



World Food Programme

SAVING LIVES
CHANGING LIVES

Photo: Feride Yildirim

Market Bulletin

World Food Programme—Türkiye

HIGHLIGHTS

- The Minimum Expenditure Basket (MEB)¹ cost is estimated to be **TRY 1,083** per person per month as of September 2022, representing an increase of **73 percent** from TRY 626 TRY in September 2021.
- As of September 2022, the inflation rate is **83.5 percent** and the food inflation rate is **93.1 percent**.
- The depreciation of the Turkish lira continues. In September 2022, the average exchange rate is **18.3 TRY/USD**.
- The Turkish economy grew by **7.6 percent** in Q2 2022, mainly driven by private consumption and exports.
- The unemployment rate increased to 10.1 percent in September 2022, after following a downward trend for over a year to 9.8 percent in August 2022.
- The minimum wage increased from TRY 4,353 to TRY 5,530 in July 2022.
- The increase in energy prices remains as one of the leading factors for the high inflation in Türkiye.

Macro-economic situation

The global economic downturn continues in Q3 2022, and has been heavily affected by the economies of the United States, China, and Euro Area where the downturn in economic growth exceeded the expectations. The US and Euro area has experienced high inflation, China's economic outcomes are worse than the post-Covid-19 projections, and the Ukrainian War still negatively affects the global economy.² In July 2022, IMF decreased the global economic growth projections for 2022 from 3.6 percent to 3.2 percent, stating that the economic developments in 2022 are gloomy and more uncertain than the recovery

period in 2021.³ The projections for 2023 also dropped from 3.6 percent growth to 2.9 percent. In September 2022, Fitch revised its growth expectations from 2.9 percent (announced in June 2022) to 2.4 percent and decreased the anticipated growth for 2023 from 2.7 percent to 1.7 percent.⁴

After decreasing Türkiye's growth projection from 3.3 percent to 2.7 percent in April, IMF increased its year-end projections to 4.0 percent in July 2022.⁵ In September, Fitch revised its forecast for Türkiye upwards from 4.5 percent to 5.4 percent for 2022 and expects 2.9 percent growth in 2023.⁶

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While the Turkish economy grew by 7.3 percent in Q1 and 7.6 percent in Q2 2022, the projection figures reflect that an economic contraction is expected in Q3 and Q4 2022 as well as in 2023, given that Türkiye is negatively affected by the decrease in demands in the export markets such as the Euro area and the changes in the USD Euro parity.⁷

The global inflation rate started to increase in 2021 and is expected to be 7.4 percent in 2022, which is higher than the global inflation crisis in 2008 (6.3%) and the highest in 26

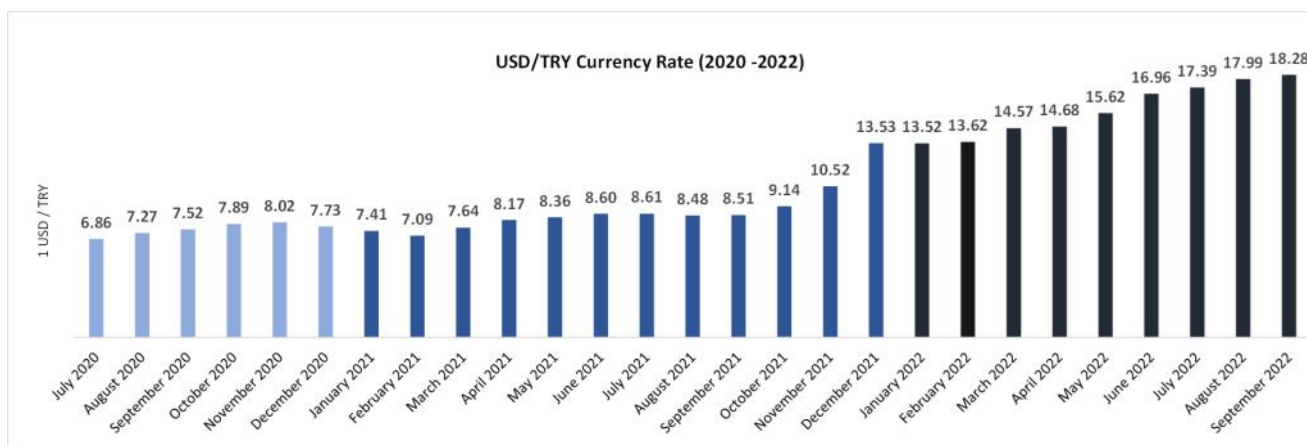
years.⁸ The increase in food and energy prices continue to drive high inflation rates. Furthermore, Ukraine and Russia produce more than one-fourth of the global wheat supply, and the war squeezes food supplies and drives up prices.⁹ In July 2022, the United Nations, Türkiye, Ukraine and Russia have agreed to resume grain export from Ukraine through the Black Sea. The agreement has allowed more than 20 million tons of grains being shipped to Istanbul from Ukrainian ports to be transferred to the grain-importing countries.¹⁰

