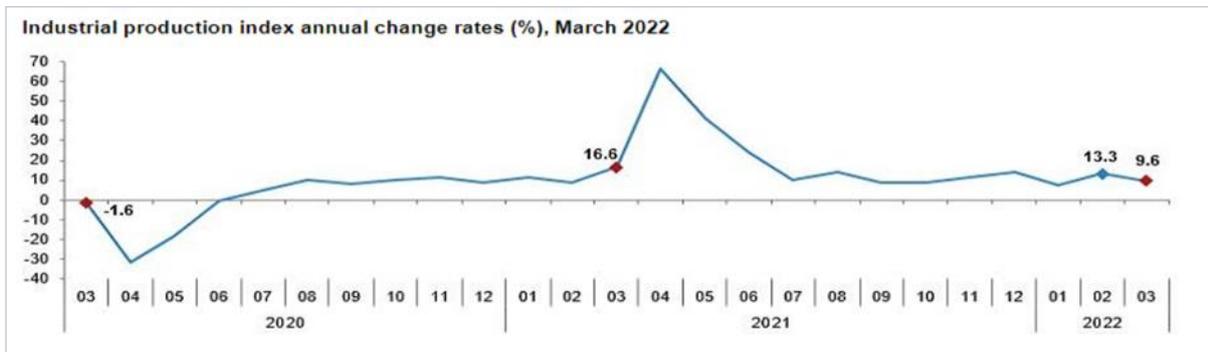


FIGURE 5: INDUSTRIAL PRODUCTION INDEX CHANGE RATES, MARCH 2022



Unemployment

Following the impetus after the Covid-19 pandemic, the unemployment rates slightly decreased towards the end of 2021 and early 2022. The unemployment rate decreased from 11.4 percent in January to 11.1 percent in February due to the increase in industrial production and labour demand. Even though unemployment rates increased to 11.5 percent with the slowdown in economic activities in March 2022, the figure is lower compared to March 2021 (13.0%).³⁷

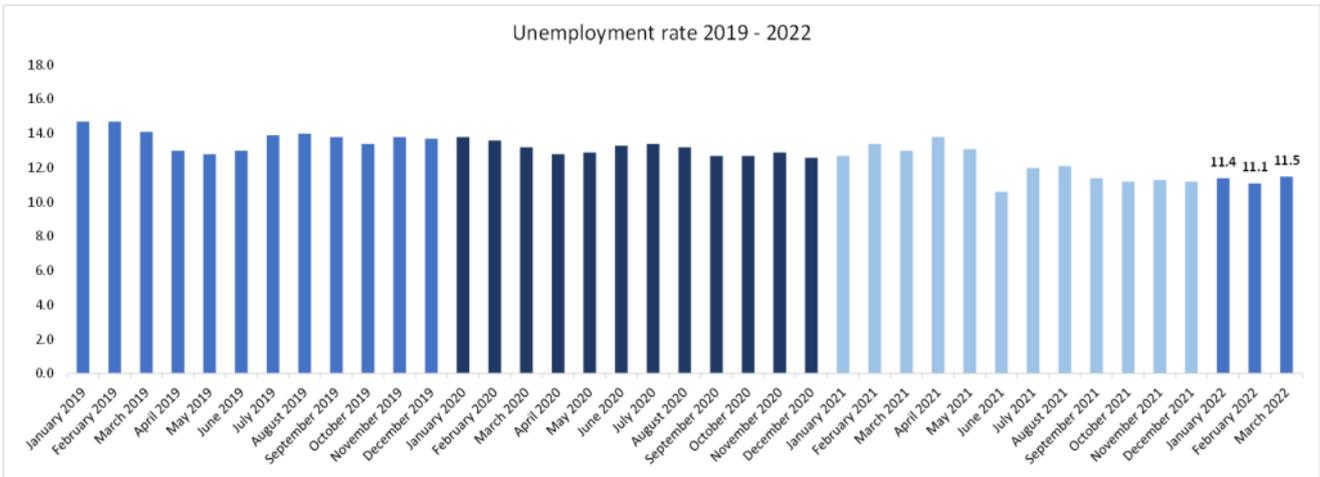
As of March 2022, almost 30 million people in Türkiye are in labour force. The employment figures are also gradually increasing, despite the interruption in March 2022. In

March 2021 44.6 percent of the population was engaged in labor and it increased to 46.5 percent in March 2022. The number of employed people decreased in the agriculture and construction sectors partially due to winter season, in Q1 2022, while it increased by 292 thousand people in the service sector and by 70 thousand people in the manufacturing sector.³⁸

Given the decrease in purchasing power with high inflation rates in the end of 2021, the minimum wage is increased by 50 percent from 2,825 TRY to 4,250 TRY in January 2022.³⁹

* Quarterly Gross Domestic Product, Quarter IV: October- December, 2021. Turkish Statistical Institute. Q1 2022 data is not released during the reporting period.

