



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

CBRT BULLETIN

June 2017

ISSUE 43

The Work of the Food Committee

How did the need for a Food Committee arise?* What is on the main agenda of the Committee?* What is the role of the CBRT in the Committee?* What are the achievements of the Committee so far? (Page 2)

Economics for All

- Inflation Report
 - What is inflation?
 - Why is price stability important?
 - What is the role of structural policies in disinflation?
- (Pages 4-5)

From the CBRT Blog

(Page 6)

Inflation (June 2017)

10.90%

CBRT Reserves (23 June 2017)

Gross FX Reserves

USD **89.05** Billion

Gold

USD **18.55** Billion

CBRT Policy Rates (15 June 2017)

Late Liquidity
Window Overnight
Borrowing Rate

0%

Overnight
Borrowing Rate

7.25%

One-Week Repo
Rate

8.00%

Overnight
Marginal Funding
Rate

9.25%

Late Liquidity
Window
Overnight
Lending Rate

12.25%

The Work of the Food Committee

The Food Committee, the “Food and Agricultural Product Markets Monitoring and Evaluation Committee” in full, was established with the Prime Ministry Circular No.2014/20 published in the Official Gazette No.29200 dated 9 December 2014. Approximately two years later, the Committee was restructured and its secretariat was taken over by the Central Bank of the Republic of Turkey (CBRT) on 27 December 2016 with the Prime Ministry Circular No.2016/30.

The Committee convenes under the secretariat of the CBRT and the presidency of the Deputy Prime Minister, with the participation of the Minister of Economy, the Minister of Food, Agriculture and Livestock, the Minister of Customs and Trade, the Minister of Development, and the Minister of Finance.

How did the need for a Food Committee arise?

In a conventional monetary policy framework, unprocessed food prices are accepted as exogenous shocks and fall outside the monetary policy’s area of intervention. Unprocessed food prices display high volatility from time to time in all countries due to uncertainties about production, seasonal factors, foreign trade decisions, and market flaws. However, this volatility is way above the world average in Turkey and unfavorably affects the healthy price formation in the sector. The excessive volatility in prices of food products, which have a considerably high weight in the inflation basket, also negatively affects price stability and deteriorates the macroeconomic balances. This issue occupies an important place on the agenda of policymakers, as the most affected group by this volatility is the low-income households who spend a significant portion of their incomes on food, and as the food sector has a

wide sphere of influence on the overall economy.

The high level of and the volatility in food inflation in Turkey;

- deteriorate the overall inflation outlook,
- hinder healthy price formation,
- unfavorably affect the pricing behavior by increasing the inflation uncertainty,
- cause rigidity in inflation expectations,
- consequently restrain monetary policy’s room for maneuver.

Considering that the food inflation noticeably contributes to the annual CPI growth which displays a rigidity around the 8-10 percent band, it becomes clear that a reduction in the level and volatility of food inflation will bring about significant achievements in terms of monetary policy as well as public welfare.

In the framework of the holistic approach adopted by the CBRT in the fight against inflation, it is critical that the structural and periodical problems underlying the volatility in food prices are eliminated. In this respect, the Food Committee was established to identify the reasons for the significant differentiation of food inflation from the overall consumer inflation, as well as to

- monitor and evaluate the short-term and long-term changes in supply-demand, exports-imports and production-consumption, and the possible effects of these changes and the developments in the distribution chain on prices,
- offer concrete suggestions regarding the measures to be taken and the policies to be implemented when deemed necessary.

What is on the main agenda of the Committee?

The medium and long-term agenda of the Food Committee can be summarized as follows:

