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Market Bulletin

World Food Programme—Türkiye

HIGHLIGHTS

- The Minimum Expenditure Basket (MEB)¹ costs TRY 925 per person per month as of April 2022, an increase of 60 percent from 577 TRY in April 2021.
- The Consumer Price Index (CPI) and food inflation rate reached 78.6 percent and 93.9 percent, respectively in June 2022.
- The Turkish lira continues to depreciate. As of June 2022, the average exchange rate is 17.0 TRY/USD.
- The Ukrainian war continues to impact global energy costs. Combined with the devaluation of TRY (97% annually), the petroleum litre prices increased by 250 percent compared to a year ago and reached TRY 27 in June 2022.
- The Turkish economy grew by 7.3 percent in Q1 2022, driven by consumer expenditure and exports.

Macro-economic situation

The world economic activities slowed down in Q2 2022 due to the surge of destabilizing shocks. Along with the continuing lockdown measures in China², the war in Ukrainian further disrupted the commodity markets and supply chains, resulting in higher inflation and volatility, particularly in energy markets and agricultural commodities of which Russia and Ukraine are primary providers.^{*3} The inflation rates reached the highest in 40 years in the US⁴, whereas in the euro area it reached the

historical highest (8.6%) and countries started to increase interest rates to prevent from further boost.⁵ Even though the rising commodity prices increased the trade volume and values, due to a decrease in activities, global economic growth decelerated.⁶ In late April 2022, IMF revised its forecast for global economic growth downward from 4.4 percent to 3.6 percent for the end of the year.⁷ As the stagflation** continued, the World Bank's year-end growth projection further decreased to 2.9 percent in the report released in June 2022.⁸

* Please refer to Market Bulletin Q1 2022 for details.

** Stagflation refers to a period with high inflation but fewer economic activities with little to no growth.

The uncertainty caused by the Russian invasion of Ukraine, other import costs.¹⁰ However, in May, the government especially for the countries in direct trade with these countries remains. In April 2022, IMF decreased Türkiye's growth projection from 3.3 percent to 2.7 percent⁹ while World Bank decreased its projections from 3 percent to 1.4 percent for the end of 2022, stating that the war exacerbated the economic conditions in Türkiye, leading to an increased current account deficit due to higher energy and

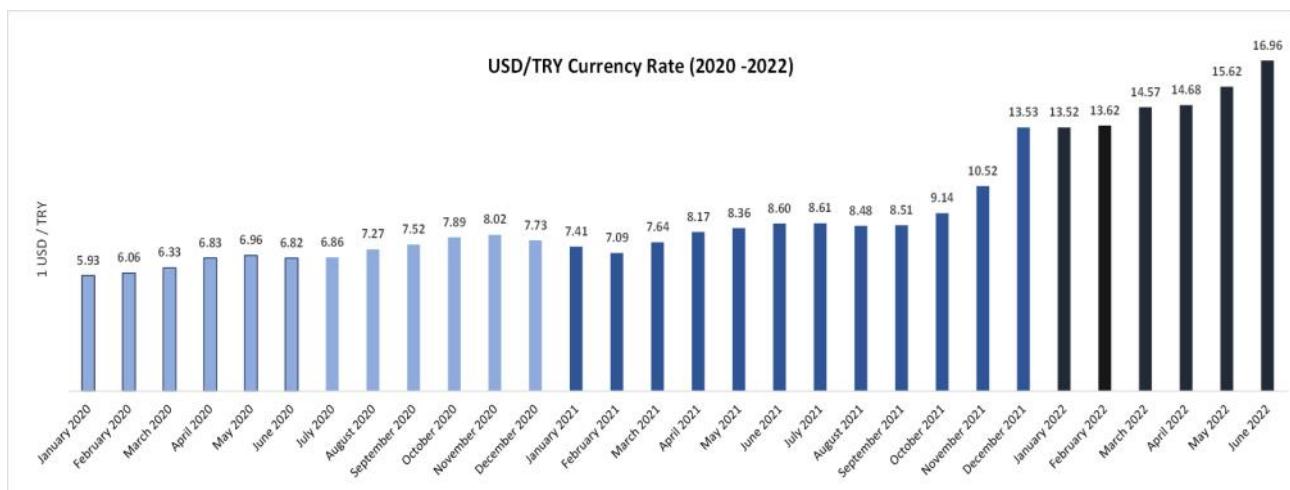
budget had a 144 billion TRY surplus with a contribution of the increase in tax revenues, where the 5-month budget surplus reached 124.6 billion TRY.¹¹ With a positive outlook in June 2022, World Bank revised its growth projection for Türkiye to 2.3 percent.¹² However, both the Turkish and the global economies still remain volatile.

