



## FOOD PRICES AND HEADLINE INFLATION IN TURKEY

In Turkey, the weight of food prices in the consumer basket is higher compared to advanced economies and, additionally, fluctuations in food prices are much sharper. Consequently, movements in this subcategory have a greater impact on inflation in terms of both its level and volatility.

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- G20 Finance Ministers and Central Bank Governors Meeting
- G20 Global Islamic Finance Conference: Benefits and Opportunities

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### CBRT POLICY RATES (30 September 2015)

CBRT Overnight Late Liquidity Window Borrowing Rate: <b>0%</b>	CBRT Overnight Borrowing Rate: <b>7.25%</b>	One-Week Repo Rate: <b>7.5%</b>	CBRT Overnight Marginal Funding Rate: <b>10.75%</b>	CBRT Overnight Late Liquidity Window Lending Rate: <b>12.25%</b>
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### CBRT RESERVES (25 September 2015)

#### GROSS FX RESERVES

**99.6 BILLION USD**

#### GOLD

**18.3 BILLION USD**

### INFLATION (September 2015)

**7.95 Percent**

# FOOD PRICES AND HEADLINE INFLATION IN TURKEY

In Turkey, the weight of food prices in the consumer basket is higher compared to advanced economies and, additionally, fluctuations in food prices are much sharper. Consequently, movements in this subcategory have a greater impact on inflation in terms of both its level and volatility.

**Table 1: Weights of Main Subcategories in the Consumer Price Index (CPI)<sup>1</sup>**

	Turkey	EU-28
<b>Food and Non-Alcoholic Beverages</b>		
Beverages	24.3	15.6
Alcoholic Beverages and Tobacco	4.8	4.6
Clothing and Footwear	7.4	6.1
Housing	15.8	15.9
Household Equipment	7.8	6.2
Health	2.6	4.4
Transport	15.4	14.7
Communication	4.4	3.2
Recreation and Culture	3.5	10
Education	2.5	1.3
Restaurants and Hotels	7.0	9.1
Miscellaneous Goods and Services	4.6	8.9

## FACTORS DETERMINING FOOD PRICES

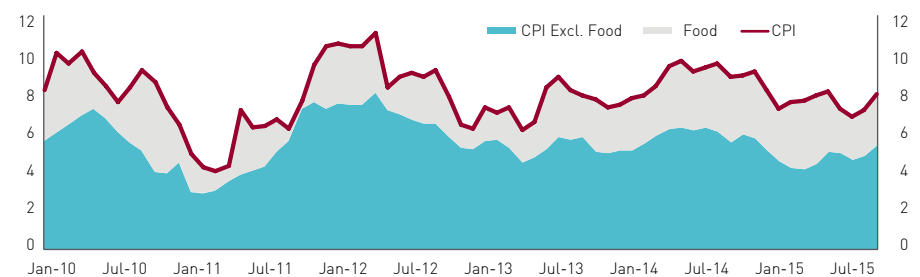
Food prices are composed of two groups: processed and unprocessed food products. Unprocessed food products are goods such as fruits, vegetables, meat and fish that are offered for household consumption without significant processing, whereas processed food products are sold after processing and completion of a value-added chain.

Unprocessed food prices are mainly affected by weather conditions, agricultural policies, income effects arising from the convergence process and external demand conditions, whereas the course of processed food prices is determined by sectoral demand developments, import prices, exchange rate, input prices such as those of diesel and wheat, in addition to prices of unprocessed food as input (Başkaya et al., 2008). Hence, unprocessed food prices display a fluctuating course especially due to supply-side factors regarding crops, while processed food prices exhibit a stagnant nature on which the cyclical developments are relatively more effective.