- **Increasing agricultural production and productivity:** Making the strategic planning to increase productivity, spreading and encouraging the use of appropriate technologies, facilitating the producers’ access to financing, ensuring long-term sustainability in production, preventing supply gaps,
- **Establishing a monitoring mechanism:** Establishing a monitoring system (Early Warning System) that will identify the risk factors before they lead to lasting effects on prices by closely following the product-based price, supply and supply chain developments,
- **Devising foreign trade measures:** Devising a flexible foreign trade mechanism that works in coordination with the Early Warning System, enables short-term rebalancing in food prices by rapidly stepping in when needed, safeguards the sectoral balances and protects the producer,
- **Improving the logistics infrastructure:** Generating suggestions for measures and incentive packages oriented towards a structural transformation in logistics fields such as transport, storage, packaging and classification that affect the price formation in the food supply chain,
- **Empowering the producer organizations:** Establishing an organizational structure that will unite the producers around a common goal and enable them to directly access available markets, financing and other necessary sources, making this structure

sustainable, and reducing the dependency of the producer on the tradesman,

- **Eliminating informal brokerage:** Taking the structural steps to shorten the food supply chain by eliminating informal brokerage,
- **Improving the conditions of competition:** Improving the conditions of competition in the sector and taking measures that will support the healthy price formation.

What is the role of the CBRT in the Committee?

The CBRT's research units work closely with the relevant institutions and organizations or in a narrower circle, when needed, to identify the related structural problems and offer suggestions for a solution. In this way, it is aimed to

- study the economic factors underlying the problems more in depth,
- design the reform suggestions, monitored by the CBRT's research units, from a price stability point

of view (and through mutual negotiations by paying regard to other institutions' sensitivities),

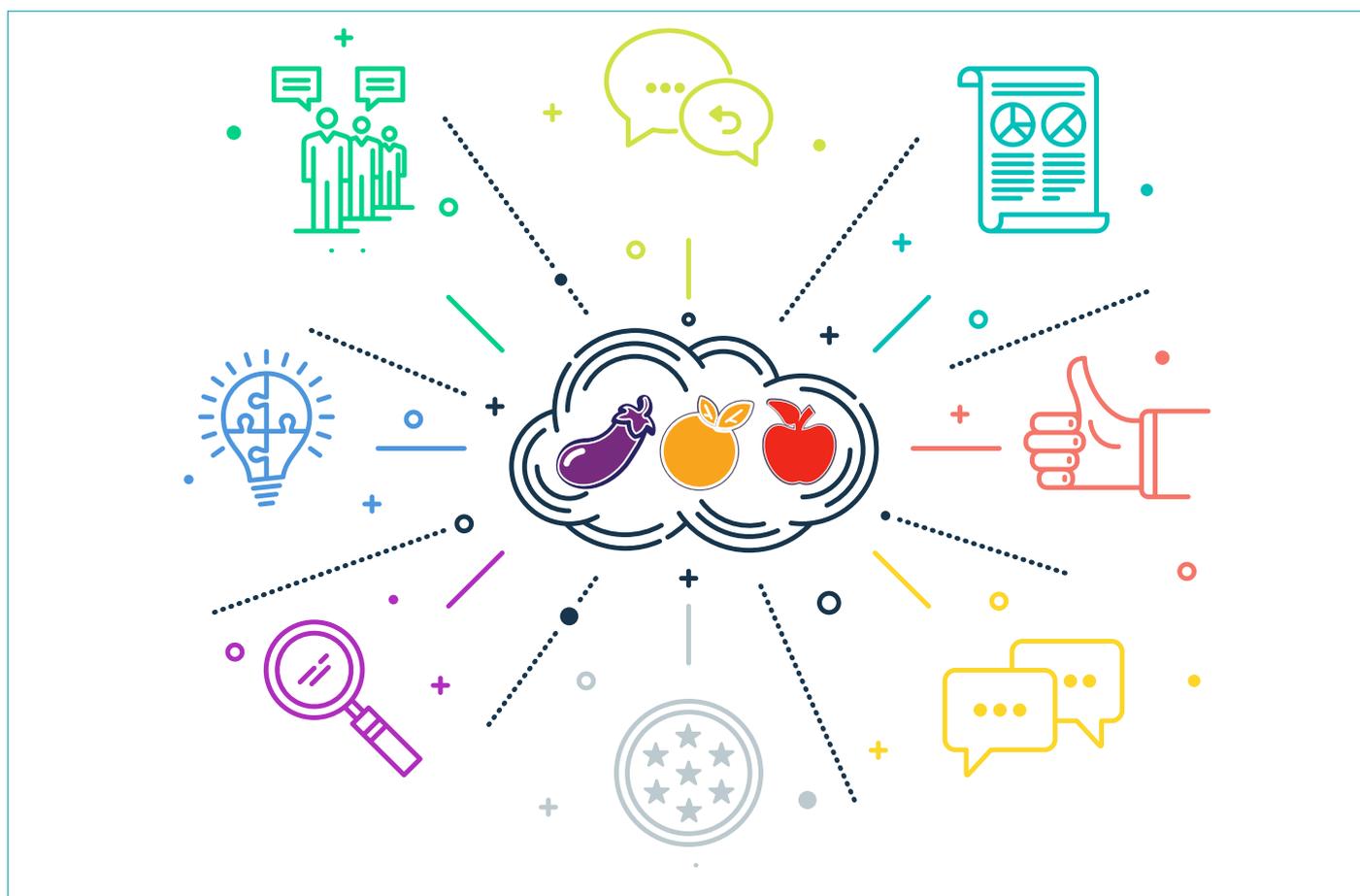
- ensure that sufficient time and resources are allocated for the necessary technical infrastructure work.

