



World Food Programme

SAVING LIVES
CHANGING LIVES

Photo: Deniz Akkus/ WFP

Market Bulletin

World Food Programme—Turkey

HIGHLIGHTS

- The Minimum Expenditure Basket (MEB)¹ costs **731 TRY** per person per month as of December 2021, with an increase of 32 percent from 556 TRY last year, December 2020.
- The economy grew by **9.1 percent** in Q4 2021, and the yearly growth in 2021 was **11 percent**.
- In December, the inflation rate reached **36.1 percent**. The food inflation rate increased to **43.8 percent**.
- The Turkish lira sharply depreciated in Q4 2021. After peaking at 17.5 against the USD on December 21st, the average rate in December 2021 is actualized at **13.5 TRY/USD**.

Macro-economic situation

In October 2021, the IMF revised its global growth forecast for 2021, decreasing by 0.1 percent to 5.9 percent, given that the Omicron variant of the Covid-19 is more vaccine-resistant and negatively affects global economic activities.² The unprecedented slowdown in supply chain activities caused longer delivery times and higher transportation costs.³ Furthermore, the lack of raw materials adds pressure on prices due to demand, resulting in high inflation rates.⁴ In November, the Euro Area experienced the historical high inflation at 4.9 percent, where the Producer's Price Index* (PPI) reached 21.9 percent. The inflation rate in the US in December 2021 reached 7 percent, which was 1.4 percent in December 2020.⁵ Even though inflation rates did not significantly increase in the main supply countries in Asia in 2021, the 13.5 percent increase in the Production Price Index in China in November 2021 is the highest

in the last 26 years and likely to be reflected in the inflation rates in 2022.⁶

Amidst the supply chain interruptions, Türkiye continued to increase its foreign trade volume in Q4 2021. Along with its geographical proximity to Euro Area**, the yearly increase in industrial production (by 14.4% in December 2021) and the depreciation of the TRY contributed to the increase in exports in the given quarter. According to the Ministry of Commerce, the export volume increased by 24.9 percent in December 2021 compared to a year ago.⁷ Imports also increased by 29.1 percent in December 2021 as Türkiye relied on imported raw materials and energy for production – 79 percent of the imports were intermediate goods^{8***}. The devaluation of the TRY, however, increased the production cost of these raw materials for the industry, resulting in higher inflation rates.

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

** The EU countries alone make 41% of the export countries for the year of 2021.

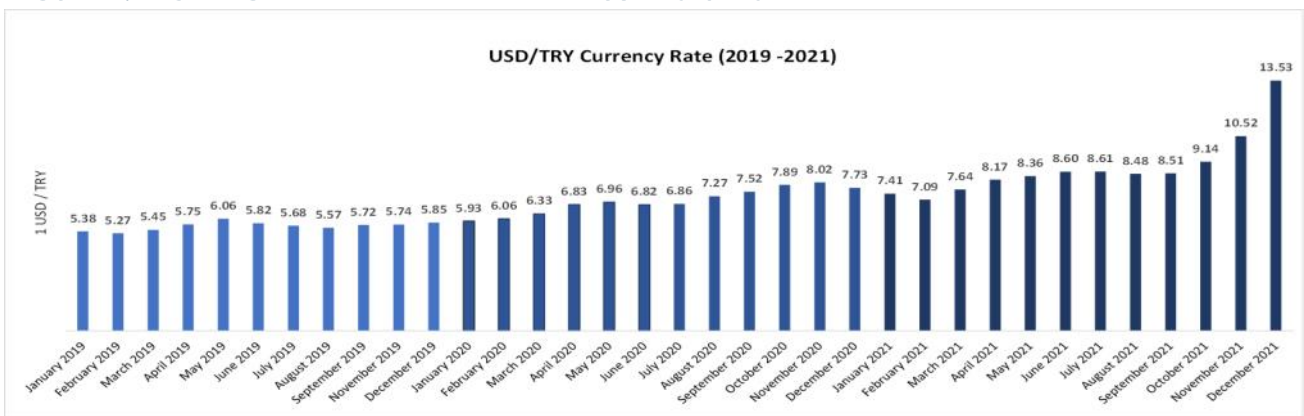
*** Intermediate goods are used for the items used for producing final products; the major intermediate goods Türkiye imports includes chemicals, minerals, machine parts, and grains to be processed: <https://ticaret.gov.tr/data/5d63d89d13b8762f7c43a738/4-En%20Fazla%20thalat%20Yapilan%2020%20Fasil.pdf>

