

**Voluntary Report** – Voluntary - Public Distribution

**Date:** June 29, 2022

**Report Number:** TU2022-0032

**Report Name:** Food Inflation in Turkey Marches Higher

**Country:** Turkey

**Post:** Ankara

**Report Category:** Agricultural Situation, Agriculture in the Economy

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**Report Highlights:**

Food inflation in Turkey is the highest it has been in decades. Average food prices in May were up 92 percent from a year ago. One of the leading reasons behind higher food prices is the rising cost of on-farm inputs, such as fuel, fertilizer, and feed. Other contributing factors include a weakening currency, supply chain challenges, and economic uncertainties. The combined effect of all of this has caused producer prices to shoot up 155 percent in May compared to the same time last year. Farmers are reportedly struggling to turn a profit since costs are rising faster than their ability to raise farmgate prices. Although the government has intervened to counter inflationary pressures, Turkey's food prices are expected to climb higher for the foreseeable future.

## **Food Inflation in Turkey Reaching New Heights**

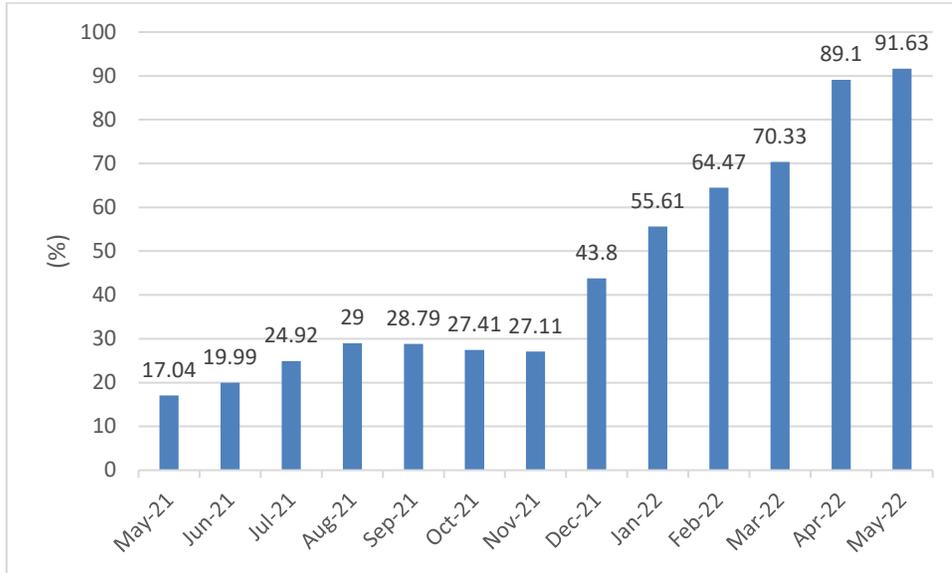
In recent decades, Turkey has experienced periodic struggles with high levels of inflation. Last year, the annual inflation rate reached 36 percent, its highest point during the past 20 years. Various factors are contributing to rising inflation, such as Turkey's unorthodox economic policies, a weakening currency, higher global prices for energy and agricultural commodities, as well as supply chain disruptions.

Food prices increased year-over-year by 44 percent in 2021, though independent thinktanks believe the number was probably closer to 83 percent. Food prices have since continued along their upward trajectory. According to official statistics, Turkey's food inflation was almost 92 percent in May compared to the same time a year ago. Again, independent sources believe this number was higher.

There is mounting public concern about rising food prices, especially among lower-income households which tend to spend more of their disposable income on food. In 2019, lower-income households spent slightly more 31 percent of their consumption expenditures on food, compared to the national average of nearly 21 percent. Meat, fish, bread, and grains were among the leading food items accounting for the largest share of total food expenditures. The prices of these staple foods continue to climb higher, with beef, chicken, and sunflower oil leading the way so far this year. See chart 2.