Accordingly, in the framework of its long-standing institutional background in price formation in food products, the CBRT plays a leading role in the monitoring of food price developments and the identification of priorities. In the scope of its secretarial duties, the CBRT engages in the Committee work of the line ministries, monitors the implementation of the decisions made and conducts impact analyses for the regulations introduced. At the same time, it is liable to follow the international developments, and observe and report the shocks originating from foreign supply and price developments in a timely manner.

What are the achievements of the Committee so far?

The Food Committee work done so far has yielded significant achievements. First of all, a high level of awareness has been raised in all segments of the public regarding the food inflation and the effects of food prices on the overall inflation. In addition, an in-depth and rich-content public discussion platform has been established concerning the factors that hinder healthy price formation in the food market and restrain productivity in the agricultural sector. With the contribution of the CBRT, solution-oriented cooperation has been developed between the stakeholders. Moreover, it is believed that the experience and synergy derived from this work will serve as an example for similar solution-seeking efforts in other sectors with structural problems.

The recently introduced short-term foreign trade measures will be supported by incentives that will empower producer organizations and improve the logistics processes in the supply chain, as well as by the development of agricultural financing solutions that will increase productivity.



INFLATION REPORT

Pursuing inflation targeting strategy, the CBRT's main communication tool is the quarterly Inflation Report. Inflation Reports are published on a pre-announced timetable in January, April, July and October. The Overview parts of the Inflation Reports are announced in a press conference attended by the Governor and other MPC members. The Report examines developments in inflation and the general macroeconomic outlook and presents an evaluation of factors affecting inflation.

The Inflation Reports also include the CBRT's medium-term forecasts and numerical inflation forecasts. Formerly, the forecasts were presented for 18 months; in 2007, the forecasts covered a 2-year horizon. As of April 2008, forecasts based on alternative scenarios have been added to existing forecasts and the forecast horizon has been extended to 3 years. The target was to allow economic units to take decisions with a longer-term perspective and improve their projections. Moreover, the Report is also important as it contains information about future policies and

it is an important transparency and accountability instrument.

The CBRT published its latest Inflation Report (2017/II) on 28 June 2017 and the inflation forecast for end-2017 was 8.5 percent. The Inflation Report for the third quarter of 2017 will be published on 1 August 2017 and the fourth quarter on 1 November 2017.

[Please click for Inflation Reports.](#)

What is inflation?



Inflation is a sustained increase in the general level of prices of goods and services in an economy. In an inflationary environment, the amount of goods that can be purchased by paying a certain amount of money decreases which means the value of the Turkish lira depreciates. High inflation affects economic units' decisions on investment, consumption and savings. If the inflation rate is so low that units ignore this rate while making decisions and if this low inflation is sustainable, then it can be asserted that price stability has been achieved in this economy.

Why is price stability important?



When price stability is achieved, all economic units in the economy are able to recognize price differences more easily while making investment and consumption decisions and have more information that would help them make more accurate decisions. In an environment where price stability is achieved, the uncertainty

caused by high inflation is mostly reduced. The primary objective of economy policies is to increase the welfare of individuals. When prices are stable, all economic units can make healthier decisions, sustainable development is achieved, economic stability and social welfare are increased.

What is the role of structural policies in disinflation?



