

## Turkey: gold in action



## About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Working within the investment, jewellery and technology sectors, as well as engaging with governments and central banks, our purpose is to provide industry leadership, whilst stimulating and sustaining demand for gold.

We develop gold-backed solutions, services and markets based on true market insight. As a result we create structural shifts in demand for gold across key market sectors.

We provide insights into international gold markets, helping people to better understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East, and the US, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

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Cover photo: A skilled goldsmith works in 24ct gold at Kurtulan Jewelry, Istanbul.

# Turkey: gold in action

## Introduction

Turkey, perhaps better than anywhere else, illustrates the broad role gold can play in modern society. Gold is embedded in Turkish life: merchants pioneered the use of gold coins in ancient Lydia and, today, gold plays an important and innovative role in Turkey's economy. Turkey has a small but growing gold mining industry which generates jobs, tax revenue and investment. Fabrication, consumption and recycling boost the economy. And policymakers have started to mobilise gold, drawing it from "under-the-pillow" and into the heart of Turkey's financial system.

At an average of 181 tonnes (t) per annum over the past 10 years, Turkey is the world's fourth largest consumer of gold accounting for around 6% of global consumer demand, and we estimate that Turkish households have accumulated at least 3,500t of "under-the-pillow" gold.<sup>1</sup> This note explores the role gold plays across the entire value chain and assesses gold's economic contribution to Turkey.

## Summary

**Turkey has a long tradition of gold demand and we expect this to continue.** Turkey's relationship with gold is underpinned by a deep cultural heritage. Gold plays an important role in weddings and other aspects of religious life. In the jewellery fabrication industry it is a medium of exchange and a unit of account: in the Grand Bazaar – the heart of Turkey's gold market – rents are often priced in gold. There is a strong economic incentive to own gold too. Generations of Turkish savers have turned to gold as an effective hedge against the ravages of inflation and currency weakness.

**Its gold mining industry is small, but growing quickly.**

Turkey has an expanding gold mining industry with significant untapped potential. Gold production has increased in almost every year since 2001, growing from 2t to 33.5t in 2013.

And this may be the tip of the iceberg: Turkey's Ministry of Energy & Natural Resources estimate gold reserves to be 840t, while resources could be as high as 6,500t.

**Gold's value chain makes a significant contribution to Turkey's economy.** In 2012 alone, gold fabrication,<sup>2</sup> consumption and recycling added at least US\$3.8bn to Turkey's economy. The value chain supports 5,000 gold fabricators, 35,000 retail outlets and employs about 250,000 people. This doesn't include the 6,200 people employed by gold mining companies. And between 2009 and 2013, the three largest mines together invested over US\$1bn<sup>3</sup> in project expansion and ongoing capital expenditure.

**Gold is a small but important cog in Turkey's financial system.** By the end of 2013, commercial banks held around 250t, equivalent to US\$10.4bn,<sup>4</sup> which had been put to work supporting Turkey's economy. Most of this was from investors switching Turkish lira and foreign currency into gold accounts. But it also includes 40t – about US\$1.7bn – of Turkey's "under-the-pillow" stock, which has been mobilised since mid-2012.

1 This phrase is used in Turkey to refer to physical gold stored by the general population.

2 Fabrication demand is the first transformation of gold bullion into a semi-finished or finished product.

3 GFMS Gold Mine Economic Service.

4 Unless specified we use the average price for H1 2014 of US\$1,291 per ounce when calculating values.

NURUOSMANIYE KAPISI

زینت افزائی مقام معلای خلافت اسلامیہ و اریکد پیرای سلطنت منیہ عثمانیہ السلطان ابن السلطان الغازی عبد الحمید ثانی  
حضرت لیک جلد ماہر عمر انگریزی حمایت نکرندن اولوق اوزره اشو چار سوی کبیر بیک اوج یوزلوق ت شجره یی بیع الا ولید مجده تعمیر انفسه

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# Section 1: Demand

**Gold is deeply ingrained in Turkish culture.** The use of gold coins as a medium of exchange was pioneered by merchants in Lydia – the precursor of modern Turkey – as far back as 700BC. At wedding ceremonies gold jewellery embodies financial and emotional values for the Turkish bride, who as part of the wedding tradition has the right to ask for gold jewellery and coins. And gold is entwined in other religious events. In a longstanding tradition dating back to the Ottoman Empire, gold coins – usually the *Cumhuriyet Altını*<sup>5</sup> – are given to celebrate a boy's circumcision.