Currency exchange

As of July 2022, the euro and the dollar have reached parity for the first time in 20 years.¹¹ The USD has further appreciated following an increase in the interest rates and the transparent policies performed by the FED (central bank of the USA), and surpassed the Euro in September, along with other currencies.¹² The TRY depreciated against the USD in the same period. The TRY USD exchange rate increased from 17.0 in June to 17.4 in July, and further to 18.3 in September.¹³ As part of the new economic model introduced in 2021, which aims to stimulate investments, production, em-

ployment, and export,¹⁴ the Central Bank of the Republic of Türkiye (CBRT) decreased the interest rate to 13 base points in August and to 12 base points in September 2022 after keeping it stable at 14 base points for eight consecutive months.¹⁵ Standard & Poor has downgraded Türkiye's credit rating from B+ to B and changed the rating outlook from negative to stable due to the loose monetary and fiscal policy implemented by the CBRT and the Ministry of Treasury and Finance.¹⁶

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



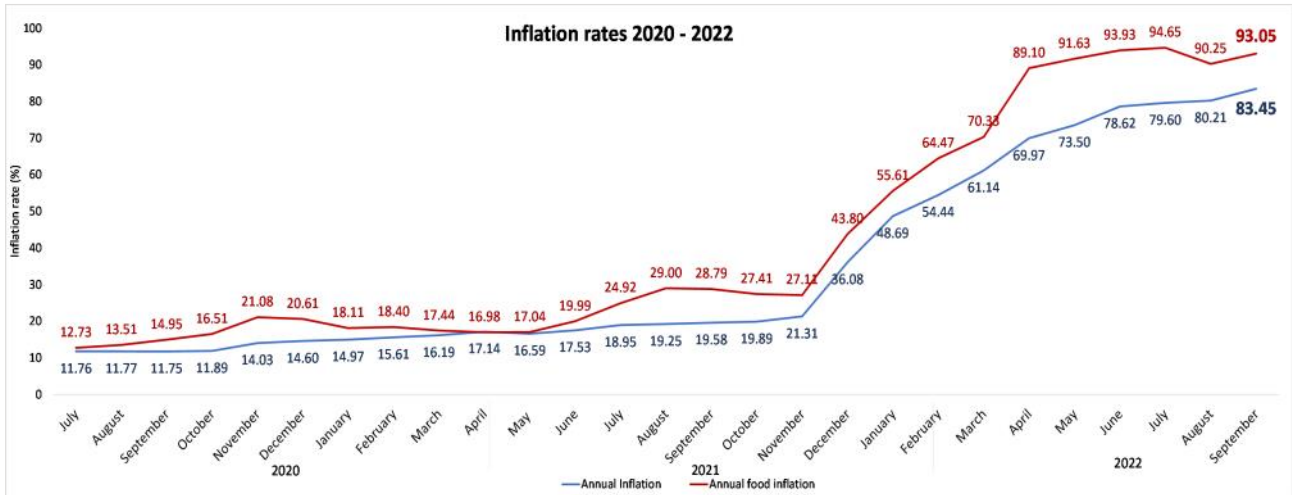
Inflation

The annual inflation rate hit a new record high of 83.5 percent in September 2022, the highest level since July 1998, after increasing to 79.6 percent and 80.2 percent in July and August, respectively.¹⁷ The food inflation has been higher than the annual inflation since May 2021. After reaching 94.7 percent in July, it decreased to 90.3 percent in August due to the base point effect. However, it again increased to 93.1 percent in September. The price hike in transportation ranged between 116 and 119 percent in the last three months and continue to contribute to the annual inflation rate.