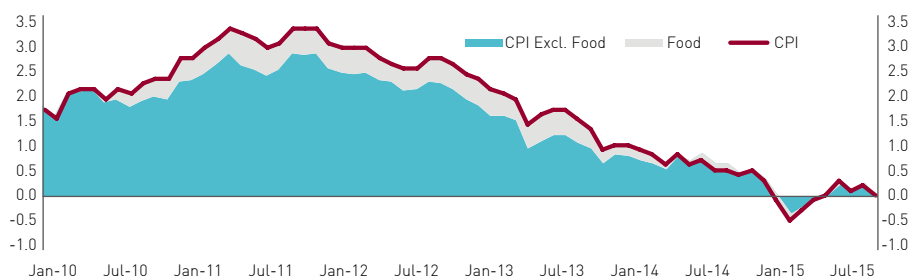
The recent leading developments concerning the items with the highest shares in the food group in Turkey are: (i) the unfavorable effects of weather conditions on the supply and hence the prices of fruit and vegetables, (ii) the gap between the supply of livestock and the demand reflected onto the prices of meat products, (iii) the divergence of wheat prices from international prices due to structural problems, and (iv) exchange rate pressures in line with the accumulated depreciation of the Turkish lira.

Unprocessed food prices have a volatile nature in Turkey for various reasons. Unlike many EU countries, Turkey is an important producer of unprocessed food

**Chart 1: Consumer Price Inflation in Turkey (Annual, %) and the Contribution of Food and Non-Food Items to CPI (Percentage Point)**



**Chart 2: Consumer Price Inflation in EU-28 Countries (Annual, %) and the Contribution of Food and Non-Food Items to CPI (Percentage Point)**



Last Observation: September 2015

products. In non-producer countries, the risk of price volatility in unprocessed food offered for domestic consumption, which is likely to be triggered by a supply shock, may be reduced by diversifying the sources of supply. In producer countries, on the other hand, seasonal factors play a more pronounced role in price developments. Besides seasonal factors, other factors are also instrumental in this volatility (Öğünç, 2010). Based on interviews with sector representatives, Orman et al. (2010) have specified the following structural factors (other than season-specific factors) that effect the volatility of unprocessed food prices: The high degree of climate-dependence in production, high number of intermediaries in the supply chain, uncertainties surrounding agricultural subsidies, concentration of agricultural production in certain geographic areas, fluctuations in external demand, price structure of export goods, consumption pattern.

To sum up, food price inflation causes rigidity and is affected not only by seasonal conditions but also by structural problems. To address these structural measures, the agricultural sector and food prices were evaluated in the Prime Ministry Circular No: 2014/20 promulgated in the Official Gazette dated 9 December 2014 and the Food and Agricultural Products Markets Monitoring and Evaluation Committee has been established. The Committee, chaired by the Undersecretary of the Ministry of Food, Agriculture and Livestock, is composed of the undersecretaries of the Ministry of Economy, the Ministry of Customs and Trade, the Ministry of Development and the Ministry of Finance, the Undersecretary of the Treasury, the Governor of the Central Bank of Turkey

and the President of TURKSTAT (Turkish Statistical Institute).

Mandates of the Committee are:

- To monitor and evaluate the developments in food and agricultural products markets,
- To advise, when necessary, on the measures to be taken and the policies to be implemented,
- To facilitate cooperation and coordination between institutions,
- To establish a sub-committee, consultancy groups, ad hoc and permanent working groups to carry out the work of the Committee effectively and in integrity and to ensure coordination,
- To evaluate and finalize the results of the studies carried out by the sub-committee, consultancy groups, ad hoc and permanent working groups,
- To analyze the market arrangements with respect to the Government Plan, Development Plan, Medium-Term Plan, Strategic Plans and the Vision 2023 document,
- To report the decisions of the Committee to the Economic Coordination Committee.

<sup>1</sup> The reason for choosing the EU-28 as an advanced country example is to eliminate differences that may arise from the method of calculation, as similar methods are used for inflation calculation in Turkey.

## REFERENCES

- Başkaya, S., Gürgür, T. and F. Öğünç (2008), "Global Warming, Globalization and Food Crises - An Empirical Study on Processed Food Prices in Turkey" Central Bank Review 2 (2008), 1-32.
- Orman, C., Öğünç, F., Saygılı, Ş. and G. Yılmaz (2010), "Sources of Volatility in Unprocessed Food Prices: Structural Factors (in Turkish)", CBRT Research Notes in Economics No: 10/16.
- Öğünç, F. (2010), "Volatility of Unprocessed Food Inflation in Turkey: A Review of the Current Situation (in Turkish)" CBRT Research Notes in Economics No: 10/05.

