

Turkish Banks Go for Gold in Drive to Lure \$302 Billion Hoard 2012-10-29 22:01:00.1 GMT

By Sibel Akbay

Oct. 30 (Bloomberg) -- Deniz Kalkan, a 32-year-old housewife in Istanbul, is ready to move her gold.

"I'll put these in a deposit account as soon as I get the time," Kalkan said of the half-dozen gold coins she has collected and stashed in her apartment. "It's much safer to keep them in the bank than at home."

When Kalkan brings in her coins, she'll be joining a wave of Turks responding to a drive to lure an estimated \$302 billion of hidden gold into the economy to help ease the nation's current-account deficit, the world's biggest after the U.S. Gold-based deposit accounts surged 15 percent this year through the end of July, three times the increase in standard savings accounts, according to the central bank.

The gold accounts give customers an amount in Turkish lira equivalent to the weight of the precious metal they turn over to the bank. They can then withdraw cash or take out loans, while the lender is able to sell or hold onto the gold.

At Yapi Kredi Bankasi AS, owned by UniCredit SpA and Koc Holding AS, deposits in gold-based mutual funds, which invest at least 51 percent of their money in precious metals and offer a guaranteed return on capital, increased 62 percent in 2012.

Turkiye Is Bankasi AS, Turkey's largest bank by assets, said gold deposits increased 10-fold in the two years through June.

The campaign by Turkey's banks, featuring ads for "golden age" accounts and products such as gold gift checks, is targeted at Turks who traditionally give gold coins or jewelry as presents at weddings, births and circumcision ceremonies. The custom gained popularity a decade ago as Turkey's inflation rate topped 70 percent, making gold an attractive store of wealth.

Irish GDP

By bringing some of what the World Gold Council estimates are 5,000 metric tons (5,512 tons) of treasure into the banking system -- an amount greater in value than Ireland's gross domestic product -- Turkey hopes to reduce gold imports and external borrowing, according to Erdal Aral, deputy chief executive officer of Isbank.

"We have to get the gold that's out there into the financial system," Aral said in an interview in Istanbul this month. "This is going to be an important step toward solving our current-account problem."

Turkey's current-account deficit, the amount its imports

exceeded exports, peaked at \$77 billion in 2011. The gap narrowed by 23 percent this year to \$59 billion at the end of August on a 12-month rolling basis as record gold sales by Turkish companies to the United Arab Emirates and Iran pushed up exports, according to the government's statistics office.

Exporting Gold

Imports shrank at an annual rate of 4.8 percent in August, while exports rose 14.5 percent, driven primarily by gold. Sales of precious metals to the UAE and Iran, which is grappling with trade sanctions, jumped to \$9.2 billion this year through August from \$645 million a year earlier, statistics office data show.

"Gold exports to Iran and UAE are helping Turkey to improve its current-account gap quicker than expected," Ozgur Altug, chief economist at Istanbul-based brokerage BGC Partners, said in an e-mail.

Turkey doesn't produce enough gold to account for its exports. Production this year through August was about 25 metric tons, according to data from the Gold Miners Association. Gold imports were 109 tons as of the end of September, the Istanbul Gold Exchange said on its website.

"The gold has to come from somewhere so that it can be exported," Altug said. "It's obvious the gold under the mattress is fast entering the system."

Household Savings

The effort to lure gold into banks also will increase household savings, the lowest among emerging markets. Turkey's savings rate is 12.7 percent compared with China's 53 percent, according to a World Bank report. Raising the savings rate will reduce the amount banks have to borrow to fund their lending and enable them to make more loans.

"We support the government's drive to increase savings," Galip Tozge, executive vice president for consumer banking at Istanbul-based Akbank TAS, part-owned by Citigroup Inc., said in an interview. "Gold accounts will play an important role in this, as unregistered assets will come into the system."

The rise in gold prices in recent years added to the metal's popularity. Spot gold, which traded at \$1,711.38 an ounce on Oct. 29, has climbed 9 percent this year, heading for a 12th consecutive annual gain, as investors bought bullion to protect against inflation.

Turkish women began holding "golden days," when a gift, in the form of coins or jewelry, was brought to the hostess of a party. That's how Kalkan accumulated her small hoard, she said.

'It's Profitable'

"I buy gold every month, usually in the form of jewelry," said Ozlem Basar, a 26-year-old Istanbul shipping-company executive. "It's profitable, as prices are rising fast and inflation's increasing."

Turkey's inflation accelerated to 9.2 percent in September, climbing to a five-month high, almost double the central bank's year-end target of 5 percent. GDP growth fell to 2.9 percent in the second quarter from 9.1 percent a year earlier.

Banks are competing to attract gold with a variety of products. Isbank and Turkiye Garanti Bankasi AS, the country's biggest lender by market value, offer gold-backed loans, where customers can bring jewelry or coins to the bank and take out loans against their value. Garanti also has a credit card linked to gold deposit accounts. The bank said it soon will enable customers to withdraw their savings in gold, instead of Turkish lira or foreign exchange.

'Golden Days'

Islamic Asya Katilim Bankasi AS has hosted its own "golden days," when customers bring in coins and jewelry to be evaluated by experts. The Istanbul-based lender said it collected three metric tons of bullion through such promotions since March 2012 and that gold accounts have climbed 22 percent this year through July.

HSBC Holding Plc's Turkish unit is promoting a gold-based mutual fund on its website with the slogan, "Let the fund you touch turn to gold."

While Indian banks offer some instruments linked to gold to discourage hoarding, the choices are not as varied as those in Turkey, according to Isbank's Aral.

"Turkey seems to be trying the hardest to get the stashed gold into the system," he said.

Government measures, including an Aug. 16 central bank decision to raise the proportion of reserves lenders can keep in gold to 30 percent from 25 percent, have encouraged efforts to attract more bullion, Aral said. Central bank Governor Erdem Basci has said he may make adjusting the ratio his main monetary policy tool.

Grand Bazaar

Banks will have to diversify their services further for customers to find keeping gold in the bank attractive, Gokhan Ceviker, senior vice president for retail management at Bank Asya, said in an interview.

To speed up diversification, Turkey's regulators have been discussing planned legislation to enable customers to buy or sell gold at bank branches or transfer gold into other accounts, according to an Aug. 29 report in Milliyet, a daily newspaper. Bank Asya has said it will soon start purchasing and selling bullion at its branches.

Turkey's jewelers, many of them located in Istanbul's Grand Bazaar, one of the world's largest covered markets, have opposed the move. They say banks buying and selling gold would cut their revenue and push them into underground trading.

"I always viewed gold deposit accounts positively because the funds will return to our industry as loans," Kamil Karakas, chairman of gold producer Karakas Atlantis Kiyetli Madenler AS, said in an interview. "But banks buying and selling gold is a serious blow for jewelers."

Changing Habits

The plan will fail as banks won't be able to replicate the trust between the jeweler and the customer, said Faruk Bektas, a spokesman for the Grand Bazaar Tradespeople Association, which represents jewelers.

The six-century-old Grand Bazaar is host to almost 4,000 jewelers, and about 1.5 metric tons of scrap gold is processed into bullion there every day, according to Istanbul Gold Exchange data. Transaction volume totaled 8.5 billion liras (\$4.7 billion) last year.

"It will take a while for tradition to break, but habits will eventually change," Bank Asya's Ceviker said. "More and more people will see banks as the place to take their gold. These new resources will help us fund more loans, which will help the Turkish economy to grow."

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