Even if inflation is defined as a monetary phenomenon in economic literature, there are many structural factors that hinder achieving an inflation target by using conventional monetary policies. These factors not only increase the frequency and severity of price shocks but they also feed rigidity and persistency in inflation. Factors such as dollarization, the competition environment, productivity, imported input utilization, taxation and contracts are some of the structural factors limiting the effectiveness of monetary policy in disinflation by preventing the effective functioning of the monetary transmission mechanism.

Designing structural policies to offset these factors necessitates achieving a well-established inter-institutional coordination. Moreover, analyzing issues like growth, productivity, labor markets, foreign trade, balance of payments and public finances, human capital investments, R&D investments, infrastructure investments, entrepreneurship, education and migration from price stability and monetary policy point of view; developing suggestions for solutions and implementing these solutions would also contribute to disinflation efforts.

From the CBRT Blog



How does the licensed warehousing system contribute to price stability?

Semih Tümen
(Executive Director of the Structural Economic Research Department),
Hüseyin Songül
(Central Bank Specialist)
15.06.2017

“The licensed warehousing and specialized commodity exchanges system allows for the storage and trading in a deep market of agricultural products such as grains, legumes, nuts, olives and olive oil that can be standardized and stored for a long time. This system serves as a sophisticated trade platform bringing together producers, tradesmen, industrialists and middlemen as well as banks, insurance companies and investors. (...) The effective functioning of the licensed warehousing system is expected to have a positive impact on

food inflation via its role in healthy price formations in storable products. Here, two main mechanisms are at play. The first one is through the growth in agricultural productivity due to the easier access to financing by farmers and the removal of financing constraints as a result of licensed warehousing, which in turn brings about a sustainable increase in the product supply. A sustainable increase in the supply will reduce the recently more visible propensity to import storable products and consequently weaken the effects of the exchange rate shocks on the prices of these products. The second mechanism works through the fall in the supply/price volatility and the increase in predictability in the market, due to the balanced supply of products in terms of timing and amount as a result of increased storage capacity as well as due to the reduced informal storage. Enabling healthy price formations in storable products through these two mechanisms will also keep the lasting and continuous price shocks to these products at reasonable levels.”



Impact of the change in the weight structure of clothing and footwear group on the underlying trend of inflation

Fethi Ögüncü
(Senior Economist),
Mustafa Utku Özmen
(Economist)
06.06.2017

“Obviously, clothing and footwear are supplied to the market according to consumers' demand shaped by seasonal conditions. (...) In the variable weight system, the relative share of seasonal products used to change from month to month. With the fixed weight method adopted, however, the relative weights of seasonal products in the index will not change throughout the year.

This impact is particularly important for clothing and footwear products because the seasonality in clothing group is more regular than that in fresh fruits and vegetables. Therefore, base effects driven by changing seasonality on annual apparel group inflation are observed more rarely. However, by the nature of the methodological difference, clothing and footwear price indices calculated by fixed weight and variable weight methods do not have the same seasonal structure (the same monthly change). For this reason, uniquely to the current year, 2017, some significant base effects will be observed in the annual inflation of the clothing and footwear group. This will also have remarkable impacts on the underlying trends of core inflation indicators. As of 2018, this mechanical impact will fade out.”

Editorial Board

Owner on behalf of the CBRT
and Managing Editor:
Hakan Atasoy

Editorial Board:
Memet Taşkın, Canan Binal
Yılmaz, Sevgi Serpil Atalay
Güven, Çiğdem Karataş, Feriha
Bulut, Merve Bozkurt, Özge
Kalmış

Central Bank of the Republic of
Turkey
Communications and Foreign
Relations Department
Anafartalar Mah. İstiklal Cad.
No: 10 06050 Ulus Altındağ
Ankara
A complimentary publication
from the CBRT.

Issue 43 / June 2017

Published quarterly by the Central Bank of the Republic of Turkey

Social Media

 Türkiye Cumhuriyet Merkez Bankası  @Merkez_Bankasi /
CentralBank_TR /
@TCMBBlog

 Türkiye Cumhuriyet Merkez Bankası  TCMerkezBankasi

CBRT BLOG

 Merkez_Bankasi