Currency exchange

In Q1 2022, the Turkish Lira depreciated against the foreign currencies. The exchange rate of 1 USD increased from TRY 14.57 in March to TRY 16.98 in June 2022. In April, the Central Bank of the Republic of Türkiye (CBRT) decided to strengthen its tight policies to increase Liraization.* These policies aim to support the development of Turkish lira deposits, increase the TL assets in the collateral structure of open market operations funding, gradually reduce the amount of swaps and increase foreign exchange reserves.¹³ Due to the geopolitical instability, the risk perception towards Türkiye remained high; in May 2022, the 5-year CDS (credit default swap) risk premium – additional

compensation because of the higher likelihood of the risks – had a historically high monthly increase by 726 basis points.¹⁴ In June, the Ministry of Treasury and Finance announced additional measures such as reducing risks for investors through revenue-indexed bonds (known as GES in Turkish) to increase the use of TRY assets.¹⁵ In Q2 2022, the interest rate remained at 14 base points for seven consecutive months.¹⁶ Compared to March 2022 (TRY 16.85), as of June 2022, CBRT's market expectation survey participants foresee the USD exchange rate to be 18.89 TRY at the end of 2022.¹⁷

FIGURE 1: EXCHANGE RATE BETWEEN TRY AND USD 2020 -2022



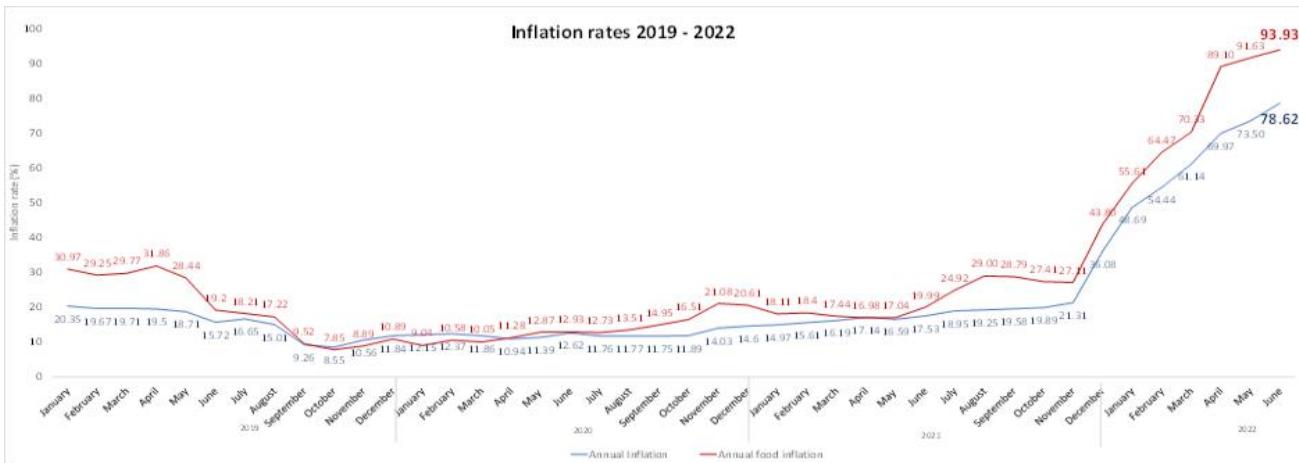
Inflation

Supply crises, energy access, and interruptions in logistics led to high inflation rates globally. In June 2022, the EU has a monthly inflation rate of 8.9 percent at its highest record¹⁸ and the US experience the highest inflation rate (9.1%) in more than 40 years.¹⁹ Along with the global inflationary pressures, the devaluation of the Turkish Lira and its impact on imported energy and intermediate goods resulted in even a higher inflation than Q1 2022. The inflation rate was 70 percent in April, 74 percent in May, and 79 percent in June 2022.²⁰ On June 23rd, CBRT increased its year-end inflation predictions to 65 percent.²¹

Transportation remained the primary driving force of the annual inflation at 123.4 percent in June 2022, and food inflation is the second highest at 93.9 percent.²² The main reason behind this is the increasing global energy prices due to the Ukrainian war, and the devaluation of the Turkish lira which further makes the imported energy more costly. In agriculture, along with the use of energy for ploughing, irrigation, and logistics, the high cost of agricultural inputs such as fertilizers – which are mostly imported – also drives the food prices up. Agricultural input prices increased by 135 percent in June 2022.²³

* Liraization is as a term to define the promotion of the use of the local currency (TRY) against the use of foreign currency – mostly against the USD where the term “dollarization” is derived from. Dollarization increases when a country’s currency loses its value as a medium of exchange and liraization is introduced as an alternative model to expand the use of TRY as a medium. (<https://www.investopedia.com/terms/d/dollarization.asp#:~:text=Dollarization%20is%20the%20term%20for,due%20to%20hyperinflation%20or%20instability> & <https://www.dunya.com/kose-yazisi/liralasma/648665>).