Turkey's modern-day relationship with gold penetrates aspects of working life too. Tired of chronically high inflation during the 1980s and 1990s, and the difficulties it posed at all stages of gold jewellery manufacturing, the Istanbul Jewellery Council and prominent members of the gold industry proposed using gold as a medium of exchange and unit of account instead of Turkish lira. The *Milyem Accounting System* was born. Echoing Lydian times, labour charges in the jewellery fabrication industry are now often paid in gold rather than Turkish lira, many store holders pay their rents in gold in the Grand Bazaar, and fabricators typically express their working capital in terms of gold rather than its fiat money value.

**There is also an economic incentive to own gold.**

Generations of Turkish consumers have viewed gold – in any form – as an effective hedge against inflation and currency weakness, both of which Turkey has suffered. Between 1997 and 2003 annual inflation averaged 60%, and between 2000 and 2014 the Turkish lira depreciated four-fold against the dollar. In contrast gold appreciated sixteen-fold in local currency terms. The importance of gold in protecting households' wealth means the Turkish market is price-sensitive. Consumers respond quickly to price dips and take profits when local prices are high. This is not new. In the hustle and bustle of the labyrinthine Grand Bazaar, traders cram into what is known as Gold Sellers Alley, where gold banking and trading has happened for centuries.

Increasing wealth also drives gold demand. Between 2000 and 2013, GDP per capita grew from US\$4,150 to US\$10,721. As we have seen with other countries that have a deep rooted cultural affinity with gold – China and India being the most notable examples – gold demand typically grows in tandem with rising incomes.



Many gold jewellers are located around the Grand Bazaar.

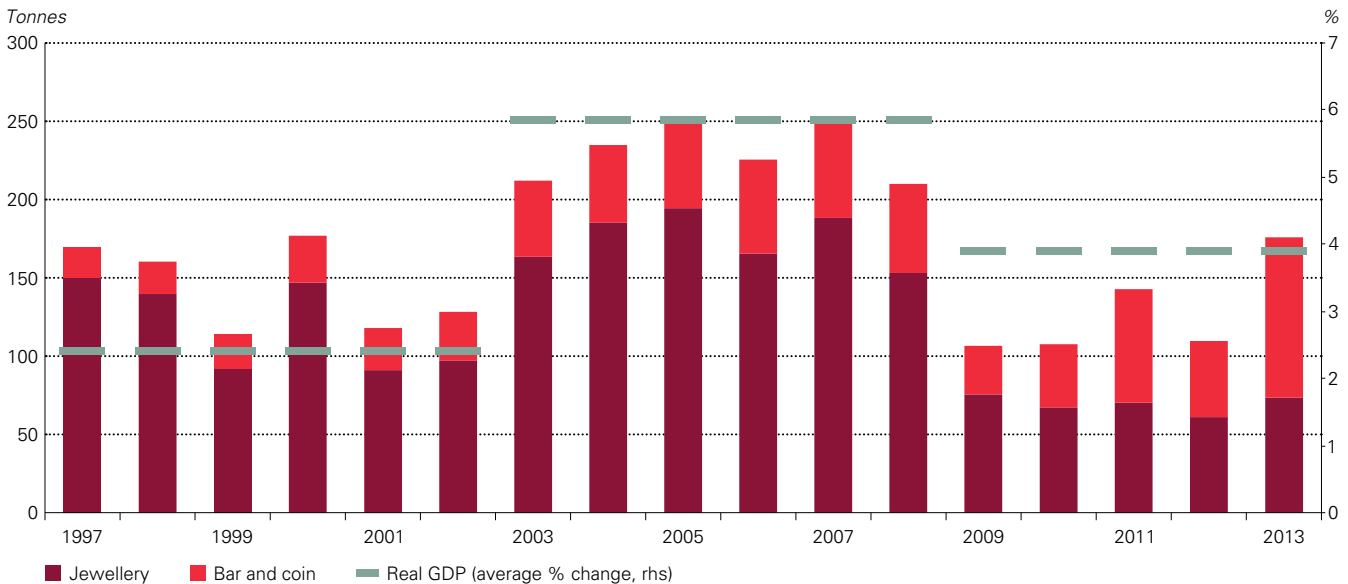
<sup>5</sup> Republican coins.