FIGURE 6: UNEMPLOYMENT RATES BETWEEN 2019—2022*



Food prices

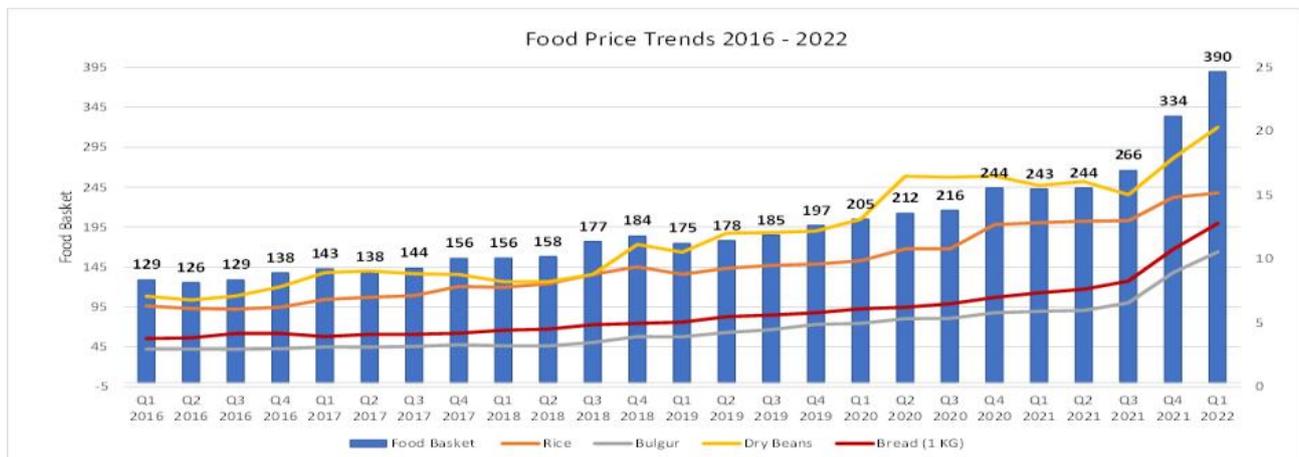
WFP calculates the minimum cost of a nutritionally balanced food basket for Turkish people by using staple food item prices retrieved from TurkStat. Between Q4 2021 and Q1 2022, the food basket cost increased by 17 percent from 334 TRY to 390 TRY (Figure 7). The food inflation hit the record high of 70.3 percent in March 2022, and consequently, the annual increase in the food basket cost actualized at 60 percent.

Food security is becoming a more serious global concern with adverse weather conditions, high food and transportation costs, and civil conflicts.⁴⁰ On top of the below-average wheat production in the Near East countries due to insufficient rain – including Türkiye in 2021, uncertainty of wheat imports from Ukraine and Russia put pressure on wheat prices. Bread prices which were 10.8 TRY/kg in December 2021 raised to 12.8 TRY/kg in March 2022. The annual increase of bread prices was 74 percent whereas the bulgur prices increased by 79 percent between March 2021 and 2022. Bread has the highest share in the food basket with 7.5 kg per person per month and any price increase affects the food basket cost significantly. The annual increase in sunflower oil prices was 70 percent in March 2021. Given

that sunflower oil is also a core import product from Ukraine and Russia, the distress about sunflower oil supplies triggered the price increase from 26.2 TRY in February to 29.7 TRY in March 2022. Among other items in the food basket, the kilogram price for dry beans, white cheese and sugar was 20.3 TRY, 44.4 TRY and 9.2 TRY, respectively.