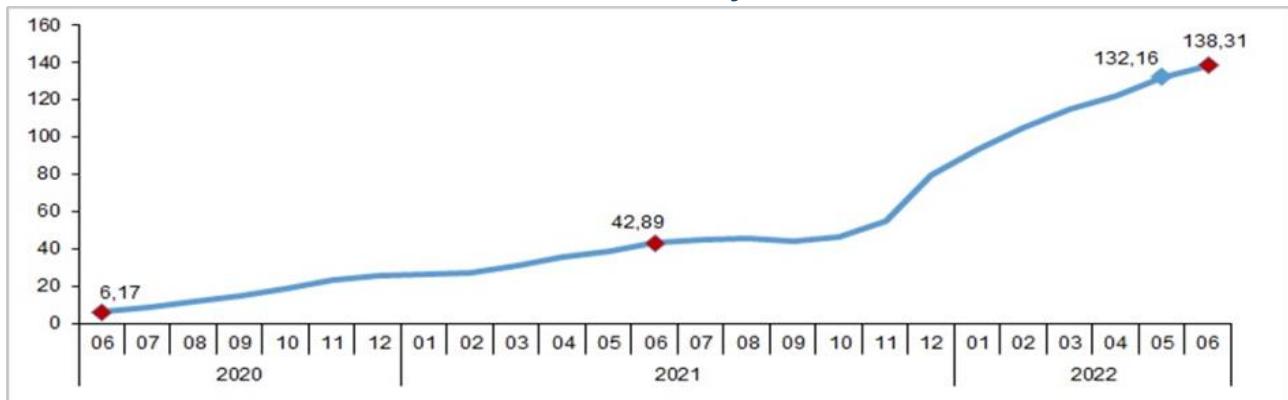
FIGURE 2: TURKSTAT'S CONSUMER PRICE INDEX TREND, JUNE 2022



The input cost of industrial production (Domestic Producer Price Index – D-PPI), also increased by 138 percent annually which is the highest in the last 28 years.²⁴ The energy input costs increased by 318 percent annually, followed by the

increase in the cost of intermediate goods by 126 percent.²⁵ Given that the yearly increase in input cost is as twice as the annual inflation, the CPI is expected to remain high in the following periods.

FIGURE 3: DOMESTIC PRODUCER PRICE INDEX TRENDS, JUNE 2022

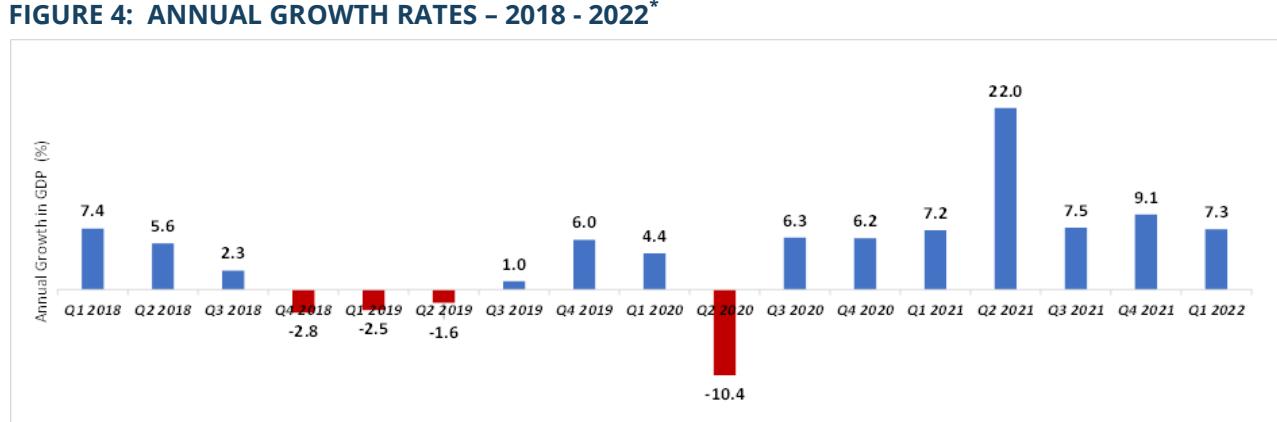


Economic Growth

Economic growth in Q1 2022 was 7.3 percent.²⁶ Consumer expenditure and services were the primary drivers of the economic growth by increasing 19.5 percent and 16.8 percent compared to last year, respectively.²⁷ In the first half of 2022, exports increased by 20 percent whereas imports increased by 41

percent.²⁸ The majority of the exported items were intermediate goods followed by consumption products which made up 35 percent of the exports in June 2022. Similarly, four in five (82%) of the imports of Türkiye were intermediate goods in June 2022.²⁹

FIGURE 4: ANNUAL GROWTH RATES – 2018 - 2022*



* Quarterly Gross Domestic Product, Quarter I: January - March 2022. Turkish Statistical Institute. Q2 2022 data is not released during the reporting period.