The monthly inflation rates indicate price increases in all sectors. While the highest monthly price hikes were measured in the health (7%) and alcoholic beverages and tobacco (6.9%) sectors in July, the monthly inflation rates were driven by the health (7%) and education (6.6%) sectors in August,

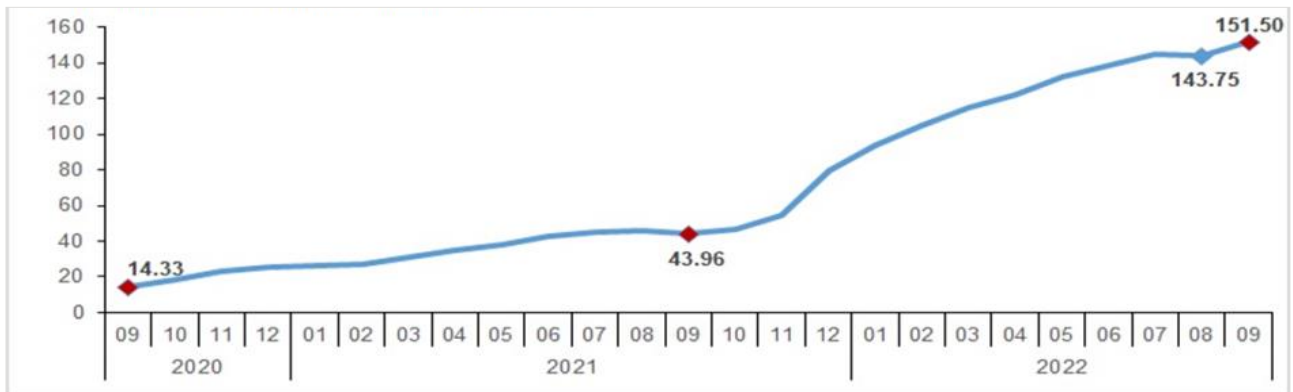
and by the housing (10%) and education (7%) sectors in September. In the health sector, the high cost of imported medicine and concerns about filling in the stocks in medical depots led to pricing up twice in a year for the first time, by 37 percent and 25 percent.¹⁸ The price increase in education is linked to the increase in demand due to the start of the new school year in September 2022, and the increase in university fees.¹⁹ The demand for housing after the pandemic, high inflation and devaluation of TRY, and increase in construction costs lie behind the price increases in housing.²⁰ According to the CBRT, the housing price index increased by 189 percent nominally, and 58 percent in real terms in September 2022.²¹ While this led to steep rent hikes, a new regulation came into force to limit the rent increase rate to a maximum of 25 percent annually and therefore to prevent excessive price increases. The regulation is effective until July 2023.²²

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



Moreover, the input cost of industrial production (Domestic Producer Price Index - D-PPI), another driving factor of the inflation, continued to increase in this reporting period and reached as high as 151.5 percent in September compared to a year ago. The energy costs remain to be the primary driver of the inflation with an annual increase of 347.4 percent, particularly in the electricity, gas, steam, and air conditioning sectors (416.6%). The energy costs are followed by the cost of non-durable consumer goods (130.5%) and the cost of intermediate goods (129.6%).²³ The increase in production costs is still concerning for the continuation of high inflation on the consumers' end.

FIGURE 3: DOMESTIC PRODUCER PRICE INDEX TRENDS, SEPTEMBER 2022



Economic Growth

The Q2 2022 economic growth figures are released in Q3 2022. Following the same trend in Q1, the Turkish economy grew by 7.6 percent. The yearly increase in private consumption (22.5%) and exports (16.5%) are the main contributors of the growth. Between January 2022 and September 2022, exports increased by 17.1 percent, and imports increased by 40.8 percent compared to a year ago.²⁴ In September 2022, intermediate goods make up 81 percent of the imports, which are to be used in production. On the other hand, more than half of the exports are also intermediate goods (54%) followed by consumable goods (35%).

FIGURE 4: ANNUAL GROWTH RATES - 2018 - 2022*



* Quarterly Gross Domestic Product, Quarter II: April - June 2022. Turkish Statistical Institute. Q3 2022 data is not released during the reporting period.