Photo on left hand page: One of the entrances to the Grand Bazaar in Istanbul.

**The wealth effect was strongest in the mid-2000s**, with annual gold demand peaking at almost 250t in 2005 and 2007 (**Chart 1**). Turkey's economy motored out of the deep recession it suffered following the 2001 Banking Crisis: between 2003 and 2008 real GDP grew by an average of 5.9% per annum, and people chose to save a portion of their rising income in gold. Then in 2008 the global financial crisis struck and growth stalled. In 2009 Turkey entered a sharp recession and between 2009 and 2013 real GDP grew by a relatively modest average of 3.9%. A slower rate of wealth accumulation combined with higher local gold prices meant gold demand fell back to levels last seen in the early 2000s.<sup>6</sup> While the state of the economy is an important driver of this fall in demand, it is not the only one. As will be discussed later in this note, gold deposit accounts may have met some gold demand that would have otherwise been realised through physical bars and coins.

**Turkey's long-standing desire for gold has resulted in households accumulating a large stock of gold tucked "under-the-pillow."** Estimates of how much vary, and it is difficult to make a judgement with a degree of certainty, but we can put forward our best estimate. Based on imports, exports and mine production since 1984, the Turkish Central Bank, *Türkiye Cumhuriyet Merkez Bankası* (TCMB), think that households' stock of gold is 2,189t.<sup>7</sup> This, of course, fails to take into account the stock of gold in Turkey accumulated before 1984. Allowing for this, we believe that the stock of gold in Turkey is probably at least 3,500t, or about US\$145.3bn, equivalent to around 12% of GDP in 2013.<sup>8</sup>

**Chart 1: Turkish consumer demand by category and real GDP**



Note: The dashed lines represent the average growth rate in real GDP.

Source: GFMS, Thomson Reuters; IMF WEO; World Gold Council

6 And as reported in *Gold Demand Trends* in 2014, demand also suffered because of regulations prohibiting the purchase of gold jewellery by credit card installments.

7 TCMB, *Inflation Report*, 2012-IV.

8 While 3,500t is our best estimate, others in the market believe Turkey's stock of gold could be as high as 5,000t.

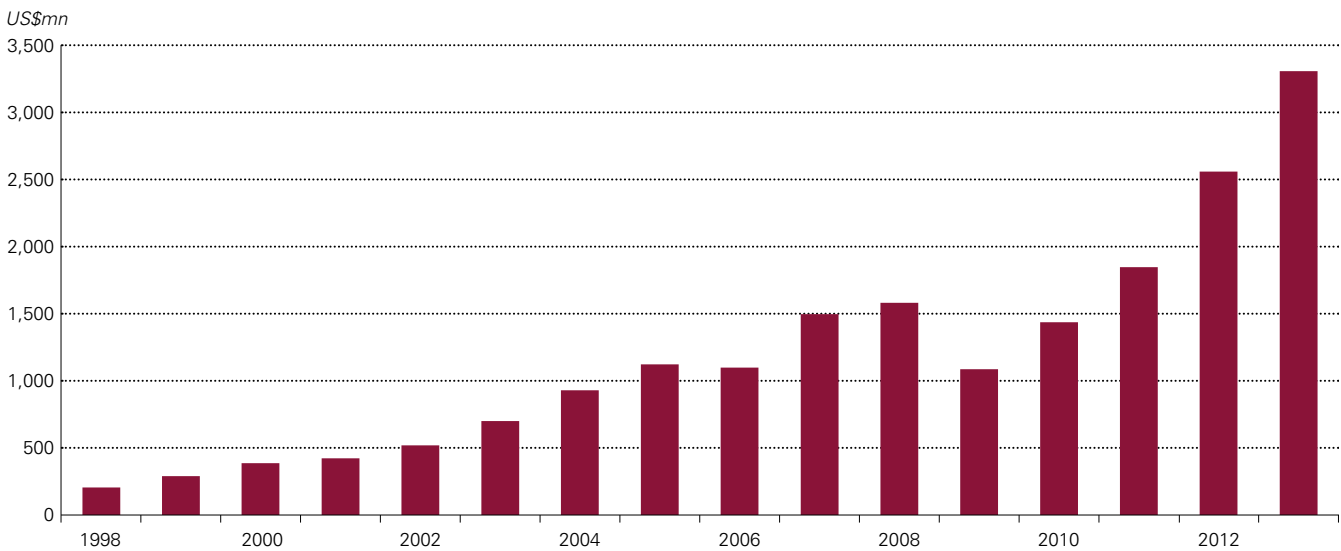
Photo on right hand page: A display of 22ct gold bangles in Ekol Gold and Diamond Istanbul.