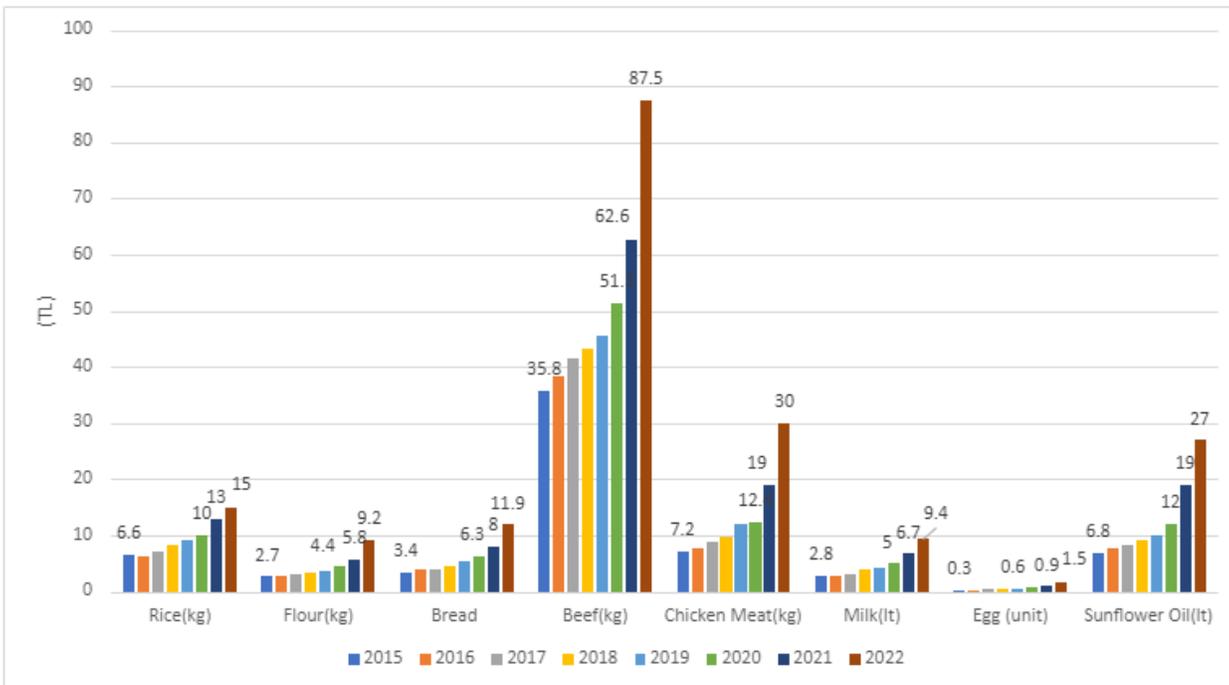
Rising food inflation along with the effects of the pandemic have impacted consumption patterns in Turkey. The demand for fresh produce, pasta, flour, sugar, cooking oil, as well as canned and frozen food has increased. Shelf-stable products are in high demand because these can be stored and used as a hedge against future inflation. To stretch food budgets, consumers are shopping less frequently at retail supermarkets and are instead going to smaller discount markets to find cheaper alternatives. Consumers are also eating less red meat and substituting it with less expensive meat or other alternatives.

**Chart 1. Yearly Food Inflation in Turkey, 2021-2022**



Source: Turkish Statistical Institute, 2022

**Chart 2. Annual Price Increases for Select Staple Food Items, 2015-2022**



Source: Turkish Statistical Institute. Note: average prices for 2022 cover January-April.

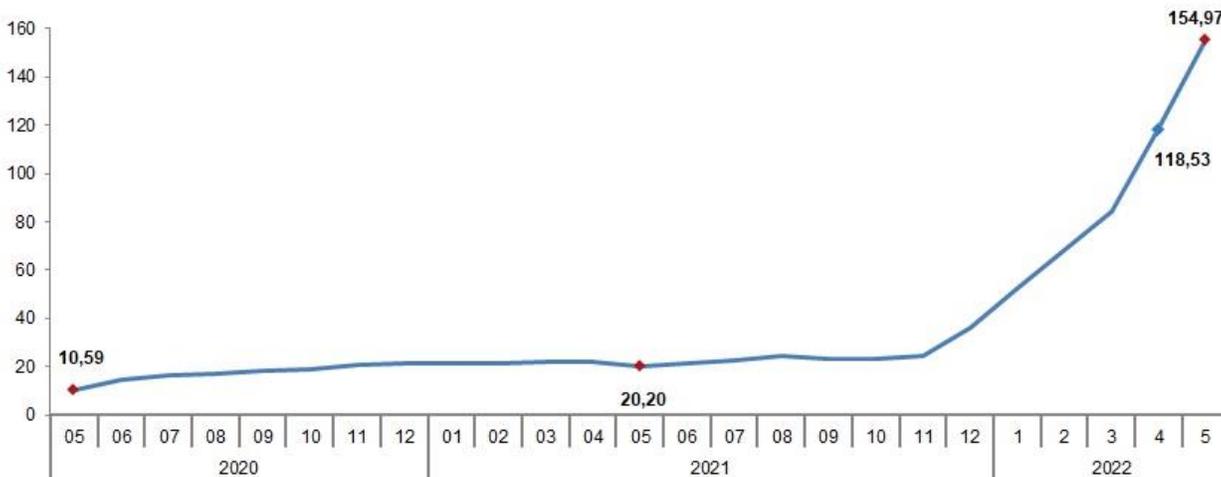
### Higher Input Costs Driving Higher Food Costs