Currency exchange

The TRY-USD exchange had the highest depreciation in Q4 2021. Starting in October 2021, multiple interest rate decreases by the Central Bank of the Republic of Türkiye (CBRT), the global appreciation of the USD after the announcement of Consumer Price Index (CPI) in the US, and Türkiye's repayment of the foreign debts in November and December increased the pressure on the TRY.¹⁰ While the USD was exchanged for 9.14 TRY in October, it increased to 10.52 TRY in November, and hit the record of 17.5 TRY on December 21st – which even reached 18.36 during the day. The yearly decrease between 2020 and 2021 was 44 per-

cent.¹¹ The CBRT intervened directly in the currency market and sold a total of 5.15 billion US on four different occasions within the first two weeks of December.¹² Following the announcement of economic measures such as new banking regulations for TRY deposit accounts, support packages for the export businesses, and an increase in governmental support to the private pension system¹³, the USD exchange rate decreased to 13.53 TRY (as monthly average) in December 2021.¹⁴ Yet, the currency rate is still higher than the previous quarters that the USD was exchanged for the range of 8-9 TRY.

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



Inflation

The annual inflation rate peaked at 36.08 percent in December, which is the highest since April 1994.¹⁵ While it had been already high, around 20 percent in the previous quarter and started to increase in November (21%), the monthly increase was actualized at 13.58 percent in December 2021.¹⁶ The driving force behind the rapid increase in inflation rates was a result of the dramatic increase in production costs due to the rapid devaluation of Türkiye. The Domestic Producer Price Index (D-PPI), which indicates the cost of production*, increased by 79.9 percent in December 2021, which is the highest in the last 27 years. Even though the disrupted supply chain pressure had already increased the costs by 54.6 percent in November, the monthly increase in December 2021 was as high as 19.1 percent due to the depreciation of TRY.¹⁷

The highest annual increase in D-PPI was in the energy sector by 123 percent in December 2021.¹⁸ Particularly, the cost of petroleum products increased by 162 percent between December 2020 and 2021. The sharp increase did not only make the transportation costs have the highest inflation rate (54%) but also reflected as logistics costs in the prices of produced items and goods.¹⁹ The cost of energy used during production pushed the inflation rates even further.

The second-highest increase in D-PPI was on intermediate goods at 92 percent. For instance, the cost of basic metals increased by 25 percent only between November and De-

ember 2021 alone, whereas the annual increase was 131 percent. The production cost of chemicals – which includes the cost of fertilizers and soil improvers in agriculture as well – increased by 101 percent annually, followed by paper and paper products (93%), and textile goods (90%), which indicates that diverse sectors are affected from the recent developments.

The high inflation rise is concerning for the following months as well. Goldman Sachs expected the inflation rate for the first quarter of 2022 to be above 40 percent,²⁰ and JP Morgan revised its inflation predictions for Türkiye in 2022. They are expecting 55 percent inflation in May 2022, followed by around 50 percent inflation until November, while their expectation for November 2022 is 35 percent due to the base point effect**²¹. According to the Survey of Market Participants***, the year-end inflation expectation for 2022 is also increased from 21.4 percent to 30.3 percent after the December 2021 inflation figures were released.²² The experts indicate that the inflation rates in the year 2022 will be shaped by many factors in the already volatile environment of financial markets, such as the stability of currency rates being a significant determinant.²³

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

** Base point effect refers to the significant increase or decrease in the ratio between two points measured due to the unusual change in the first (base) points compared to the previous period (e.g. annual comparisons).

*** Formerly known as Expectation Survey, The Survey of Market Participants is a survey conducted by CBRT and intends to monitor the expectations of decision-makers and experts in the financial and real sectors regarding various economic variables.