**And it's not just domestic demand that is strong. Turkey's jewellery industry benefits from exports and a healthy tourist trade.** Turkey's gold jewellery exports boomed after export restrictions were lifted in 1983.<sup>9</sup> Italy still claims the number one spot, but for some time Turkey has been the world's second largest exporter of gold jewellery. Its biggest export market is the Middle East, but it also exports to the US, Russia and Germany. (Germany has a large Turkish diaspora which continues to buy gold in line with its cultural traditions.) These jewellery exports have had a positive impact on Turkey's

trade balance. Between 1998 and 2013 the value of Turkish jewellery exports, most of which was gold, increased from US\$209mn to US\$3.3bn (**Chart 2**), generating valuable overseas earnings. Turkey sells a lot of gold jewellery to overseas visitors as well, especially those from Russia and other Commonwealth of Independent States countries. According to the Ministry of Economy's *Gold Jewellery Report* published in 2012, jewellery exports and tourist demand accounted for around 70% of the jewellery sector's fabrication in 2012.<sup>10</sup>

**Chart 2: Turkish global jewellery exports in value**



Source: State Institute of Statistics; GTIS; World Gold Council

<sup>9</sup> Before 1983 exporting gold jewellery was prohibited. The ban was lifted in 1983 although gold bullion imports were not allowed until two years later when the TCMB gained the right to import gold.

<sup>10</sup> The Republic of Turkey Ministry of Economy, *Gold Jewellery Report*, 2012. See [www.economy.gov.tr](http://www.economy.gov.tr)





Shoppers in Gold Alley in the Grand Bazaar.

**This high level of domestic demand and overseas sales has supported a vibrant fabrication industry.** While the Grand Bazaar in Istanbul remains the heart of the Turkish gold jewellery industry, the sector is evolving. In 2006 a complex in Istanbul called *Kuyumcukent* – The Goldsmiths’ City – began making gold jewellery. *Kuyumcukent* is the world’s largest integrated goldsmith centre and houses around 2,500 production units and shops, as well as the Istanbul Gold Refinery.