Economists consider a yearly increase of 8.5 percent in June 2022 in the Industrial Production Index* as a strong indicator of economic growth, which exceeded expectations in the reporting period.³⁰ The main contributor to the increase is the production of non-durable consumption items, which increased by 16.4 percent compared to a year ago. This is followed by the 12.4 percent increase in the production of productive assets, representing a resumption of investments that would determine the mid and long-term economic outlook.³¹

On the other hand, due to the global economic slowdown, there is lesser demand from the foreign purchasers for the

next months; the new export order index is 49.1 point in June 2022, which is below the 50-point threshold.³² Because of the decrease in orders, the manufacturing Purchasing Manager's Index (PMI) – which refers to the monthly change in economic activity in manufacturing sector – decreased to 48.1 points in June 2022 from 49.4 point in Q1 2022. The PMI is below the 50-point threshold for four consecutive months. Along with the slight decrease in industrial production from 9.1 percent to 8.5 percent between May and June, the decrease in demand reflects the global stagnation risks in the upcoming period as well.³³

FIGURE 5: INDUSTRIAL PRODUCTION INDEX CHANGE RATES, JUNE 2022**

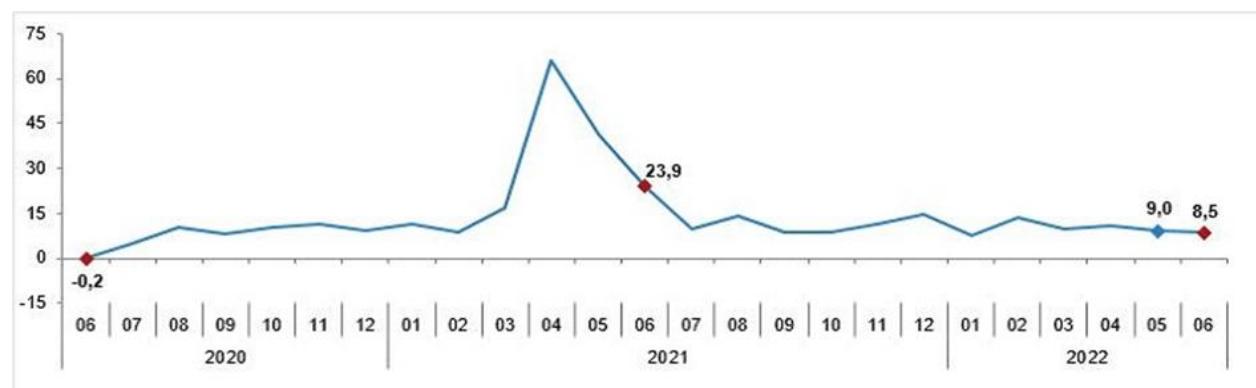
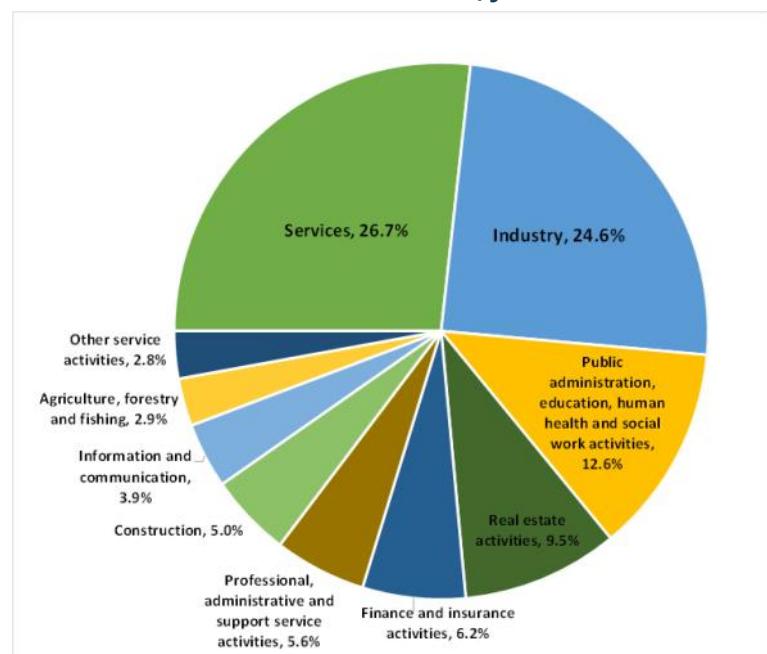


Figure 6 presents the economic growth rate by sectors and their respective shares in GDP. As seen in the figure, the service (27%) and industry (25%) sectors compose half of the GDP while the other half is divided among various sectors. Thus, any change in the two main sectors considerably affects the GDP rate. In this reporting period, the industry sector grew by 7 percent and the service sector grew by 15 percent compared to last year.

and storage, accommodation, and food service activities. According to the Service Exporters' Association, service exports increased by 69 percent between January and June 2022 compared to the first half of 2021.³⁴ This can be attributed to the tourism and transportation sectors that have been recovering in the post-pandemic period, despite the relatively low shares in GDP, the finance and insurance sector grew the most in Q1 2022 (24%), followed by the information and communication sector (17%).