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

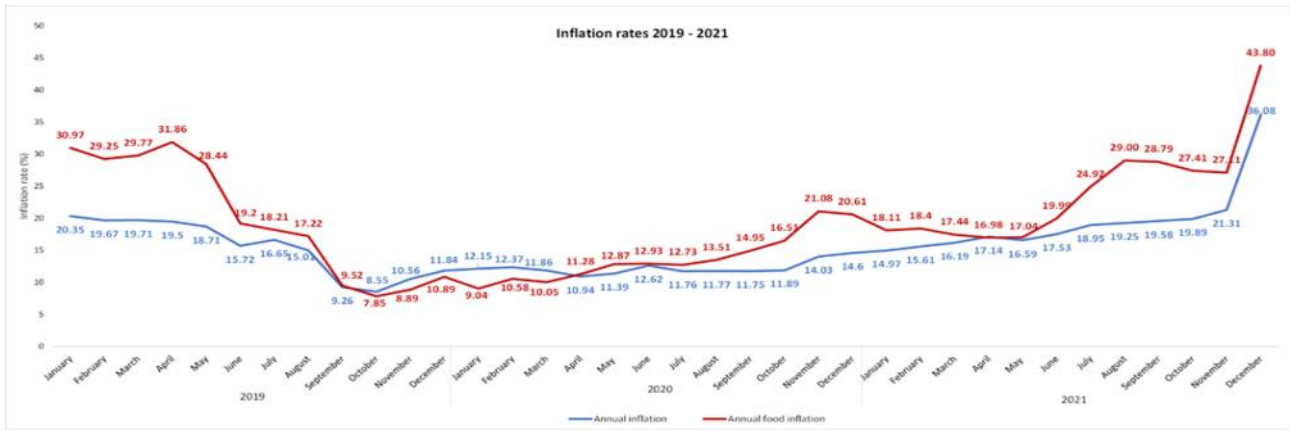
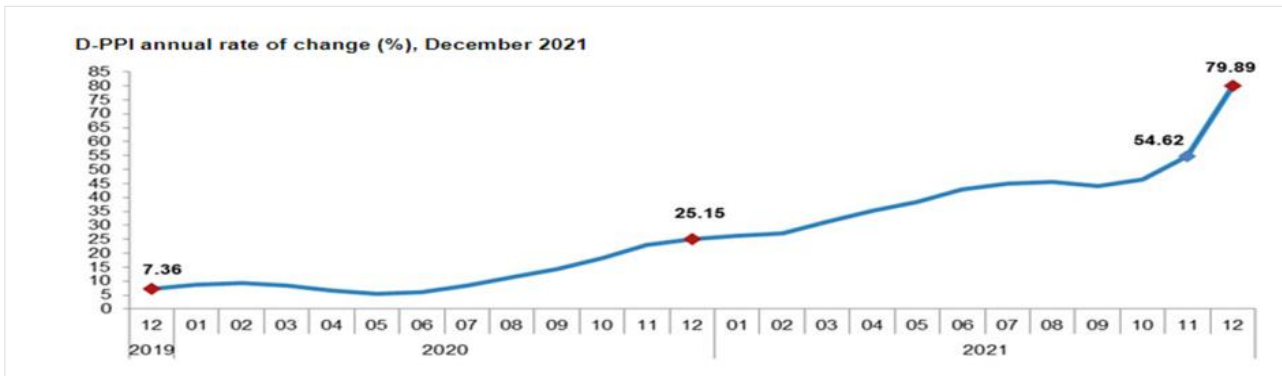


