

Increasing food prices, economic slowdown, and government policies in Turkey

ESPN Flash Report 2019/19

FIKRET ADAMAN AND BURÇAY ERUS – EUROPEAN SOCIAL POLICY NETWORK

APRIL 2019

The Turkish Lira depreciated sharply in 2018. This led to an increase in inflation, with food prices hitting the roof—a serious concern for the poor. Facing a shrinking economy and increasing unemployment, the government introduced new social assistance programmes and set up sale points where selected food items are sold at below cost. The fact that these programmes were launched on the eve of the local elections could be interpreted as short-term political manoeuvres.

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



Description

In 2018, the Turkish Lira depreciated by 42% against the US Dollar and 34% against the Euro (January averages in 2018 and 2019). Although the exchange rate improved relative to its peak in August, the real exchange rate index (base year 2003) was at 75.61.

As Turkey is heavily dependent on imports, especially on energy, this depreciation quickly translated into higher prices. The inflation rate reached 20.3% in 2018 according to Turkstat, far higher than the single digit annual inflation between 2002 and 2017. Food prices increased by almost 25%, and electricity and natural gas prices, on average, by 45% and 27%, respectively. Low-income groups have been heavily hit by the rising cost of food and energy.

A sharp slowdown in the economy was also felt in the third quarter of 2018, partially as a result of higher interest rates and government budget cuts, and the economy shrank by 3% in the fourth quarter, while the unemployment rate increased sharply in December 2018 to 13.5%—versus 10.4% a year earlier.

With increasing discontent among the poor, the government decided to take a number of measures. In January 2019, social assistance expenditure increased by 39.2% in real terms. In addition, the government put three new policies into effect to further alleviate the conditions of the poor.

First, a new social assistance programme was launched whereby the government pays the electricity bills of those deemed to be in need. The programme covers monthly electricity consumption up to 150 kilowatts per hour for households dependent on social assistance, equivalent to about an 80 TL (€13) electricity bill. The main reason for paying the bill directly rather than providing cash assistance may be to assist private energy companies that are facing difficulties in collecting payments from the poor. Implementation began in March 2019, and this new scheme will cover more than 2 million households who belong to the regular social assistance programme.

Second and most important, the government initiated a set of campaigns against high food prices. The government blamed supermarket chains/intermediaries/wholesalers for hiking up prices. It then took action against supermarkets and wholesalers suspected of price gouging and hoarding. The Ministry of Trade subsequently developed a smart-phone application enabling people to report traders suspected of overpricing.

Recently, the government decided to open distribution centres in Istanbul and Ankara, along with several provincial cities, to sell heavily subsidised food items (basic fruits and vegetables and, lately, pulses). It has been announced that these centres are temporary, for a period of two-and-a-half months, coinciding with the local elections. They can only provide a tiny amount of daily sales, thus necessitating a cap on each item sold. Locals nevertheless rush to these centres, located in poor

neighbourhoods, even if it means waiting in a queue for quite some time. There are indications that the prices of various items are lower than their prices at production sites; a clear signal that they are highly subsidised.

Finally, import duties on certain food items, such as onions, have been reduced or eliminated.

Outlook and commentary

Turkey is still taking patchy measures to deal with the poverty issue, rather than launching a long-term strategy that would necessitate structural reshaping. The government's recent response to the impact of increased inflation on the poor reflects this fact.

As is known, eligibility for social assistance involves means-testing. This is criticised on the ground that injustices may occur in the testing procedure—which also applies mutatis mutandis to the support provided to poor families for their electricity bills.

The policy of selling subsidised food at distribution centres in only selected big cities constitutes a serious injustice, as it is not applied systematically across the country. This was announced as a temporary measure. Its social costs should also be taken into account, as locals have to wait in queues. The policy's immediate impact on food prices in general seems to be limited. The price index calculated by the Istanbul Chamber of Commerce shows that food prices increased by 1.45% for February 2019 on a monthly basis. Although difficult to predict, this policy could hamper the system of production and distribution of foodstuffs in unpredictable ways if continued for a long time. Finally, this action can be interpreted as dumping, financed by general taxes.

Further reading

Daily Sabah (9 January 2019), State to pay portion of electricity bills for low-income households: <https://www.dailysabah.com/turkey/2019/01/09/state-to-pay-portion-of-electricity-bills-for-low-income-households>

Doğan, O. (18 December 2017), Tarımda Neoliberal Dönüşüm ve Gıda Enflasyonu (Neo-liberal transformation in agriculture and food inflation): <https://www.karasaban.net/tarimda-neoliberal-donusum-ve-gida-enflasyonu-orkun-dogan/>

Gürses, U. (18 February 18 2019), Analiz: Sebze sel geçti, kumu kaldı geriye (Analysis: In vegetables, the flood is over and the residue remains): <https://www.dw.com/tr/analiz-sebze-sel-ge%C3%A7ti-kumu-kald%C4%B1-geriye/a-47560016>

Jones, D. (26 February 2019), Erdogan's War on Turkey's Rising Food Prices Leaves Casualties: <https://www.voanews.com/a/erdogan-s-war-on-turkey-s-rising-food-prices-leaves-casualties-/4804417.html>

Author

[Fikret Adaman](#) and [Burçay Erus](#) (Boğaziçi University)

The Flash Reports are produced by the European Social Policy Network (ESPN) established in 2014 to provide the European Commission with independent information, analysis and expertise on social policies in 35 European countries. The topics covered are identified by ESPN experts in the light of significant developments in their countries, or in some cases suggested by the Commission or the Flash Reports' editorial team (Eric Marlier and Slavina Spasova). The ESPN is managed by LISER (Luxembourg Institute of Socio-Economic Research), APPLICA and the OSE (European Social Observatory). More information on the ESPN: <http://ec.europa.eu/social/main.jsp?catId=1135&langId=en>.

Quoting this report: Adaman, Fikret and Burçay Erus (2019). *Increasing food prices, economic slowdown, and government policies in Turkey*, ESPN Flash Report 2019/19, European Social Policy Network (ESPN), Brussels: European Commission.