## PUBLICATIONS FROM THE CBRT

### RESEARCH NOTES IN ECONOMICS

- Federal Reserve Policies and the Banking Sector's External Borrowing (in Turkish) (Koray Alper, Fatih Altunok, Tanju Çapacıoğlu, No: 15/14, 24 August 2015)
- Interest Rate Corridor and the Monetary Policy Stance (A. Hakan Kara, No: 15/13, 19 August 2015)
- Information Content of Credit in Explaining Inflation (in Turkish) (Fethi Ögünç, Çağrı Sarıkaya, No: 15/12, 30 July 2015)
- Composite Leading Indicator for the Housing Sector in Turkey (in Turkish) (Aslıhan Atabek Demirhan, Defne Mutluer Kurul, No: 15/11, 23 July 2015)
- Effect of Oil Prices on Exports (in Turkish) (Olca Yücel Çulha, Mustafa Utku Özmen, Erdal Yılmaz, No: 15/10, 4 June 2015)

For Research Notes in Economics, please visit: [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Publications/Research/ Research Notes in Economics)



### CBRT WORKING PAPERS

- Export Behavior of the Turkish Manufacturing Firms (Aslıhan Atabek Demirhan No. 15/22, August 2015)
- Structure of Debt Maturity across Firm Types (Cüneyt Orman, Bülent Köksal No. 15/21, August 2015)
- Government Subsidized Individual Retirement System (Okan Eren, Şerife Genç İleri No. 15/20, July 2015)
- The Explanatory Power and the Forecast Performance of Consumer Confidence Indices for Private Consumption Growth in Turkey (Hatice Gökçe Karasoy, Çağlar Yüncüler No. 15/19, June 2015)
- Firm Strategy, Consumer Behavior and Taxation in Turkish Tobacco Market (Oğuz Atuk, Mustafa Utku Özmen No. 15/18, June 2015)
- International Risk Sharing and Portfolio Choice with Non-separable Preferences (Hande Küçük, Alan Sutherland No. 15/17, June 2015)
- A Theory of Intra-Firm Group Design (Semih Tümen No. 15/16, June 2015)
- Government Spending Multiplier in Turkey (Cem Çebi No. 15/15, June 2015)

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### INFLATION REPORT 2015-III

The third Inflation Report of 2015 was presented at a press conference held in Ankara on 30 July 2015. The Report covers international economic developments, inflation developments, supply and demand developments, developments in financial markets, financial intermediation and public finance as well as containing the CBRT's medium-term forecasts.

The boxes included in the Report are: Information Content of Credits in Explaining Inflation; Firm Strategy, Consumer Behavior and Taxation in the Turkish Tobacco Market; The Exports-Inflation Relationship in Food Products; Using Survey Data in Near-Term GDP Forecasts; The Effect of Oil Prices on Exports and Government Spending Multiplier.

A live webcast of the press conference with simultaneous English interpretation was also made available on the CBRT website.

For the Inflation Report 2015-III, please visit: [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Publications/Reports/ Inflation Report)



### CENTRAL BANK REVIEW

The Central Bank Review is a double-blind refereed journal published three times a year by the CBRT. The third issue of the 2015 journal covers the following articles:

- The Relationship Between Central Bank Independence, Financial Freedom, and Economic Growth: A Panel ARDL Bounds Testing (In English) (Merter Akıncı, Gönül Yüce Akıncı, Ömer Yılmaz)
- Nowcasting the Unemployment Rate in Turkey: Let's Ask Google (In English) (Meltem Gülenay Chadwick, Gönül Şengül)
- Financial Conditions Index For Turkey (In Turkish) (Hakan Kara, Pinar Özlü, Deren Ünalımsı)
- Has the Pass-Through from Oil Prices to Inflation Changed? (In Turkish) (Halit Yanıkkaya, Hüseyin Kaya, Doğanbey Akgül)
- Inflation Regimes and Pass-Through from Producer Inflation to Consumer Inflation (In Turkish) (Zekeriya Yıldırım)