FIGURE 6: SECTORAL SHARE IN GDP, JUNE 2022***



* 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.

** The figure is directly retrieved from TurkStat, IPI, June 2022.

*** The calculation is based on the share of GDP from all sectors, which excludes tax revenues.

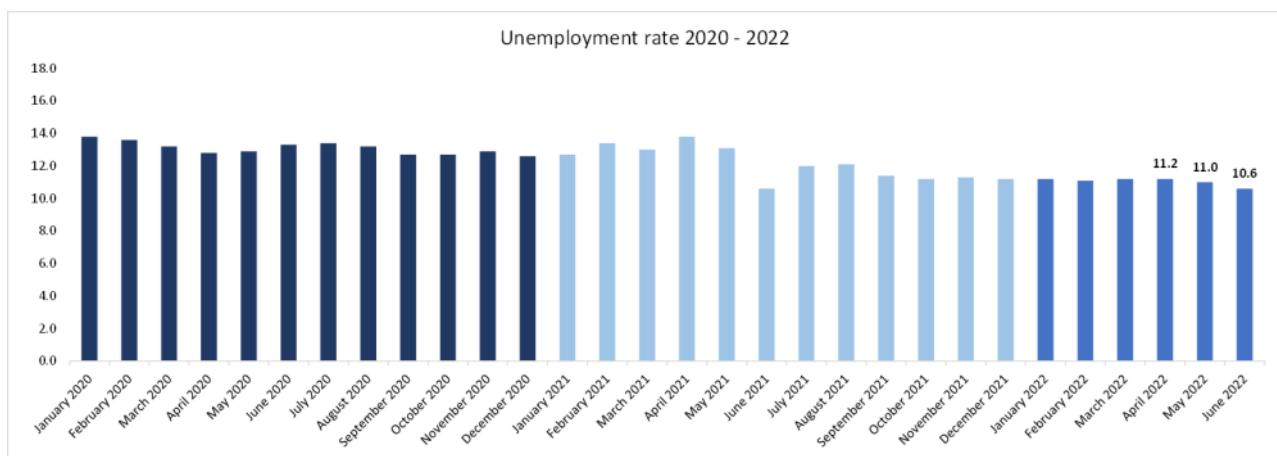
Unemployment

In light of the economic growth, growing labour demand has positively influenced the employment rates during the reporting period. Compared to Q1 2022, the number of employed persons increased from 30,010 thousand to 30,775 thousand and the employment rate reached 47.7 percent at the end of Q2 2022. Unemployment rate decreased by 0.4 points to 10.6 percent in the same period. The decrease in youth unemployment was 3 percent, from 23 percent in June 2021 to 20 percent in June 2022.³⁵ Labour underutilization, which refers to the unmet need for employment because of a mismatch between labour supply and demand,³⁶ decreased from 25.3 percent in Q2 2021 to 21.3 percent in Q2 2022, reflecting relatively more efficient use of the total labour force capacity in the country. As of June 2022, 30,775,000 people are actively involved in

the labour force whereas 3,654,000 people are unemployed.

The employment index* increased by 8.4 percent in the service sector and 4.4 percent in the industry sector while it decreased by 6.3 percent in the construction sector in Q2 2022 compared to the previous year. Moreover, higher economic activities led to a 11.5 percent increase in active working hours.³⁷ However, the gross wages/salaries have also increased by 74.2 percent since Q2 2021 to respond to the lost in the purchasing power due to the high inflation rates. High labour costs are likely to discourage employers to recruit new staff. Therefore, steady or increasing unemployment rates might be observed in the upcoming period.³⁸

FIGURE 7: UNEMPLOYMENT RATES BETWEEN 2020—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. TurkStat is currently revising its procedures of the CPI data presentation breakdown to comply with Eurostat's*** data sharing rules.³⁹ Therefore, the most up to date data published by TurkStat is from April 2022. As of April 2022, the food basket cost is TRY 424. The monthly increase of the food basket cost between March 2022 and April 2022 is 8.7 percent while the monthly food inflation in the same period is 13.4 percent. Exclusion of some of the staple items, such as onions (monthly increase of 69%) and lettuce (monthly increase of 45%), from the food basket and their prices being ahead of the curve account for the 4.7 percent difference.

