

TUSIAD COST-BASED COMPETITIVENESS INDEX (TUSIAD-CCI)

2025 1st QUARTER

The TUSIAD Cost-Based Competitiveness Index (TUSIAD-CCI), which has been on a downward trend over the past year, recorded a value of 86.1 in the first quarter of 2025, unchanged from the previous quarter.

The TUSIAD Cost-Based Competitiveness Index (TUSIAD-CCI), which compares the input costs of Türkiye's exporting manufacturing industry sectors with those of competitor countries, remained unchanged from the previous quarter at 86.1 in the first quarter of 2025. In the first quarter of the year, domestic cost trends remained broadly in line with external cost developments. Labor cost declined slightly with respect to competitor countries, while the change in the cost of intermediate goods was slightly above that of competitor countries. Financing costs increased, albeit at a slower pace, while energy costs declined significantly. Over the same period, labor productivity evolved in line with that of competitor countries and had no significant impact on the competitiveness of firms.

The TUSIAD-CCI indicates that the cost-based competitiveness of Türkiye's exporting sectors has been falling since 2022. Due to the rise in unit production costs in USD terms in Türkiye compared to competitor countries, the index fell below its 2015 level.

8.9%
YoY drop in the
first quarter of 2025

TUSIAD-CCI (2017=100)

An increase in the index signals a gain in Türkiye's cost-based competitiveness, while a decrease indicates a loss.

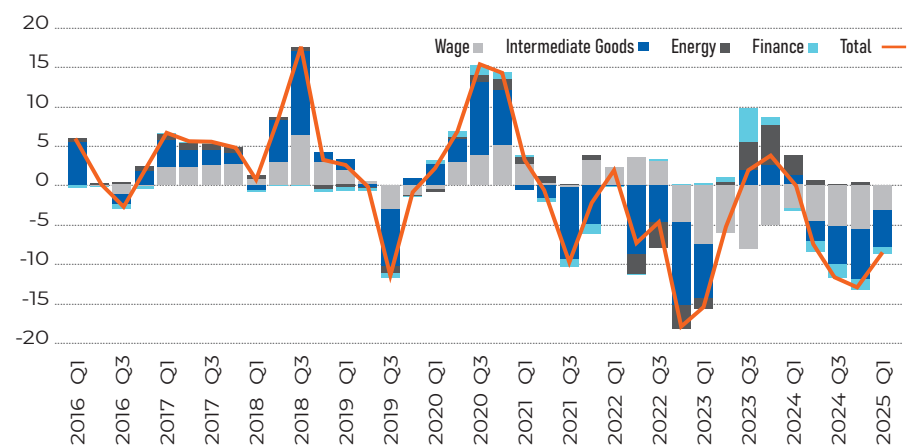


Source: Saha Analytics

In the last six quarters, the significant decline in the TUSIAD-CCI was primarily driven by the rise in the cost of intermediate goods and labor cost indices. During this period, the rise in the financing cost index also played a significant role, while the energy cost index, remaining relatively stable and had a minimal impact on the overall index.

In the first quarter of 2025, the TUSIAD-CCI decreased by 8.9 per cent year-on-year, with 4.8 percentage points of this change attributed to intermediate goods costs, 3.2 percentage points to labor costs, and 0.9 percentage points to financing cost increases.

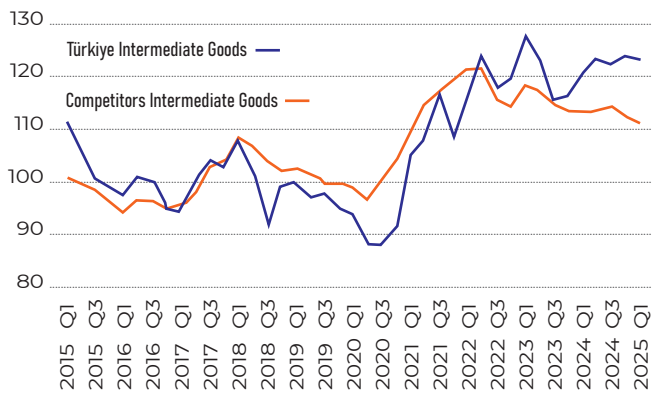
TUSIAD-CCI Cost Components (Contribution to Annual Change, ppt)



Source: Saha Analytics

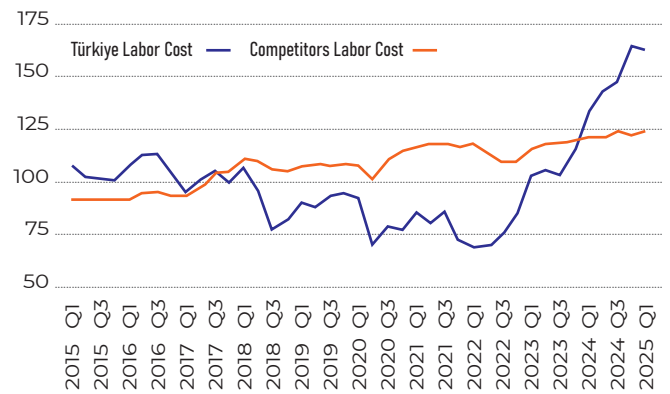
4.8 PPTS of the total 8.9% YoY decline caused by intermediate goods input costs.