Even though there is positive growth in the Turkish economy in the first half of the year, the Industrial Production Index (IPI)* increased only slightly by 0.4 percent in September 2022.²⁵ The increase in the index was 8.5 points in June 2022 and 13.3 points in February 2022. In line with that, the manufacturing Purchasing Managers' Index (PMI) decreased to 46.90 points, below the 50-point threshold.²⁶

The high technology industry (11.5%) and the production of non-durable consumption items (7.2%) are the reasons behind the 0.4 percent increase in IPI. However, the decrease in production in the mining and quarrying sector (16.5%) and the electricity-gas-steam sector (2.4%) brought the IPI down. Between Q2 and Q3, the share of industry in GDP decreased from 24.6 percent to 23.7 percent while the service sector expanded its share from 26.7 percent to 28.6 percent.²⁷

FIGURE 5: SECTORAL SHARE IN GDP, JUNE 2022**

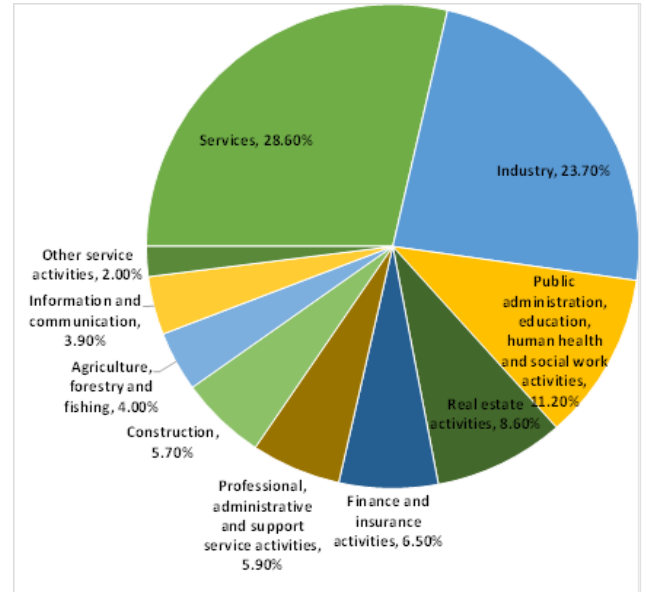
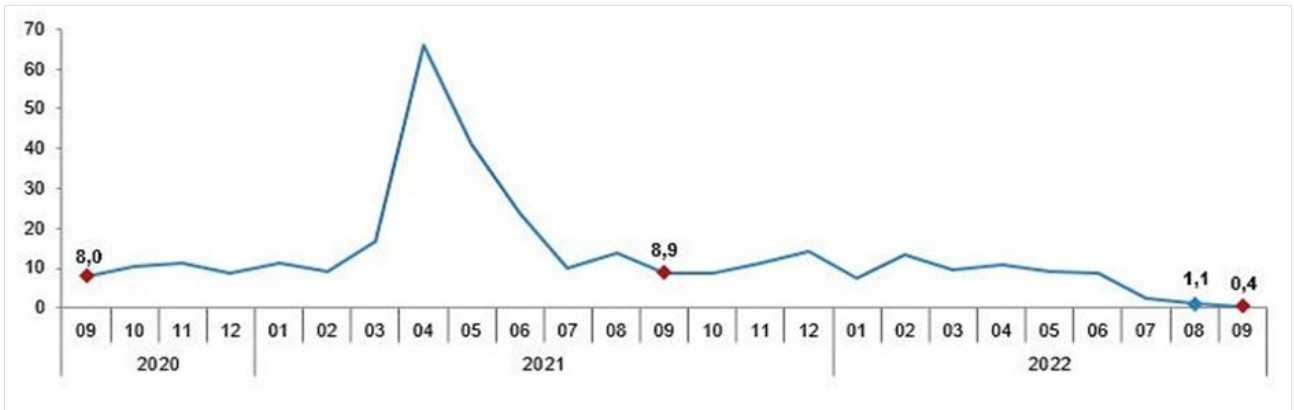


FIGURE 6: INDUSTRIAL PRODUCTION INDEX CHANGE RATES, SEPTEMBER 2022***



Representatives of exporters' associations state that the high global inflation, high energy costs, and devaluation of the Euro against the USD lead to a slowdown in global trade and decreased export orders.²⁸ While the export orders of items such as houseware, armature, and leather

goods have decreased, food exporters report that the global recession did not affect them as much as the other sectors. Exporters are looking for alternative markets to compensate for the decreasing demand in the existing markets.