Among the items in the food basket, tomatoes had the highest monthly price increase from TRY 13 to TRY 18.5 (42%) between March and April 2022. Fresh fruit and vege-

tables have an annual inflation rate of 105 percent in April, due to the increase in the input costs, as well as the continuous trend of diminishing agricultural returns with fewer rainfalls and an increase in drought because of global warming.⁴⁰

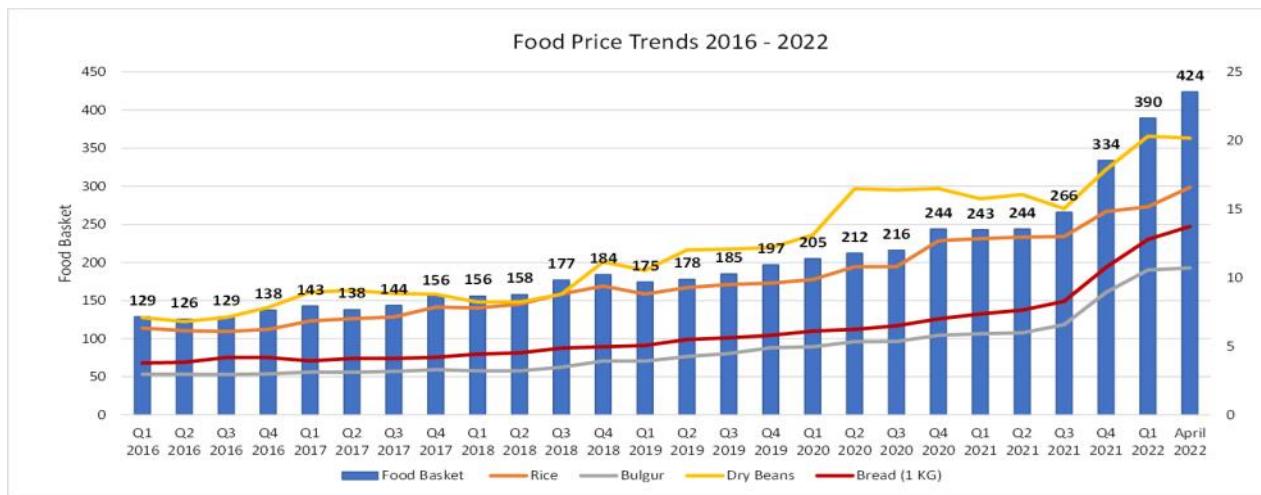
While Türkiye has a sufficient amount of wheat for domestic consumption, the global concerns about wheat production have become influential on the price increase of wheat and its derivatives.⁴¹ The bread prices increased by 7 percent monthly and reached TRY 13.7 in April 2022 while the annual increase reached 89 percent from April 2021 to April 2022.⁴² Monthly consumption of bread is calculated as 7.5 kilograms per person thus such price hike adversely affects the purchasing power. As the food inflation rate continues to rise, item prices are likely to put more pressure on consumers.

* The employment index refers to the total number of employed (excluding interns, business owners, partners, and unpaid family workers) in the industry, construction, and trade/service sectors.

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

*** Eurostat is the European Statistical Office of the European Union.

FIGURE 8: FOOD PRICE TRENDS BETWEEN 2016—2022

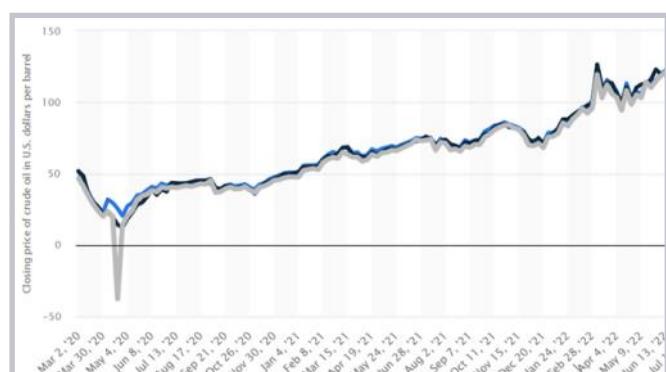


Energy prices

Since Russia is one of the primary energy providers in the world, the Ukrainian war continues to affect the energy supplies dramatically. The Brent oil prices reached a record high of USD 123 in March 2022. Despite the OPEC countries increased oil production in April and May, the prices continued to increase (USD 122 on average in June 2022) because of the continuing uncertainty.⁴³ In June, the OPEC countries further agreed to increase the production in July and August 2022. In addition to increase in supply, the increasing global recession concerns after the interest rate hike by the Fed (central bank of the USA) reduced the oil demands, therefore, the barrel prices had a slight decrease to 119.8 at the end of June 2022.⁴⁴