Cost of Intermediate Goods in Türkiye and Competing Countries



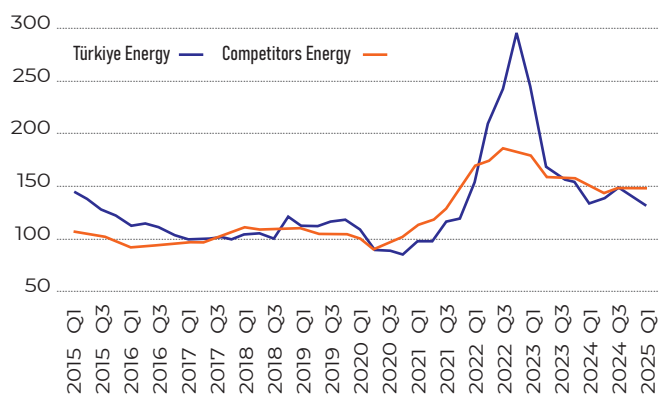
Source: Saha Analytics

Labor Cost in Türkiye and Competing Countries



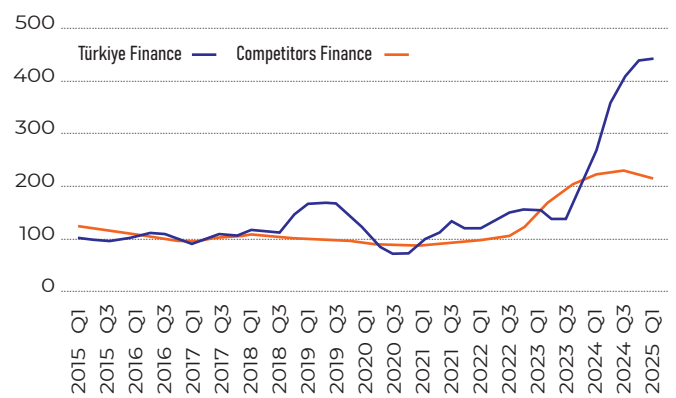
Source: Saha Analytics

Energy Cost in Türkiye and Competing Countries



Source: Saha Analytics

Cost of Financing in Türkiye and Competing Countries



Source: Saha Analytics

COST COMPONENTS

Cost of Intermediate Goods: In the first quarter of 2025, the cost of intermediate goods across all manufacturing industry sectors decreased in Türkiye compared to the previous quarter, in line with competitor countries. However, the decline in domestic costs (-0.2 percent) remained lower than the decline in the costs of competitor countries (-0.9 percent), which had a limited negative impact on the relative costs of exporting firms.

Labor Costs: Domestic labor costs began rising significantly in USD terms from the first quarter of 2022, following a period of decline between 2018-2021. In contrast, labor costs in competitor countries remained stable in the first quarter after experiencing a gradual uptrend over the previous two years. Having peaked in the last quarter of 2024, domestic labor cost index posted a modest decline of 1 percent in the first quarter of 2025.

Energy Costs: Since the second half of 2023, domestic energy cost developments have been in line with those in competitor countries, helping to contain overall production cost increases. After remaining relatively stable throughout

2024, the domestic energy cost index fell by 6.3 percent quarter-on-quarter in the first quarter of 2025, extending the decline since the last quarter of 2024 to 11 percent. Meanwhile, energy costs remained unchanged in competitor countries during the same period. Accordingly, energy costs contributed positively to the TUSIAD-CCI.

Financing Costs: The domestic financing cost index has been on an upward trend since the third quarter of 2023, largely driven by rising loan interest rates. In contrast, financing costs in competitor countries have seen a more moderate upward trend in the index over the same period. In the first quarter of 2025, the slowdown in the pace of increase in the domestic financing cost index slowed noticeably with a modest quarter-on-quarter rise of 0.8 percent. Despite this deceleration, the financing cost index continued to contribute negatively to the TUSIAD-CCI reflecting the decline in the financing costs observed in competitor countries.