FIGURE 3: DOMESTIC PRODUCER PRICE INDEX TRENDS, DECEMBER 2021*



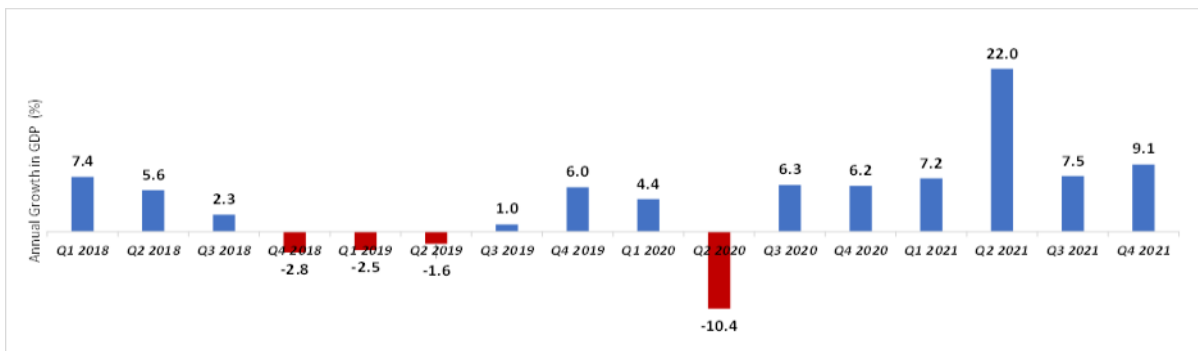
Economic Growth

Following the 7.5 percent growth in Q3 2021, the Turkish economy grew by 9.1 percent (Figure 4).²⁴ The leading contributor to the growth in Q4 was private consumption expenditures with 12.5 points, followed by exports at 4.8 points. In Q3 2021, the contribution of private consumption (5.4 points) and exports were (6.8 points) were relatively equal.²⁵

The yearly growth in 2021 is recorded as 11.0 percent, in line with the expectations.²⁶ According to the chain-linked volume index*, the service sector activities had the highest increase by 21.1 percent. The service sector had shrinkage in 2020 by 5.6 percent (annual) due to the lockdown policies implemented against the Covid-19 pandemic.²⁷

The increase in industrial activities was 16.6 percent, given that the Purchasing Managers' Index (PMI)** remained above the 50-point threshold for seven consecutive months.²⁸ The information and communication activities increased by 20.2 percent. The increase is important not only regarding the use of internet and communication tools that increased during and post-pandemic but also to benefit from digitalization for economic productivity.²⁹ Despite the growths in these sectors, the activities in the agricultural sector (2.2%) and construction sector (0.9%) decreased compared to a year ago. The agricultural productivity decreased due to the unusual weather conditions, and the investments in construction did not follow a linear trend throughout the year.³⁰

FIGURE 4: ANNUAL GROWTH RATES – 2018 - 2021***



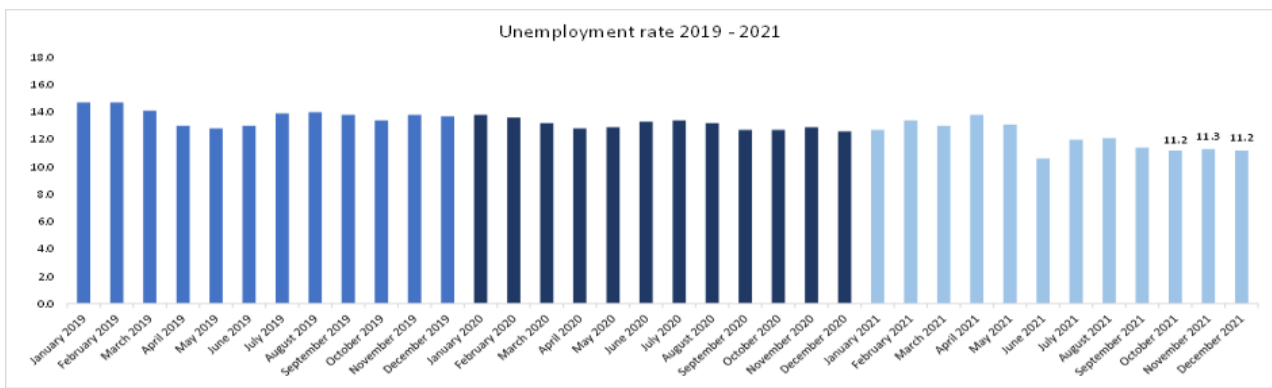
* Chain-linked volume index refers to combination of two overlapping indices in one period to a single time series and used for measuring the change in production by removing the impact of the inflation.

Unemployment

As the economy continued to grow in Q3 and Q4 2021, the employment figures are positively affected. The employment rate increased by 1.0 percent between September and December 2021 and reached 46.7 percent as 740 thousand people entered the labour market in the given quarter. Between December 2020 and 2021, the number of employed people increased by 3 million, reaching 29.8 million employees. As the service sector expanded well in 2021, 1.7 million of these new employees participated in the service sector. The manufacturing sector also grew, with the sector absorbing 795 thousand new employees between December 2020 and December 2021. As of Q4 2021, 55.5 percent of the labour force is in the service sector, followed by the manufacturing sector (21.6%), agriculture (16.9%) and construction (6.1%).