According to local economists, one of the leading reasons underlying higher food prices in recent years is higher on-farm and business operational costs. The price of inputs, such as fertilizer, fuel, labor, and livestock feed have all seen significant price increases. Based on the Turkish Statistical Institute’s agricultural producer price index, the cost of production in May increased 155 percent compared to the same time last year and was up about 16 percent month-to-month. See chart 3.

Current fertilizer prices are up at least three times from this time last year. Fertilizer prices are particularly vulnerable to exchange rate fluctuations as 80-90 percent of raw materials used to make fertilizer are imported. Higher prices for natural gas, which is used to produce certain nitrogen-based fertilizers, has also contributed to rising fertilizer prices in Turkey. To save on costs, some farmers may decide to use less fertilizer, which could negatively impact yields for this year’s harvest. Meantime, the average price of diesel in May was 21.2 TL/liter (\$1.24/liter), up a little more than 220 percent from a year ago.

Compound feed prices earlier this year had doubled or even tripled from the same time last year. Feed prices are exposed to foreign exchange risk since 60 percent of raw ingredients to manufacture livestock feed are imported. These higher feed prices ultimately lead to more expensive milk, cheese, and meat on store shelves. At the same time, with milling wheat prices continuing to trend upward, the price of bread, baked goods, and pasta are expected to see future increases.

**Chart 3.** Monthly Agricultural Producers Price Indexes, 2020-2022

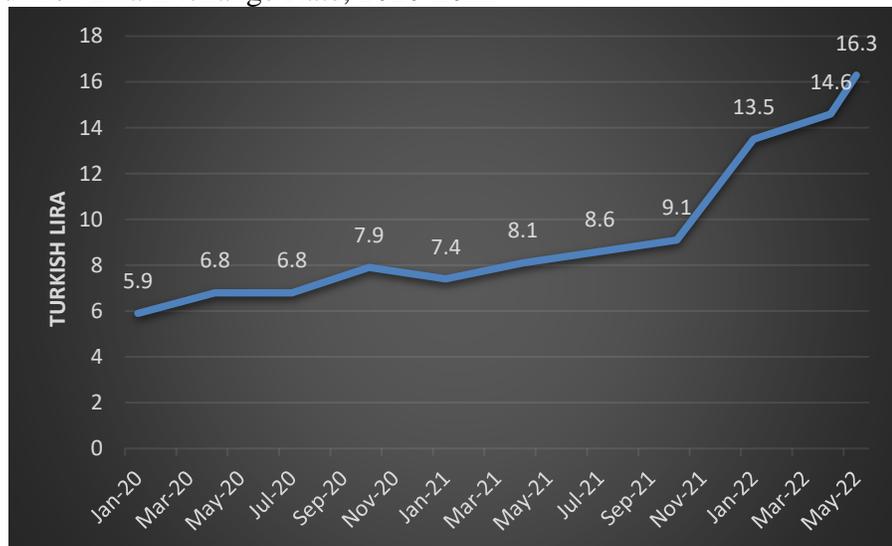


Source: Turkish Statistical Institute, 2022

As noted above, many of these inputs are imported and have, consequently, become relatively more expensive in recent years as the Turkish Lira has lost value against the U.S. dollar. As of mid-June, the Turkish Lira had lost about half of its value from the same time last year and 22 percent since the beginning of the year. See chart 4.