Unemployment

After observing a decreasing trend for over a year, the unemployment rate increased for the first time in September 2022, actualizing at 10.1 percent due to the decrease in demand and production as well as high production costs. Youth unemployment is recorded as 19.6 percent in September.

The number of employed people also decreased by 0.1 percent between June and September. While the female employment rate increased from 30.4 percent to 30.6 percent in the reporting period, the male employment rate decreased from 65.3 percent to 65.0 percent. Among sectors, employment in the industry and agriculture sectors

decreased by 107 thousand and 8 thousand people, respectively. Employment in the service sector increased by 247 thousand people and in construction the construction sector accommodated 8 thousand more employees in Q3 2022 compared to Q2 2022.

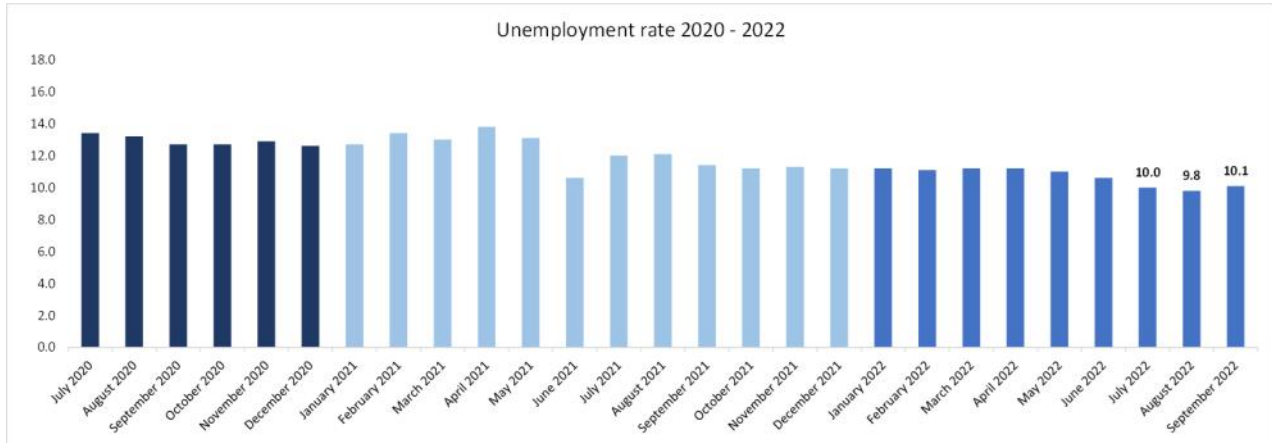
In July 2022, the minimum wage increased from TRY 4,353 to TRY 5,530. While higher minimum wage is beneficial for workers, combined with the diminishing production it creates pressure on profitability and new job opportunities. The impact of the wage increase in the service sector might be absorbed better thanks to the share of tourism in the service sector in the summer season.