As a result of the increase in labour force demand, unemployment rates indicated a 0.5 percent decrease and actualized at 11.2 percent in December 2021.³¹ The unemployment rates (ages above 15) were stable through Q4 2021, yet, they had a declining trend through 2021 (Figure 5). The youth employment (ages between 15 –24) also improved; while the youth unemployment rate decreased by 3.7 percent (to 21.4%), in response, the youth employment rate increased by 3.8 percent (42.8%). On the other hand, there is a 1 percent increase in the labour underutilization rate (22.6%) –the total rate of the people who worked less than 40 hours per week, who are unemployed, and those who have potential but are not in the labour force.³² Lastly, informal employment also decreased from 30.59 percent in Q4 2020 to 28.7 percent in 2021.

FIGURE 5: UNEMPLOYMENT RATES BETWEEN 2019 AND 2021*



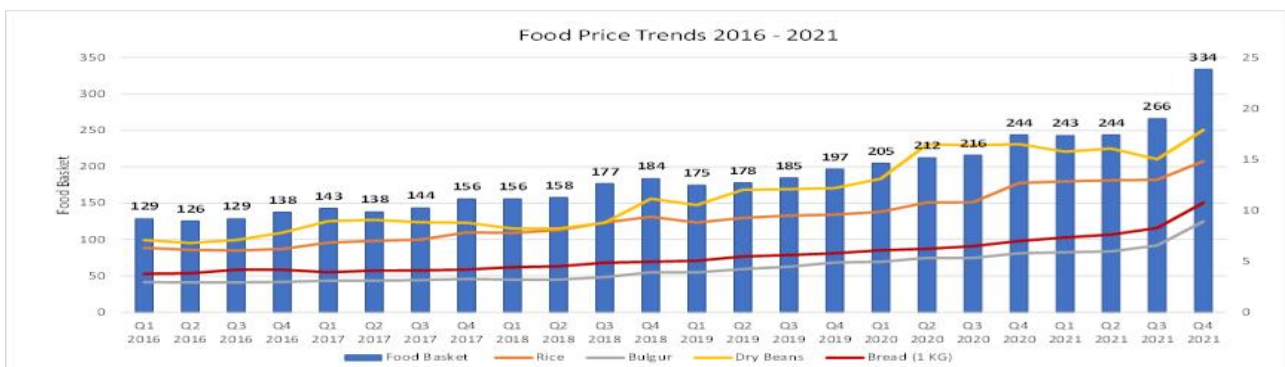
Food prices

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. Between Q3 and Q4 2021, the food basket cost increased by 26 percent from 266 TRY to 334 TRY (Figure 6). The annual increase in the food basket cost was 36 percent in December 2021. In the basket, sunflower oil prices increased by 76 percent, yoghurt prices increased by 76 percent, cucumber prices increased by 68 percent between December 2020 and 2021. Bread kilogram prices – the item with the highest share in the food basket with 7.5 kilograms per person per month – increased by 54 percent from 7.0 TRY to 10.76 TRY annually. As of December 2021, the kilogram price of rice is 14.83

TRY, bulgur is 8.93 TRY, and beans is 17.89 TRY.

As indicated in Figure 2, the food inflation rate in December 2021 (43.8%) is higher than the annual inflation rate (36.1%). Food prices are concerning worldwide; according to Food and Agriculture Organization (FAO) the Food Price Index averaged 125.7 points in 2021, which increased by 28.1 percent compared to a year ago. Aside from the high input costs, the continuation of the pandemic, and unstable climatic conditions created uncertainty in food markets.³³ In Türkiye, the rainfall in October and November decreased by 29 percent than the seasonal normal.³⁴ The Ministry of Agriculture and Forestry provided financial assistance to the farmers with yield loss due to drought.³⁵