# Section 2: Supply and market infrastructure

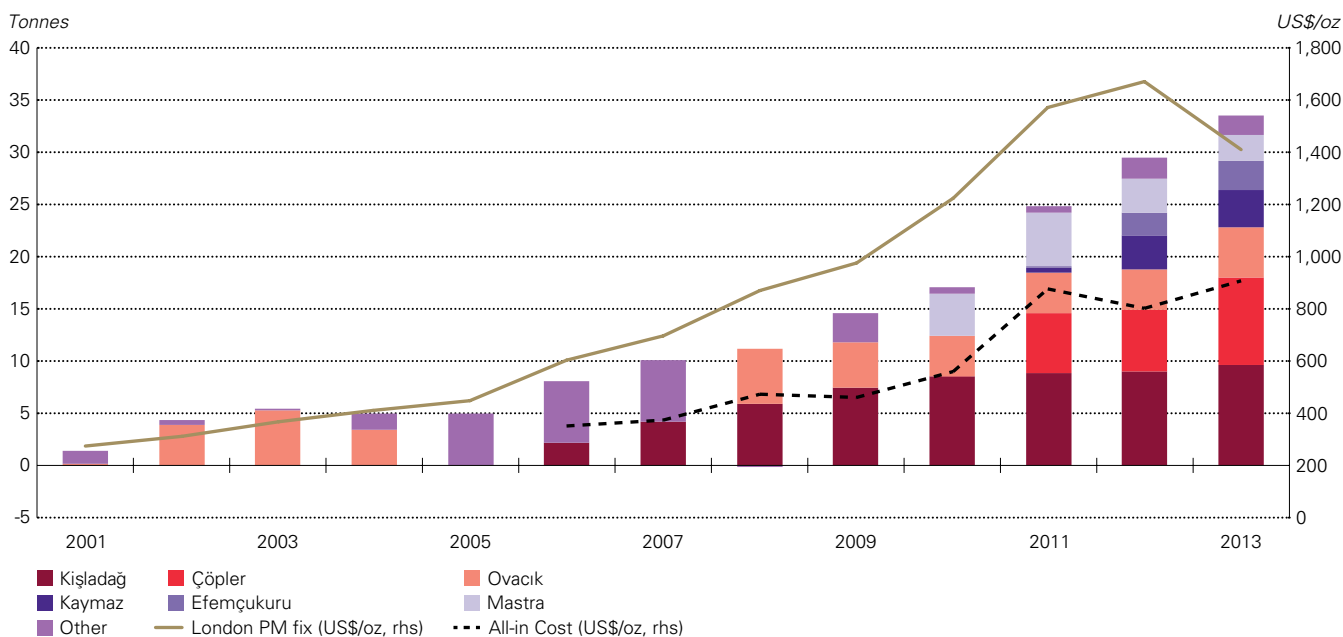
**Turkey has a small but growing gold mining industry.** While gold mining has a long history in Turkey, the formal large-scale gold mining industry is relatively young. The industry started to develop in 1985 when new regulations were passed.<sup>11</sup> A wave of foreign and domestic investment followed leading to the discovery and development of several large-scale gold deposits and a sharp increase in gold production (**Chart 3**).

Gold production has increased in almost every year since 2001 when *Ovacik* – Turkey’s first modern gold mine – went into full-scale operation. Total production has grown from 2t in 2001 to 33.5t in 2013; a 10-year compound annual growth rate of 20%.

**While this growth has been impressive, it may only represent a fraction of Turkey’s mining potential;** the Ministry of Energy & Resources estimate gold reserves to be 840t<sup>12</sup> and resources could be as high as 6,500t.<sup>13</sup> Exploration

has been predominantly concentrated in the western region so far, suggesting that there could be more significant deposits yet to be discovered.<sup>14</sup> And while all-in costs (a metric designed to capture the cost of producing gold over the life-cycle of a mine) have been growing, they have been doing so at a slower pace than the global average.<sup>15</sup> This is largely because most mines are open-pit, but also because the Turkish mining industry has received support from the government looking to create an environment which supports investment while also improving standards and practices. For example, the government allows producers to reclaim value-added tax (VAT) on exploration and development costs, and, unlike other countries, does not impose restrictions on repatriating profits.

**Chart 3: Turkish mine production broken down by key deposits**



Source: GFMS, Thomson Reuters; SNL Metals and Mining; The London Gold Market Fixing Ltd; Turkish Gold Miners Association; World Gold Council

11 In 1985, Mining Law 3213 was introduced to govern mining activity and encourage significant foreign and domestic investment.

12 Ministry of Energy & Resources website: <http://www.enerji.gov.tr>

13 A mineral resource is a concentration of naturally occurring materials in or on the Earth’s crust in such form that economic extraction is regarded as feasible. A mineral reserve is part of the mineral resource that can be recovered with a reasonable level of certainty.