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

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

FIGURE 7: UNEMPLOYMENT RATES BETWEEN 2020—2022*



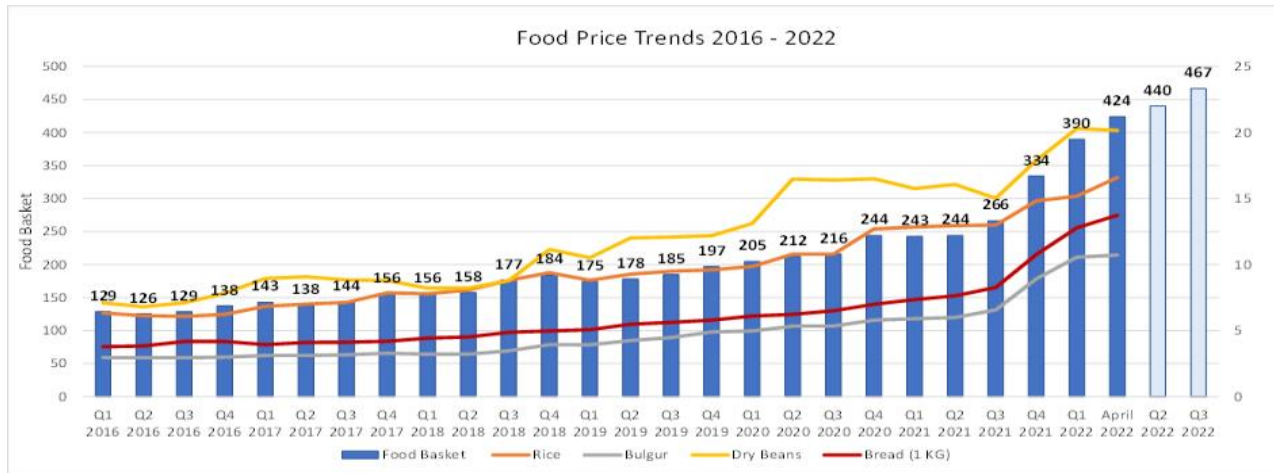
Food prices

WFP calculates the minimum cost of a nutritionally balanced food basket for Turkish people by using staple food item prices retrieved from TurkStat. However, due to the revision of TurkStat methodology, the latest available data is from April 2022. As TurkStat continues to release data on food inflation, the monthly changes are considered for the calculation to estimate the food basket cost. In Q3 2022, the monthly food inflation rates are 3.15 percent in July, 0.85 percent in August, and 1.97 percent in September.

Having applied these figures, the food basket cost per person per month is estimated to be TRY 467.

Among the items in the food basket, egg prices had the highest monthly mark-up, increased by 16.54 percent in July, 9.7 percent in August, and 11.96 percent in September 2022. Rice prices are also reported among the top 10 items with high monthly price increases. It increased by 12.63 percent in July and 9.78 percent in August 2022.**

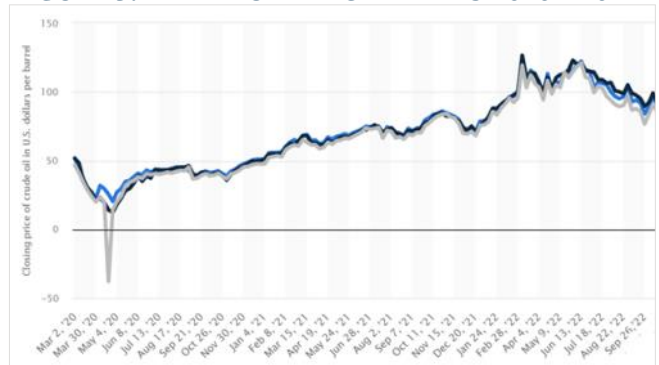
FIGURE 8: FOOD PRICE TRENDS BETWEEN 2016—2022



Energy prices

The slowdown in the global economy and ongoing Covid-19 lockdowns in China reduced the energy demands globally, resulting in a decrease in energy prices. Brent oil barrel prices that hit USD 122.3 in June 2022 is reduced to USD 84.1 at the end of September 2022. The OPEC+ countries decided to cut off their daily oil production by 2 million barrels per day, starting from November 2022. This has been the highest cut since the pandemic when the daily production was cut by 9 million barrels.

FIGURE 9: BRENT OIL PRICE TRENDS 2020—2022*



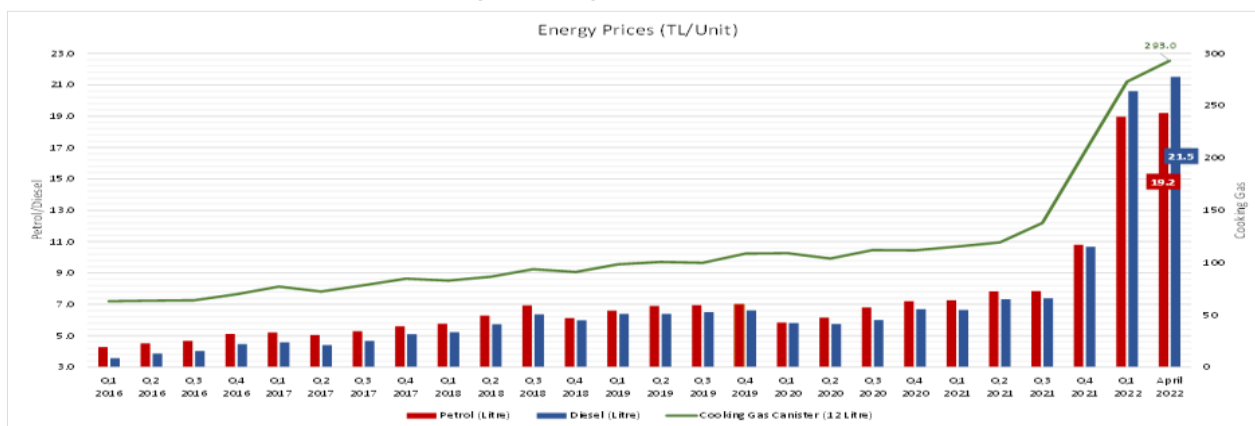
* Labour Force Statistics, September 2022. Turkish Statistical Institute.