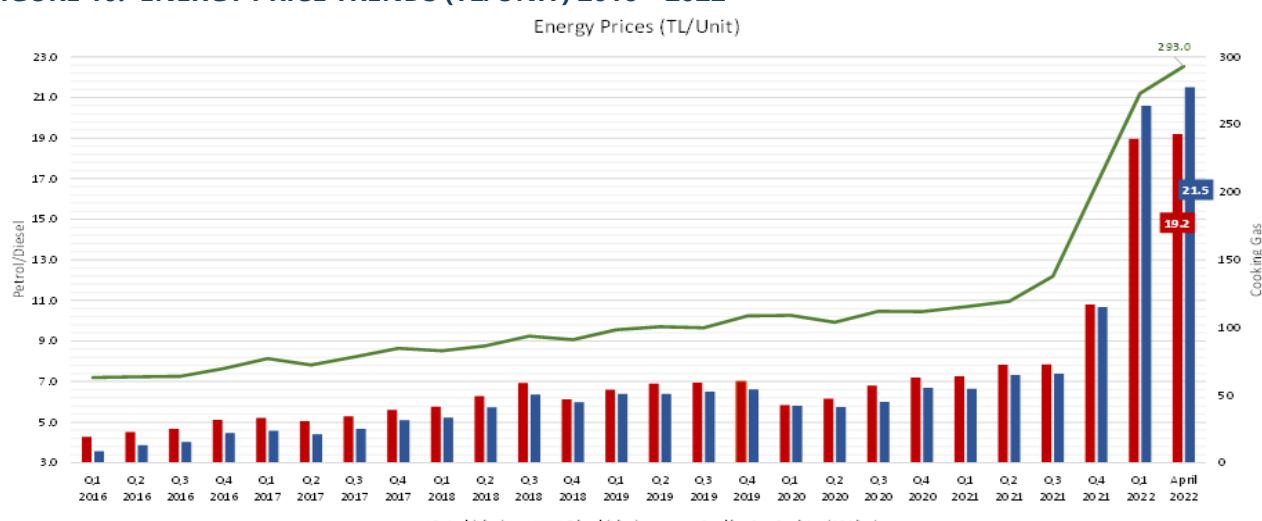
Record high global energy prices combined with the devaluation of the Turkish Lira against the USD severely affected Türkiye in multiple dimensions from consumption to production as Türkiye depends on imported energy. The litre price of petroleum was TRY 19.2 in April 2022 and it increased to TRY 27.3 in June 2022.⁴⁵ The diesel litre prices, after increasing to TRY 21.5 in April 2022, further hit the

FIGURE 9: BRENT OIL PRICE TRENDS 2020—2022*



record at 30.0 TRY in June 2022. The annual increase in petroleum and diesel prices between June 2021 and June 2022 are estimated to be 248 percent and 310 percent, respectively. A 12-litre cooking gas canister price increased by TRY 20 (7%) monthly to 293 TRY in April 2022. According to the providers, the cost of the canister reached TRY 335 on June 11, 2022.⁴⁶

FIGURE 10: ENERGY PRICE TRENDS (TL/UNIT) 2016—2022**



* Image retrieved from Statista.

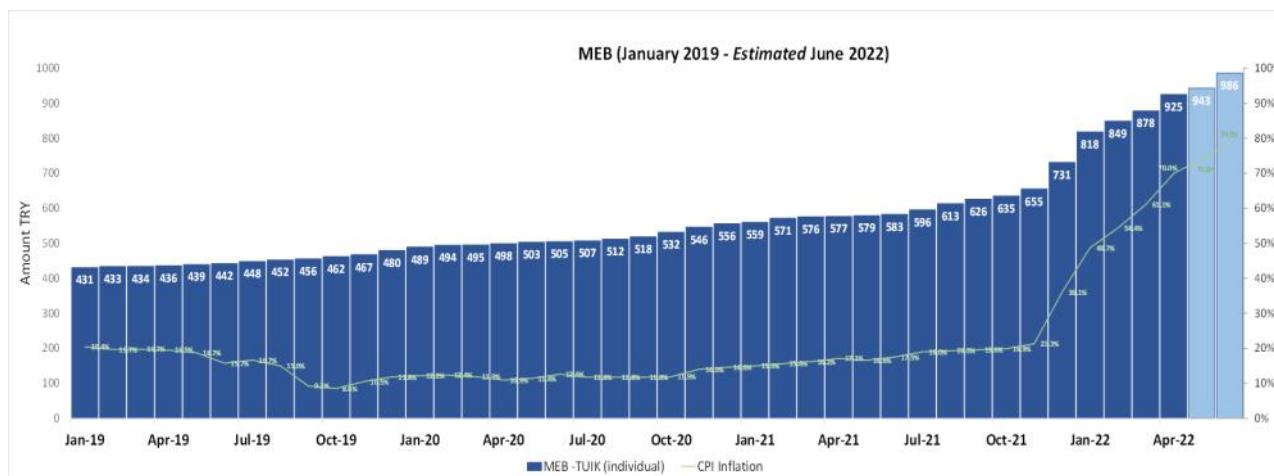
** Consumer Price Index, Consumer Item Prices, National Average, April 2022. Turkish Statistical Institute.

