Industrial production rose more than expected in December...

- Industrial production index rose YoY by 4.5% in December above the market expectation of 3.6%. On a monthly basis, the index rose by 0.8%. In annualized terms, index was up by 3.1%.

- While economic activity ended 2015 on a high note, leading indicators signal expansion in the economy may have cut some pace in the first two months of 2016. Manufacturing PMI decreased to 50.9 in January from 52.2 in December. Seasonally adjusted capacity utilization fell second time in a row, retreating to 74.1% in February.

- Thanks to robust domestic demand, 2015 GDP growth may realize at a level close to 4%, well above Turkey's peers in the emerging markets. In 2016, GDP growth to a slightly lower level than that of last year's.

Inflation continued to rise in January...

- CPI in January increased MoM by 1.82% above the market expectation of 1.70%. The contribution of food prices was 101 pps, as food prices increased by 4.3% on a monthly basis pushing annual food inflation up to 11.7% from 10.9% from a month ago.

- Annual inflation went up to 9.58% from 8.81% driven by the increase in food prices, tax increases on tobacco & alcoholic beverages and electricity price hikes. Deterioration in core indices continued as well as the I index increased to 9.63% from 9.51%.

- The increase in minimum wage, tax and price hikes at the beginning of the year may continue to cause upward pressure on inflation in the first quarter. On the other hand, Turkish Lira has shown a more stable performance compared to 2015. Should the currency continue on a similar path, as the negative effect of depreciation fades out, inflation may start to come down after the first quarter.
Central Bank (CB) kept the policy rate unchanged again...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%, in line with the market expectation.
- There was very little change in the decision statement. The reference to the simplification process which was removed at the January meeting did not make its way back into this month's statement. This suggests that CB expects volatility in global markets to remain elevated in the coming months and will rely on the flexibility allowed by the interest rate corridor.
- The average funding rate has reached up to 9.14% within February and averaged 9.06% above January average of 8.91%. As inflation expectations continued to worsen in February, CB is expected to keep its tight stance, until a significant improvement in inflation is observed.

Current Account Deficit / GDP decreased down to 4.4% in 2015...

- Current account deficit (CAD) in December was $5.1 bn. 12 month cumulative CAD improved by $1.6bn compared to the previous month and came down to $32.2 bn (4.4% of GDP).
- On the financing side, there has been an FDI inflow of $11.5bn in 2015. Outflow from bond market reached $ 7.4bn in 2015, the outflow from the equity market was $2.4 bn. In December, reserves decreased by $6.6bn bringing full year depletion to $11.8 bn.
- 12 month cumulative energy deficit in November shrunk by 32% on an annual basis to $33.1 bn.
- CAD / GDP ratio is expected to fall further in 2016 as energy prices remain low and moderate domestic demand will continue to curb imports.
Financial Markets

**Debt Market**

Benchmark bond yield is slightly below 11%.

**Currency Market**

EM currencies depreciated against US Dollar in February.

**Stock Market**

MSCI Turkey equity index has performed better than other EMs in February.
CAR is at 15.2% in January, compared to 15.6% as the end of 2015.

Share of deposits in funding has risen to 60% as of Jan16.

Annualized loan growth is at 11.8% as of February 19th.
Loan to deposit ratio is 119% in January.

Headline NPL ratio for the sector is at 3.2%.

As of January, sector’s 12 month cumulative profit increased YoY by 5%. ROE is at 10.6%.