** September rate is not available.

*** Image retrieved from Statista.

Aligned with the global pattern, after reaching TRY 27.1 in June 2022, the litre price of petrol decreased to TRY 19.4 in September 2022 in Türkiye.³⁸ Similarly, the diesel prices that had hit TRY 28 in June decreased to TRY 24.9 at the end of Q3 2022. However, the 12 Litre cooking gas canister prices⁸ increased from TRY 293 to TRY 311 during the reporting period.³⁹

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



Aside from oil, the supply of natural gas raises concern for many European countries, particularly for those relying on Russia as the main supplier. In early September, Russia decided to cut the gas flow to the EU as a response to the G7 members' decision to set a ceiling price for Russian crude oil exports.⁴⁰ On September 29th, Russia closed Nord Stream-1 indefinitely, the largest gas pipeline providing 35 percent of the gas imported by the EU, claiming that there are leakages.⁴¹ There has been an 88 percent cut in Russia's gas supplies to the EU countries since the beginning of the year, and the prices more than doubled. To cope with the recent developments, the EU countries decided to economize gas usage by 15 percent, and countries like Germany diversify their energy sources with coal by extending power

stations. Some experts state that energy problems accelerate the economic slowdown in Europe and lead to recession.⁴²

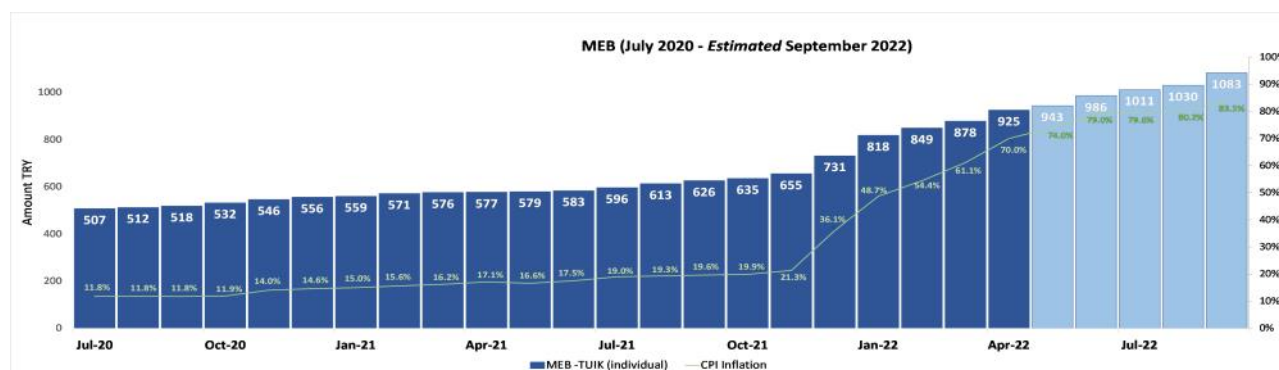
The uncertainty in the natural gas markets and the devaluation of TRY continue to affect the prices in Türkiye as well. While the unit price of natural gas was TRY 2.75 in January 2022, it increased to TRY 5.89 in September 2022.⁴³ Türkiye has been drilling in the Black Sea for natural gas to decrease its reliance on imported energy. However, production facilities to process the natural gas are not yet established therefore the increase in energy prices remains as one of the leading factors for the high inflation in Türkiye from production to private consumption.

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. However, the most up-to-date TurkStat data dates April 2022 due to methodology updates. Therefore, WFP has considered the monthly inflation rates, corresponding to various dimensions in the MEB (food, non-food

items, health, education, accommodation, communication, and transportation), to estimate the monthly MEB costs since June 2022. In an inflationary environment, the MEB cost increased to TRY 1,083 in September 2022 per person per month. This represents the minimum amount required to cover essential needs and it already exceeds the minimum wage for a household with 6 people.

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



* As the data was not available for gas canister, the data is retrieved from private sector databases.

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

*** The Minimum Expenditure Basket is constructed using TurkStat data.

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