14 The Tethyan Metallogenic Belt, a significant metal-producing belt, extends from Europe, through Turkey (Anatolia), to Iran.

15 GFMS, Thomson Reuters.

Photo on left hand page: Kişladağ; the largest gold mine in Turkey. Operated by Eldorado Gold, it is a low-grade, bulk-tonnage, open-pit operation that uses heap leaching for gold recovery.

(Photo copyright Eldorado Gold)

**But the growth of the mining industry is not without risk.**

Lead times between discovery of deposits and the start of production in the country are long, with the Turkish Gold Miners Association (TGMA) noting it takes an average of 17 years.<sup>16</sup> This adds risks to mining projects. Recent changes in legislation also create uncertainty with companies having to adapt to new standards. And in 2013 delays in permits and a standstill on new exploration licences increased the cost and risk of mining projects. In its 2013 annual Survey of Mining Companies, the Fraser Institute quoted an exploration executive as saying the industry has been affected by *“undue interference in the approvals process for new licence applications, licence transfers, and drilling approvals directly by the prime minister’s office. Exploration has almost come to a standstill in Turkey this year.”*

More generally, recent unrest and political uncertainty gives mining companies something else to worry about. Any instability may affect the long-term attractiveness of the country as a place in which to operate.

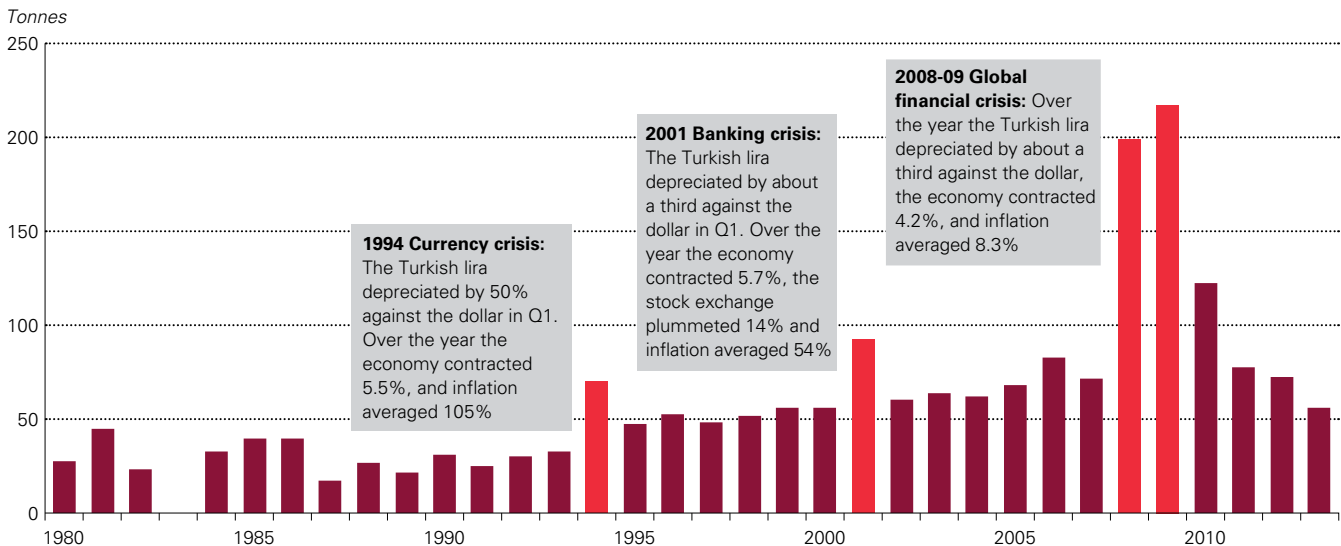
**Over recent years gold recycling has taken on greater significance.** While mine production grows from a small base, gold recycling is well established. Refiners – large and small – play a key role in this fluid gold market with sizeable levels of recycled gold being imported as well as generated domestically.

As discussed earlier, significant and sustained inflation, frequent crises, and currency depreciation have provided ample reason for consumers to accumulate gold, and use it in times of need (Chart 4).