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. The MEB costs TRY 925 per person per month as of April 2022. The most updated data of the commodity

prices is published by Turkstat in April. Thus, the MEB costs, presented in Figure 11, reflect the estimated values for May and June 2022. WFP estimates the costs by applying the monthly inflation data from TurkStat.^{**} The predictions demonstrate that the MEB would cost TRY 943 in May 2022 and TRY 986 in June 2022.

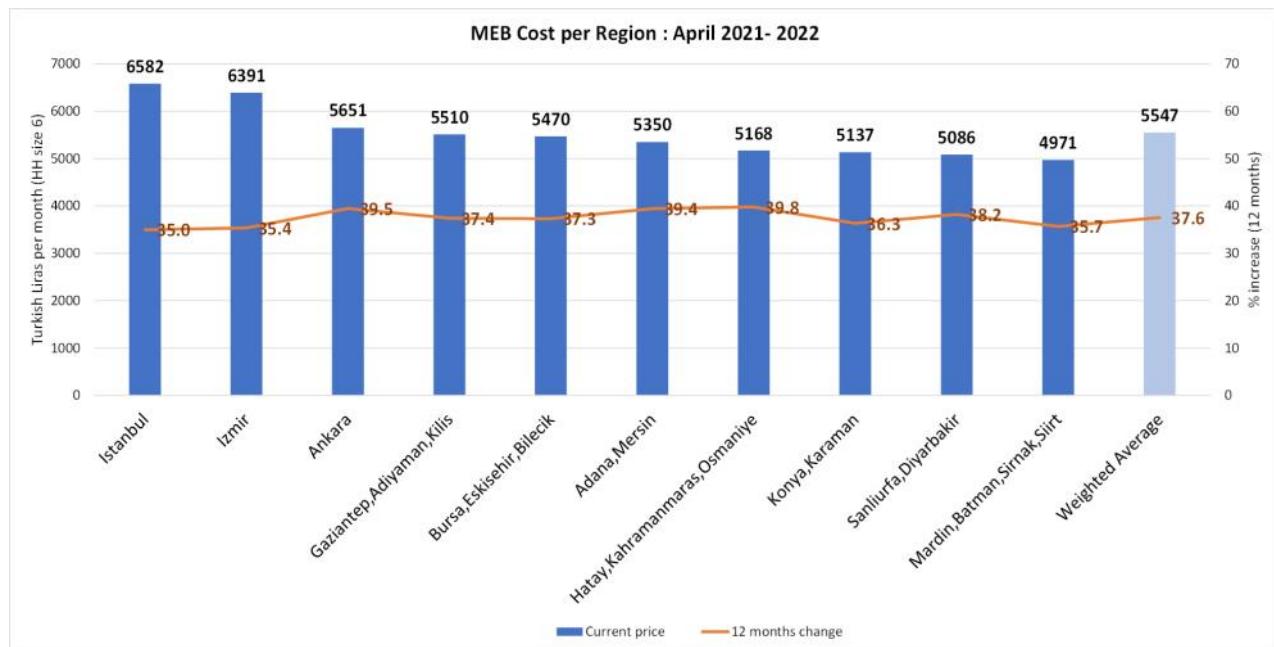
FIGURE 11: MEB COSTS FOR A 6-PeOPLE HOUSEHOLD, BETWEEN 2019- 2022



On average the MEB costs TRY 5547 in April (estimated to be 5916 in June 2022) for a six-people household. Istanbul continues to have the highest MEB cost (on average TRY 6582), followed by Izmir (on average TRY 6391). After having the lowest annual increases in the last 4 years, the MEB cost in Ankara has an above-average (39.5%) yearly

increase for the second time after March 2022. While the Mardin, Batman, Şırnak, Siirt region was the most affordable one among all the regions with the minimum expenditure basket cost of TRY 4971, Istanbul has the lowest annual increase rate (35%).

FIGURE 12: MEB COST PER REGION IN APRIL 2022



* The Minimum Expenditure Basket is constructed using TurkStat data. It includes monthly food, rent, utilities, hygiene, education, health, communication and transportation expenses.

** The inflation rates for each subcategory such as food, accommodation, transportation, communication etc. are taken into account..

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