The government has taken measures to repress the inflation in food prices by reducing the VAT from 8 percent to 1 percent for food commodities on 13 February 2022,⁴¹ which was not sufficient to decrease the inflation rate but might contribute to the attempts to stabilize the inflation rate in the upcoming period. Regarding the food supply stocks, both the government and the civil society of producers and importers stated that the yearly consumption of wheat in Türkiye is 19 million tons, the current wheat production in Türkiye is anticipated to be 19 million tons in 2022, and the stocks are sufficient until the harvesting season.⁴² On the other hand, the Ministry of Agriculture and Forestry restricted exports of olive oil, beans, and red lentils to meet internal demand and to mitigate the risk of supply shortage due to the Ukrainian crisis.⁴³

FIGURE 7: FOOD PRICE TRENDS BETWEEN 2016—2022



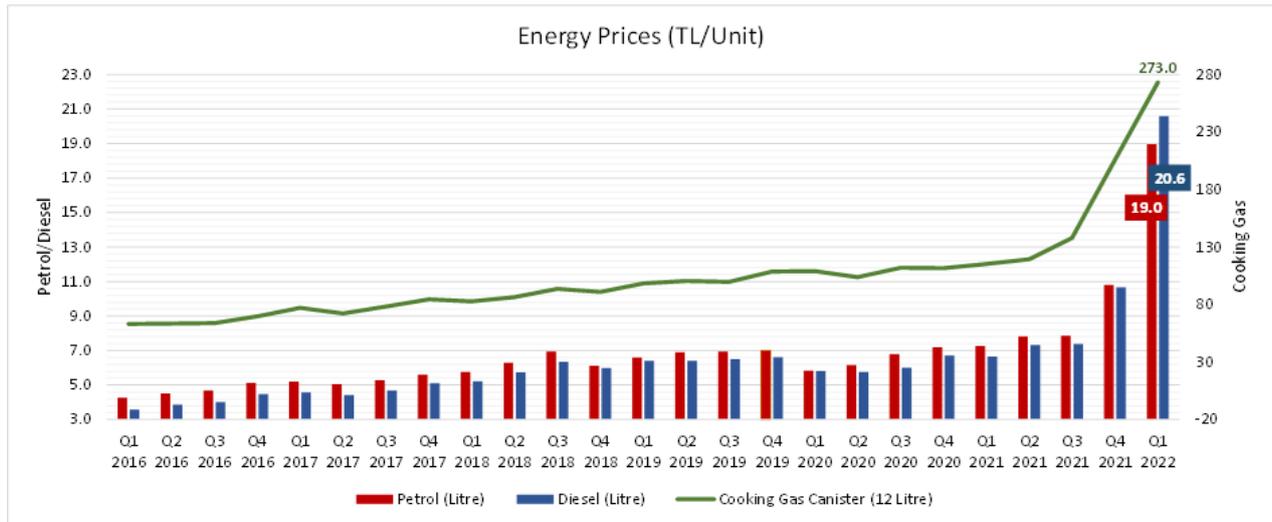
* Labour Force Statistics, March 2022. Turkish Statistical Institute.

Energy prices

Upward trend in the oil prices accelerated with the escalated tension between Russia and Ukraine during the reporting period. The barrel Brent crude oil prices increased by 58 percent from 74.2 USD in December 2021 to 117.3 TRY in March 2022.⁴⁴ In the same period – as Türkiye depends on imported energy – devaluation of TRY against USD severely impacted the Turkish economy; the energy prices doubled in three-months period. As of March 2022, the petroleum litre price is 19.0 TRY, diesel litre price is 20.6 TRY, and 12-litre gas canister costs 273 TRY. Compared to

March 2021, diesel prices increased by 209 percent, petroleum prices increased by 161 percent, and the canister prices increased by 137 percent. The natural gas prices also marked up by 35 percent for residential consumption, 44.3 percent for electricity production, and 50 percent for industrial use.⁴⁵ Meanwhile, in February 2022, the Ministry of Family and Social Services started delivering assistance to vulnerable households for their natural gas consumption. By March 23, 230 thousand households have benefited from the assistance.⁴⁶