FIGURE 6: FOOD PRICE TRENDS BETWEEN 2016 AND 2021

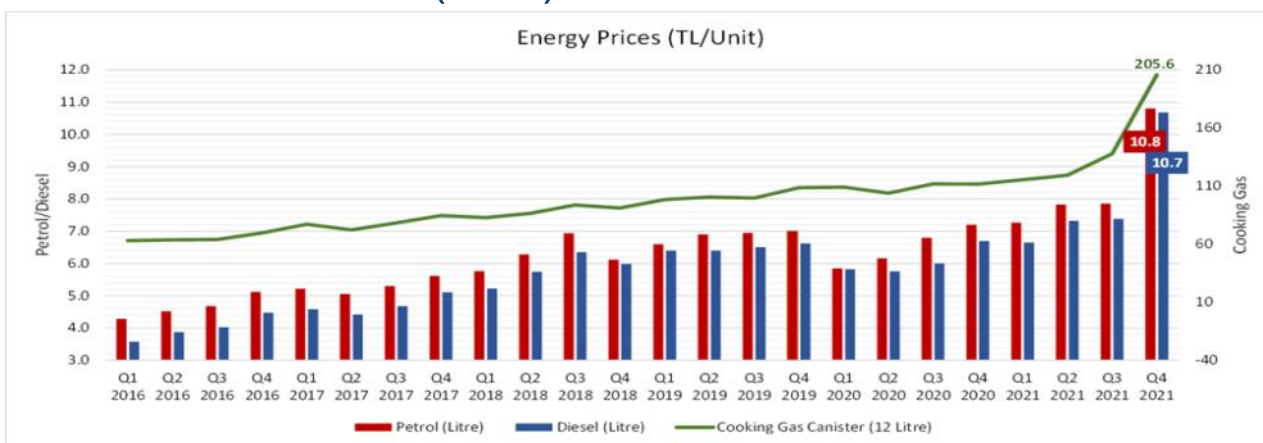


Energy prices

Given that Türkiye depends on imported energy, all the negative developments affected the energy prices severely. The production cost of petroleum products experienced the highest increase by 161.9 percent between December 2020 and December 2021. This was followed by crude oil and natural gas, in which the production cost increased by 138.5 percent. Thus, on the consumers' end, petrol prices increased from 7.9 TRY in Q3 2021 to 10.8 TRY at the end of Q4 2021, where the diesel prices increased from 7.4 TRY to 10.7 TRY in the same period. The 12L gas canister prices increased by 50 percent between Q3 and Q4 and costs 206 TRY as of December 2021.

Even before the rapid depreciation of TRY, energy supply problems already had pressure on the energy costs globally; in October 2021, the barrel price of oil reached 86 USD, the highest in three years. The OPEC+ countries were concerned in November about the possibility of a further slow-down owing to the Omicron variant and the US declaration of the possibility of releasing its crude oil reserves. However, they agreed to continue their ongoing policy of monthly increase in oil outputs.³⁶ Even though this decision decreased the Brent barrel cost to 70.68 USD at the end of 2021, the prices had a sharp (68%) increase compared to 2020 (41.96 USD).³⁷

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



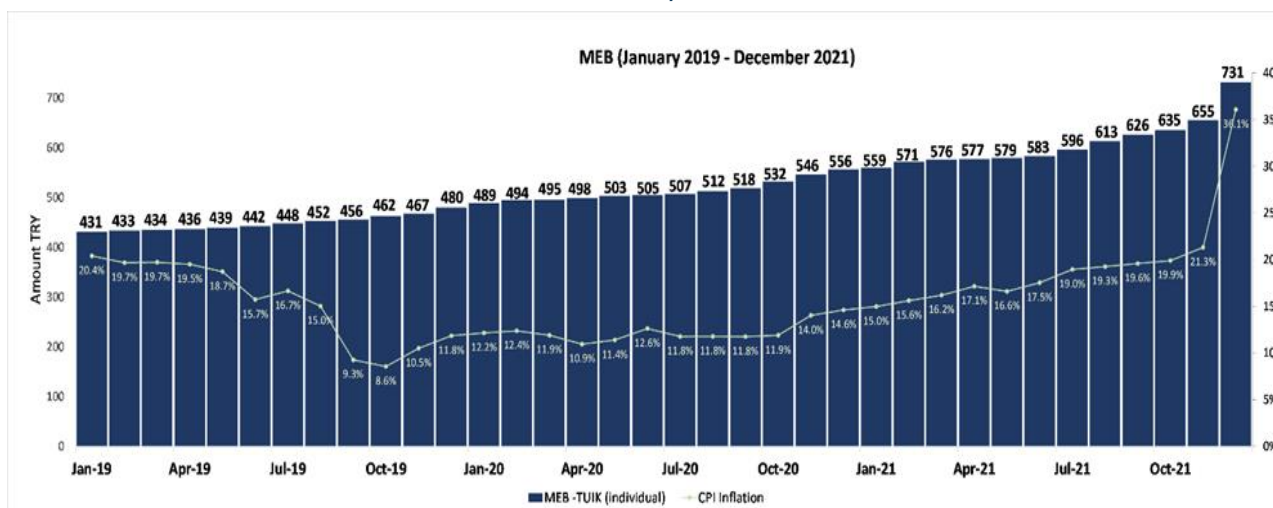
Minimum Expenditure Basket*

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.