The supply chain disruptions from the war in Ukraine have pushed input costs higher. Turkey depends, to varying degrees, on grain, oilseeds, and vegetable oil from both Ukraine and Russia. Supply chain issues from the global pandemic also have contributed to higher costs in the last couple of years.

**Chart 4.** USD-Turkish Lira Exchange Rate, 2020-2022



Source: Turkish Central Bank, 2022.

### **Other Factors Driving Food Inflation**

There are other factors that are putting upward pressure on food prices. The effects of climate change, a shrinking area under agriculture production, expanding consumer demand, inadequate government policies, and economic uncertainty have all contributed in varying degrees to higher prices. As an example, Turkey experienced severe dry weather in 2021, leading to a decline in production of grain and other agriculture products. Tighter domestic grain supplies, though cushioned by increased imports, ultimately translated into upward price pressure on bread, meat, milk, and eggs.

### **Government Interventions to Curb Inflation, But Success is Elusive**

The Turkish government has undertaken various measures to address rising food inflation. Several of these measures are discussed in greater detail below. However, according to contacts, these actions have not been as effective as the government intended in controlling higher prices. Furthermore, given higher trending input costs, the continued weakening of the Turkish Lira, and other uncertainties, food inflation in Turkey is expected to remain for the time being.

*Import Taxes and Export Restrictions:* Turkey has zeroed out duties on a range of agricultural commodities, such as wheat, corn, barley, and sunflower seeds for the rest of the year. Meantime, Turkey's Ministry of Agriculture & Forestry (MinAF) has restricted certain agricultural exports, such as vegetable oil, to stabilize prices and ensure sufficient domestic supplies in 2022. MinAF may block other exports at any time. For more information, please refer to GAIN report [TU2022-0026](#).

*Farmer Payments:* The government has increased payments to farmers to incentivize production and offset rising input costs. Total payments for 2022 are 22.8 billion TL (\$1.3 billion as of June 2022), up nearly 13 percent from the previous year. According to farmers, this increase is not enough to cover rising costs and, therefore, some farmers have downsized production or switched to other more profitable crops. Please refer to our [Annual Grain & Feed Report](#) for details.

*Discounted Prices for Certain Food Items:* The Turkish Grain Board (TMO), a government affiliated body, purchases domestic and imported grains and sells these at a discounted price to end users. Some of the discounted wheat is used in Turkey's subsidized bread scheme. To save on costs, TMO recently announced that it would start making direct purchases of imported grains instead of buying through an intermediary.

*Government Investigates Businesses for High Prices:* Turkey's Competition Authority, a government body, periodically investigates and fines grocery retailers, feed manufacturers, and fertilizer companies that are found to be selling at unfair prices. Separately, the government instructed ag cooperatives and feed companies earlier this year to cut their prices. However, the feed manufacturers were not able to cut prices because of rising commodity costs.

*Food Committee Monitors Food Prices:* In 2014, the government established the Food and Agricultural Commodity Monitoring and Evaluation Committee to intervene in the market to reduce high food prices. A few years later, the committee created an early warning system to alert them when prices were too high. For a time, the Committee tried managing raw milk and meat prices to the detriment of the local meat and dairy industry. There is a general belief that the Committee has not been effective in keeping food prices down. The committee is currently made up of officials from the Ministries of Treasury and Finance, Agriculture and Forestry, and Trade.

*Law Governing Wholesale Market:* In 2012, the Turkish government announced a comprehensive law to require wholesale produce markets to only supply nearby cities. The intent of the law was to reduce the price for vegetables and fruit by limiting freight costs. However, the law failed to prompt change since the regional markets in and around Istanbul could not provide the city with sufficient produce. The government is reportedly considering updating the law to restrict supermarkets from making direct contracts with produce growers to ensure enough product is available for wholesale markets.

### **Farmers Not Benefitting as Expected from Higher Food Prices**

According to contacts, many farmers are struggling to break even amid rising input costs, and some are deciding to downsize. As an example, dairy farmers are reducing the size of their herds because of low profit margins, while some wheat farmers are switching to alternative crops. The reason for this is farmers can only pass along a portion of these higher input costs along to end consumers. Meantime, most of the markup between the farm gate and retail prices is reportedly due to multiple layers of middlemen.

**Attachments:**

No Attachments.