24ct gold is flattened into sheets in jewellery production.

**Chart 4: Turkish recycled gold supply**



Source: Bloomberg; GFMS, Thomson Reuters; World Gold Council

16 TGMA, *A history of gold mining in Turkey over the last three decades*, 2014.

Gold predominately re-enters the supply chain via consumers selling back to jewellery retailers. But in 2012 banks entered the fray trying to tease gold out from “under-the-pillow,” by encouraging consumers to put their holdings into gold deposit accounts. Banks introduced a number of marketing tools to engage with customers, including special days for them to bring their gold to local branches and receive better prices on old gold compared to jewellery retailers. Some banks also collect recycled gold via authorised jewellers. Once assessed, the gold is then credited to a gold account. This has created a process to mobilise and monetise Turkey’s stock of gold.

**With a well-developed post-production supply chain, Turkey has ambitions to become a regional refining and recycling hub.** Turkey has a number of large-scale refiners which refine doré and recycle gold. Smaller manufacturers refine and recycle gold too. It has recently become one of only a dozen countries which have more than one LBMA-accredited gold refiner: *Atasay Kuyumculuk Sanayi Ve Ticaret*, since 2010 and the *Istanbul Gold Refinery* and *Nadir Metal Rafineri* since 2011. This gives Turkey an advantage over the Middle East, where only Saudi Arabia has an LBMA-accredited refinery.

Turkish refiners can serve a broad number of markets since LBMA accreditation is globally recognised. Before this capacity was developed, large-scale refining and recycling was done overseas. Now it is done in Turkey, and because of its LBMA-accredited refineries, Turkey imports approximately 15-20t of recycled gold annually, primarily from European markets but some from further afield too. The majority of this gold is used to meet local demand, while the rest is re-exported.

**Turkey’s gold market has been supported by a well developed industry framework and infrastructure.** Turkey provided a boost to its gold industry in the 1980s when it lifted import and export restrictions. In 1993 the TCMB moved away from controlling the gold market, allowing a greater role for free enterprise, and in 1995 it established the Istanbul Gold Exchange (IGE), an important cog in Turkey’s domestic market.

The IGE had been very successful in creating a link between precious metals markets and financial markets, and enhanced Istanbul’s position as a regional financial centre. In April 2013, the IGE was merged with the Istanbul Securities Exchange (IMKB) and Futures and Options Exchange (VOB) creating Borsa Istanbul (BIST). The aim was to create an efficient structure to boost Istanbul as a financial centre. As with other gold exchanges, such as the Shanghai Gold Exchange, BIST, through its Precious Metals and Diamond Market, is a gateway for gold imports. BIST is responsible for licensing gold importers and assayers, and for maintaining the high quality of gold flowing through it. Gold traded on the Exchange is tax-free.

**This infrastructure laid the foundation for gold becoming part of Turkey’s financial system.** As we explain in the following section, in 2011 Turkey started monetising its stock of gold and incorporating gold into its financial system. Two policy decisions sparked this: the Central Bank’s decision to allow banks to hold part of their reserves in gold, and the banking regulators decision to allow banks to buy and sell gold coins and jewellery. But mobilising and monetising Turkey’s gold stock could not have happened without the right infrastructure and framework in place, including a network of LBMA-accredited refineries and the IGE.



Some of *Kuveyt Türk Participation Bank*’s solutions to mobilise gold: certified gold bars and coins: gold cheques allow gifting of physical gold.



# Section 3: Economic contribution of gold

## **Gold makes a significant contribution to Turkey's economy. In 2012 alone, gold fabrication, consumption and recycling boosted the economy by at least US\$3.8bn.**

Measuring the economic contribution of gold fabrication and consumption is not easy. Assumptions need to be made on the mark-ups applied to bars, coins and jewellery by fabricators and retailers. But in 2013 PricewaterhouseCoopers (PwC) undertook a challenging piece of analysis<sup>17</sup> doing just that; it looked at the direct economic impact of gold on the global economy as measured by gross value added (GVA).<sup>18</sup> It found that bar, coin and jewellery consumption and fabrication boosted the Turkish economy by at least US\$2.8bn.