For the Central Bank Review, please visit:

[www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Publications/Central Bank Review)



## AT A GLANCE...

### WORKSHOP ON "INTERNATIONAL MONETARY AND FINANCIAL SYSTEM – SHORT-TERM CHALLENGES, LONG-TERM SOLUTIONS"

The CBRT co-organized a one-day workshop with the Bank of England on the International Monetary and Financial System (IMFS) in Bodrum on 14 June 2015. The aim of the workshop was to provide a forum for policy makers and academics to share their experiences and latest research findings, and to discuss policy recommendations to mitigate risks in order to put the IMFS on a firmer, permanent footing.

The workshop covered issues such as the impact of capital controls in emerging economies, arrangements towards capital flows, flexibility in the face of international monetary shocks and policy choices, banks and external shocks, global liquidity, house prices, economic findings on advanced and emerging economies, global banking, global crises, the weaknesses of the international monetary system, the problems observed and the road taken in the reforms introduced in the international monetary system.

For more information, please visit:

[www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Education & Academic/ Conferences)



### CONFERENCE ON "BALANCED AND SUSTAINABLE GROWTH- OPERATIONALIZING THE G20 FRAMEWORK"

The CBRT and the European Central Bank co-organized the "Conference on Balanced and Sustainable Growth - Operationalizing the G20 Framework", the third in a series jointly organized by the two institutions, in Frankfurt am Main on 27-28 August 2015. The topics of the four-session conference were: sustainable economic performance, trade and balanced growth, firm level performance and growth and the role of policies in fostering sustainable growth. The keynote speakers of the conference were Mr. Turalay Keç, Deputy Governor of the Central Bank of the Republic of Turkey and Mr. Claudio Borio, Head of the Monetary and Economic Department of the BIS. Mr. Keç delivered a presentation on "Response of the G20 to the Global Financial Crisis" and Mr. Borio delivered a speech on "The Centrality of the Current Account in International Economics".

### G20 FINANCE MINISTERS AND THE CENTRAL BANK GOVERNORS MEETING

G20 Finance Ministers and Central Bank Governors convened for the third time under the Turkish Presidency in Ankara on 3-5 September 2015. This meeting provided an important and timely opportunity to make a comprehensive evaluation of the agenda of the G20 Leaders' Summit to be held in Antalya on 15-16 November 2015. The advances and developments up to September have been evaluated and the ministers and governors worked on the Communiqué to be released at the end of the Antalya Summit.

In this framework, the meeting served as a forum to discuss issues of global economy, strong, sustainable and balanced growth, investment and infrastructure, financial regulations, international tax, international financial architecture and IMF reform and climate change. At the end of the meeting, the G20 Finance Ministers and Central Bank Governors signed the third Communiqué under the Turkish Presidency.

The next Finance Ministers and Central Bank Governors meeting will be held in the Peruvian capital, Lima, on 8 October 2015.

### G20 GLOBAL ISLAMIC FINANCE CONFERENCE: BENEFITS AND OPPORTUNITIES

Within the framework of the Turkish G20 Presidency, the CBRT organized the conference on "G20 Global Islamic Finance Conference: Benefits and Opportunities" on 31 August-1 September 2015. During the two-day conference, which began with a keynote speech delivered by Yale University economics professor and Nobel laureate, Robert Shiller, hot topics on the G-20 agenda, such as financial stability, SME financing and financial inclusion, were extensively discussed by prominent scholars and policymakers from around the world. Around these topics, it was emphasized that Islamic finance has a potential to contribute to financial stability, can increase employment via more SME-friendly financing schemes and can add much to financial inclusion. Prominent scholars in the field debated Islamic finance – financial stability nexus, the role of Islamic finance in SME finance and many other relevant topics.

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**Central Bank of the Republic of Turkey**

Communications and Foreign Relations Department

Anafartalar Mah. İstiklal Cad. No: 10 06050 Ulus Altındağ Ankara

Free edition of CBRT.

## ISSUE: 36 / SEPTEMBER 2015

Published quarterly by the Central Bank of the Republic of Turkey.

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