FIGURE 8: ENERGY PRICE TRENDS (TL/UNIT) 2016—2022**

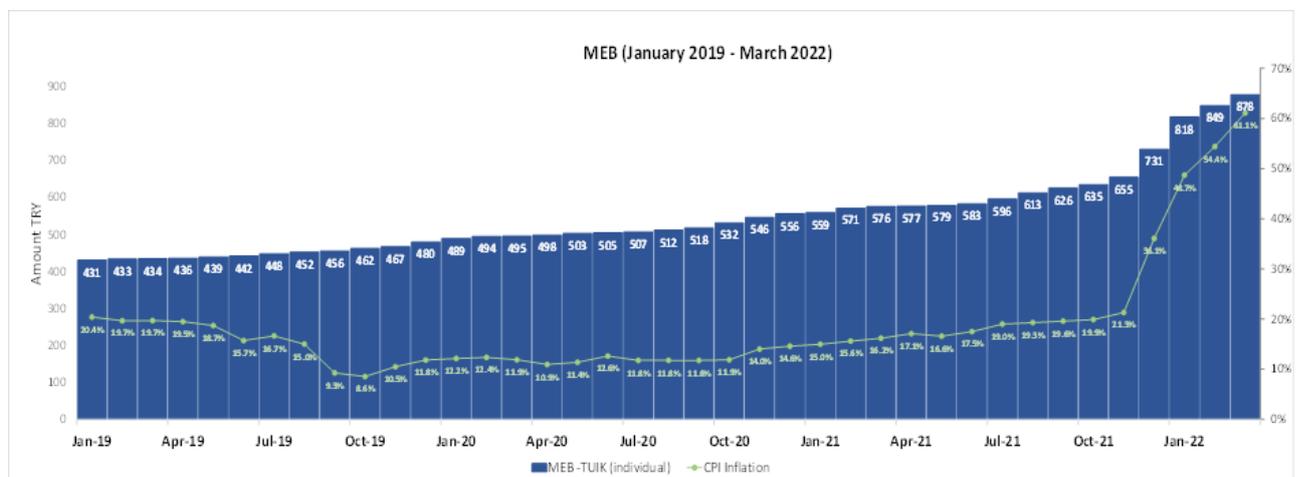


Minimum Expenditure Basket*

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. Amidst of high inflation rates, the MEB increased by 53 percent from 567 TRY to 878 TRY between March 2021 and 2022.

The quarterly increase in the first quarter of 2022 is 20 percent (Figure 9). In three months, the cost of hygiene items in the MEB increased by 42 percent and that of utilities increased by 34 percent. The food costs increased by 17 percent in Q1 2022, after the sharp increase (27%) at the end of 2021.

FIGURE 9: MEB COSTS FOR A 6-PEOPLE HOUSEHOLD, BETWEEN 2018-2022



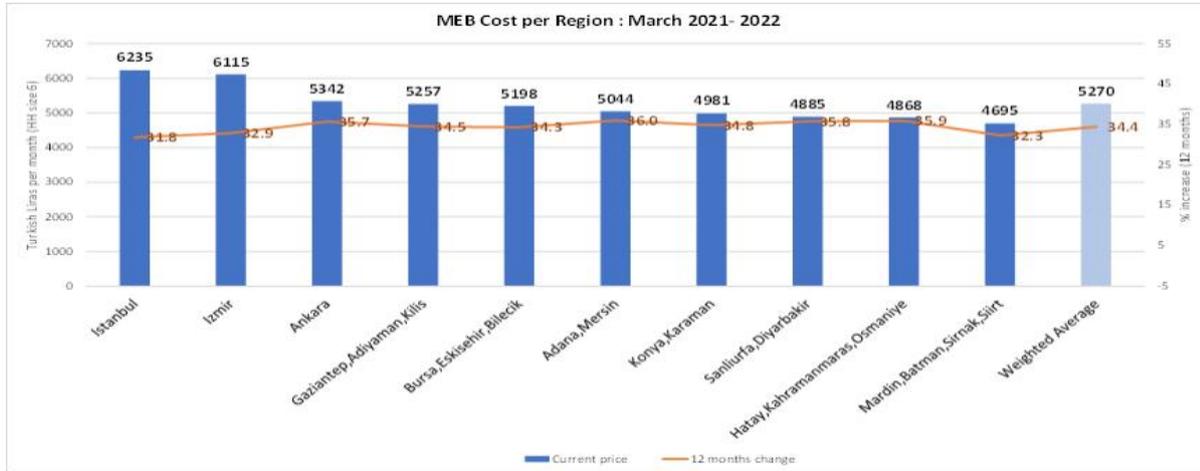
* The Minimum Expenditure Basket is constructed using TurkStat data.
 ** Consumer Price Index, Consumer Item Prices, National Average, September 2021. Turkish Statistical Institute.

The cost of living was the highest in İstanbul (on average 6,235 TRY) followed by İzmir (on average 6,115 TRY) whereas the Mardin, Batman, Şırnak, Siirt region was the most affordable one among all the regions with the minimum expenditure basket cost of 4,695 TRY.

The average annual increase in the cost of living is slightly higher in the Southeastern and the Eastern regions, at around 36 percent, compared to other regions. The annual

average cost increase in Ankara surpassed the overall increase rate in Q1 2022 (35.7%) after remaining below the average for the last four years. The MEB cost in Gaziantep-Adıyaman-Kilis region (5,257 TRY) and Bursa- Bilecik-Eskisehir region (5,198 TRY) continues to be nip and tuck, though the former exceeded the latter in the two consecutive quarters.

FIGURE 10: MEB COST PER REGION IN Q1 2022



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