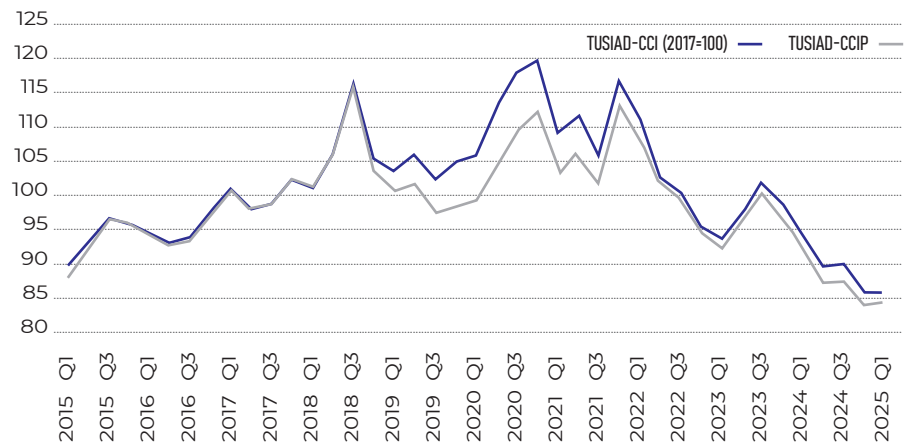
TUSIAD-CCIP

The productivity-adjusted index (TUSIAD-CCIP), which accounts for labor productivity developments, consistently remained below the TUSIAD-CCI index throughout the sample period. This reflects the ongoing lag in labor productivity growth within Türkiye's exporting sectors compared to competitor countries.

The relatively subdued performance in labor productivity persisted through the first three quarters of 2024. However, in the last quarter of the year and the first quarter of 2025, labor productivity in Türkiye aligned more closely with those of competitor countries.

TUSIAD-CCIP

An increase in the index signals a gain in Türkiye's cost-based competitiveness, while a decrease indicates a loss.



Source: Saha Analytics

The TUSIAD Cost-Based Competitiveness Index (TUSIAD-CCI)

is a cost-based competitiveness index that compares the course of input prices (costs) used in exporting manufacturing industry sectors over time with those of competitor countries. The index is calculated using up-to-date data sets provided by national and international organizations. The index consists of four cost components: intermediate goods, labor costs (average gross wages), energy, and financing costs. These production costs are measured in current US dollars for each country and compared on a quarterly basis. An increase in the index indicates a decrease in the unit cost of production relative to competitor countries (cost-based competitiveness gain), while a decrease in the index indicates an increase

in the unit cost of production relative to competitor countries (cost-based competitiveness loss). The productivity-adjusted index (TUSIAD-CCIP) is constructed by incorporating labor productivity developments in exporting sectors and competitor countries into the calculations. The TUSIAD-CCI and TUSIAD-CCIP indices are compared to provide information on how labor productivity affects cost developments compared to competitor countries. A higher increase (decrease) in the TUSIAD-CCIP index compared to the TUSIAD-CCI index signifies that labor productivity in exporting manufacturing industry sectors has increased (decreased) at a higher rate than in competitor countries, thereby enhancing (weakening) cost-based relative competitiveness.

CALCULATION METHOD

The TUSIAD Cost-Based Competitiveness Index (TUSIAD-CCI) is an index developed to monitor trends in production costs (intermediate goods, energy, labor, and financing) across Türkiye's 10 exporting manufacturing sectors in comparison to those of competitor nations. The sectors encompassed by the index include food, textile-clothing-leather, chemicals, plastics and rubber, other non-metallic minerals, basic metals, fabricated metals, electrical equipment, machinery manufacturing, and motor vehicles. The identification of competitor countries is based on Türkiye's primary export markets. In this context, 15 competitor countries were identified for each of the sectors analyzed and 35 competitor countries were identified across all sectors, of which 31 countries with available data were included in the index calculations.

For competitor countries and Türkiye, cost components and their weights in terms of "intermediate goods, energy, financing and labor costs" were calculated using input-output tables provided by national and international organizations. The cost items were calculated using data on producer price indices, average gross wage levels, energy prices, private sector loan interest rates, and exchange rates of the relevant countries. Using these data and the weights calculated from the input-output tables, a production cost index in local currency is constructed for each country. To make the indices comparable across countries, the index values calculated in local currency are divided by the US dollar exchange rate for the respective country. The TUSIAD-CCI index is derived by dividing the aggregated index for competitor countries by the cost index for Türkiye. The productivity-adjusted index (TUSIAD-CCIP) is obtained by incorporating the labor productivity calculated for competitor countries and Türkiye into the index.

The calculation of the intermediate goods cost index is based on the input prices of the pertinent sector from agriculture, hunting, forestry, fisheries and aquaculture, mining and quarrying (non-energy products), and manufacturing industries, utilized for production. The calculation of the energy cost index involves the utilization of input prices procured by sectors from mining and quarrying, energy-yielding products (coal, lignite), coke, and refined petroleum products, as well as electricity, gas, steam, and air conditioning sectors. The calculation of the financing cost index is based on the interest rates of commercial loans utilized by the real sector and the amount of financing required. The calculation of the labor cost index is predicated on the gross labor payments per employee indicator.

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