

Turkey's goal is to attain sustainable growth



İş Investment raised its market share from 5.05% to 6.38% in 2004, maintaining its leading position in terms of equity trading volume and number of contracts. When it comes to Turkey's agenda, it has become more important to make economic gains permanent and achieve sustainable growth.

The main factors underpinning global growth in 2004 were the strong consumption expenditures in the US economy, stemming from expansionist monetary and financial policies as well as surging private sector investments in China. Strong foreign demand has stimulated economic growth in Japan. There was also a little more vigor in Eurozone economies, still holding onto tight monetary policies, even though the growth rate remained sluggish. Developing countries, however, benefited from the favorable trend in the global economy, which reached record levels of growth.

Increasing demand for raw materials in China and India, related to a general revival in developing countries, rapidly pushed up international commodity prices. Crude oil prices reached the highest levels seen recent years, when rising global demand was accompanied by supply shortages brought about by war, natural disasters and international terrorism. These events conspired to make 2004 a year when inflation rose globally.

In parallel with the FED's interest-rate hikes in 2005 and the partial tightening expected in financial policies, US growth is expected to slow down. At the same time China's economic growth is forecasted to slow down to more sustainable levels. Developing countries are expected to sustain their relatively high rates of growth. Continued high oil prices and an acceleration in FED interest rate hikes appear to be the principal risks for 2005.

After posting 8% economic growth in 2004, Turkey is expected to be one of the fastest growing countries in the world. With the Turkish economy now reaping the rewards of the tight fiscal and monetary policies and the structural reforms which have been implemented since



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2000, combined with a favorable global conjuncture, 2004 was a year of easing concerns over public debt and more benign inflationary expectations.

Those in charge of the economy took determined steps to create an environment of high sustainable growth, and benefited from a very positive financial environment during 2004, despite the many difficulties. Growth reached record levels, even while the Government recorded a primary surplus in the consolidated budget. Despite a revival in domestic demand and surging international commodity prices, inflation fell to single-digit levels. Exports continued to break records despite the continued appreciation of the Turkish lira.

In December 2004, on the eve of the EU Summit, the Government's announcement that a new three-year stand-by program would be initiated with the IMF heightened expectations that the benefits of the economic program implemented between 2002-2004 would be carried into the medium-term. Hot on the heels of the new IMF agreement, the announcement that EU accession talks would begin in October 2005 contributed to the feeling of optimism.

Optimism for the new year will be buoyed by concrete factors, such as indications that the pace of the widening in the current account deficit is slowing down, a slowdown in domestic demand in parallel with measures taken by economic decision-makers, the securing of a new US\$ 10 billion fund under the new stand-by agreement with the IMF despite the country's continuing status as a net debt payer, and the increasing effectiveness of the Central Bank's monetary policies in the wake of the inflation targeting system to be introduced in 2006.

In light of the uncertainty in international markets and the vulnerability of the economy, financial policies will remain important in 2005. A high primary surplus is still the Government's main tool at hand in easing the burden created by rising oil prices on the current account balance and the FED's increasingly tightening monetary policies. The fact that the new stand-by agreement will enable the Turkish Treasury to reduce its annual debt repayment to the IMF to around US\$ 4 billion in the coming years, and the parallel decline in the Treasury's need to borrow from domestic and/or foreign markets will provide Turkey with a safe harbor in the event of an unexpected storm.

In the realm of public finance however, the benefits to be gained from short-term measures have largely reached their physical limits. While the budget-deficit-to-GNP ratio targeted for 2005 was 6%, the social security system's deficit as a proportion of GNP reached 4.6%. The share of indirect taxes in total Government revenues climbed to 70%. It is therefore imperative that structural reforms, particularly those concerned with taxation and social security, continue to be implemented and that the privatization effort is accelerated. In addition and in contrast with previous years, we are entering a period when private sector reforms must also be rapidly addressed.

The European Council is expected to take an insistent line on making sure Turkey fulfils its obligations under international treaties in the run-up to the start of EU accession negotiations. There are bound to be some short-term negative developments as various sectors strive to meet the legal and technical harmonization requirements of the EU, especially in the Customs Union and Competition chapters of the talks. We have always defended the importance of restructuring the public sector. Given the improvements in

public finances and considering the potential effects of the new three-year stand-by agreement with the IMF, we now believe that the screening and negotiation process will occupy a more important place in the economic agenda than the structural reforms to be implemented in both the public and private sectors.

Against the background of these developments, İş Investment leaves behind a year of achievements. The Company managed to increase its share in the ISE Stock Market from 5.05% to 6.38%, ending this year, as in the previous years, as the market leader in terms of both trading volume and number of contracts. In terms of equity trading volume, İş Investment again occupied second place in 2004 in the ISE rankings of the Bonds and Bills Market. The Company ranked sixth in terms of the return on Type B Variable Funds and second among funds, with over TL 10 trillion in assets, reaching its goal to be among the top ten.

On behalf of our Board of Directors, I would like to thank all of our employees for reinforcing our leadership and for supporting our pioneering efforts to be a top-notch financial institution. To İşbank, from whom we derive our strength, we extend our gratitude for the support and encouragement they gave us in our efforts to develop Turkey's capital markets. I would also like to thank our investors and business partners for their confidence in our Company.

Sincerely yours,

Özcan Türkakin
Chairman