Given the high inflation rates, the MEB increased by 105 TRY (17%) per person between Q3 2021 and Q4 2021,

reaching 731 TRY at the end of December 2021 (Figure 8). In the MEB, the food costs increased by 27 percent quarterly, followed by the education costs (21%) and non-food items (18%). Compared to Q4 2020, the annual increase in food, utility and non-food item costs were 40 percent, and the education costs doubled in Q4 2021.

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



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

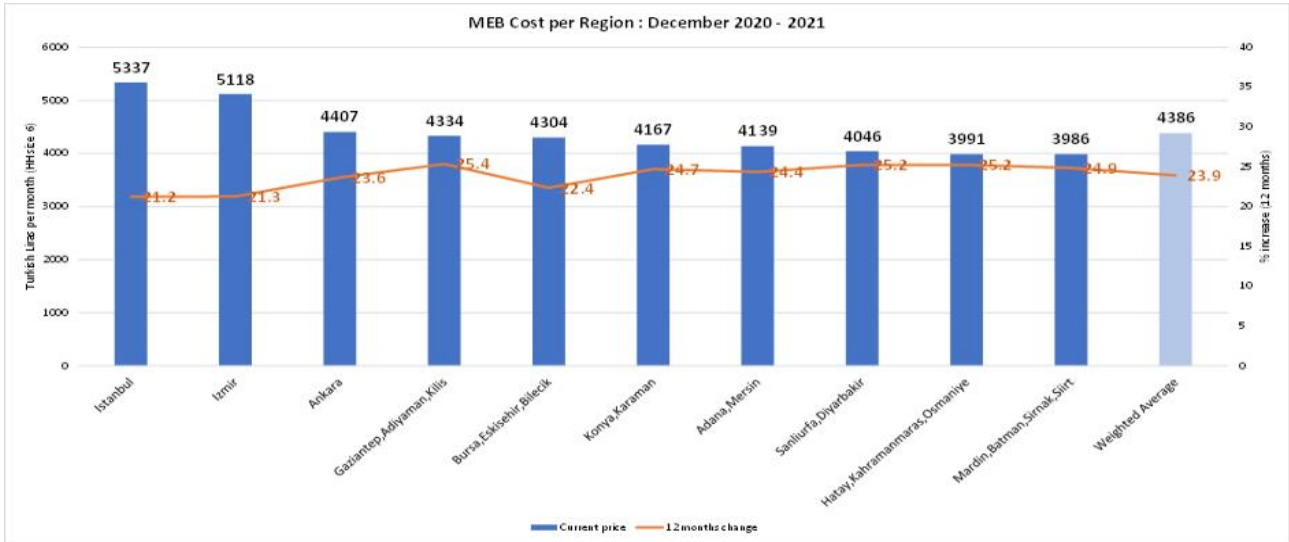
* The Minimum Expenditure Basket is constructed using TurkStat data.

The MEB was the highest in Istanbul (on average 5337 TRY) followed by Izmir (on average 5118 TRY) whereas the Mardin, Batman, Şırnak, Siirt region was the most affordable one among all the regions with the minimum expenditure basket cost of 3986 TRY. However, having looked at the average annual price changes across the country, we see that the living costs have increased in the Southeastern and Eastern regions the most. The 25.4 percent yearly increase in the Gaziantep-Adıyaman-Kilis region (4334 TRY) led the region to outpace the Bursa-Bilecik-Eskisehir region (4304 TRY).

Except for the three metropolitan provinces and the Bursa-Eskisehir-Bilecik region, the annual increase in the living costs were higher than the average (23.9%). Ankara consistently has lower-than-average inflation rates.

Given that the yearly inflation rate is already 19.6 percent, the pressure on the purchasing power of consumers continues. Even though the minimum wage is increased by 50 percent from 2826 TRY to 4253 TRY for 2022, the current figures show that it is not enough to cover the Minimum Expenditure Basket in the top 5 monitored provinces.

FIGURE 9: MEB COST PER REGION IN Q4 2021



Notes & Citations

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