We can also put a number on the economic impact of recycling. PwC estimates the GVA of global gold recycling to be between US\$23.4 to US\$27.6bn. Assuming Turkey's share of this is equivalent to its share of global recycling by tonnage, recycling may boost Turkey's economy by a further US\$1bn.

**Gold and its associated industries also generate a lot of jobs.** PwC's analysis only measured the direct economic impact. For example, it did not include the multiplier effect generated from jobs in the fabrication, retail or mining industries, of which there are many. In 2012 the Ministry of Economy estimated that there were about 5,000 gold fabricators and 35,000 retail outlets in the country employing about 250,000 people.<sup>19</sup> According to the TGMA gold mines directly employ around 6,500 people.



Efemçukuru in Izmir Province in western Turkey has a vineyard, established by Eldorado Gold.  
(Photo copyright Eldorado Gold)

Measuring the direct economic impact of gold mining in Turkey was out of the scope of PwC's analysis. But there are some measures which can provide an indication of the economic contribution gold mining makes. Mining companies, for example, have made significant investments in the country. Over US\$700m of foreign investment has been spent on gold exploration in the past 25 years<sup>20</sup> and, more recently, the capital investment of just three mines – *Kışladağ*, *Efemçukuru* and *Çöpler* – totalled over US\$1bn between 2009 and 2013.<sup>21</sup>

Aside from capital investments, gold mining companies also deliver a wide variety of social and economic benefits to the communities they operate in. At *Kışladağ*, for example, Eldorado Gold works closely with *Uşak* province to improve its infrastructure and support health and education programmes; in 2012 it funded the construction of a new building for *Uşak* University. At *Efemçukuru*, it has established a company to produce wine and olive oil.<sup>22</sup> These initiatives will provide social and economic benefits beyond the life of the mines.

**Gold is also part of an innovative central bank policy at the core of Turkey's financial system.** In 2011, in the wake of the global financial crisis and in the midst of the euro area crisis, Turkey faced the threat of an outsized current account deficit – as a percentage of GDP only second to the US – mostly funded by short-term capital flows. Turkey was vulnerable. It would not take much to spook overseas investors leading to capital flight, currency depreciation, and potentially a liquidity crisis followed by insolvency. A sovereign crisis could morph into another banking crisis hurting banks, businesses and households.

17 PwC, *The direct economic impact of gold*, October 2013.

18 Gross value added is an economic a measure of the value of goods and services produced in an area, industry or sector. GVA plus taxes minus subsidies equals GDP.

19 The Republic of Turkey Ministry of Economy, *Gold Jewellery Report*, 2012. See [www.economy.gov.tr](http://www.economy.gov.tr)

20 TGMA, *A history of gold mining in Turkey over the last three decades*, 2014.

21 GFMS Mine Economic Service.

22 Eldorado gold, *CSR Report*, 2013.

Photo on left hand page: A mother and daughter try on 24ct wedding jewellery in KOÇAK GOLD jewellers.

Central bankers around the world have learned lessons from the recent crises, not least the benefit of developing macro-prudential tools<sup>23</sup> to promote financial stability. In response to the threats it faced, the TCMB developed an innovative range of tools designed to protect the Turkish economy.

A key part of its policy framework was the *Reserve Option Mechanism (ROM)*, implemented late 2011. The ROM allows commercial banks to hold part of their required domestic currency reserves in either foreign currency or gold.<sup>24</sup> Its aims are to:

- limit fluctuations in the exchange rate;
- limit conversion of foreign currency inflows into bank lending; and
- incentivise banks to accumulate foreign currency and gold for “a rainy day.”<sup>25</sup>

By including gold in this framework the TCMB aimed to boost gold reserves, mobilise Turkey’s stock of gold, and make banks healthier by reducing costs and improving liquidity in the banking system.<sup>26</sup>

**While undoubtedly innovative, the TCMB’s policy framework has attracted mixed reviews.** In a paper published in January 2014 the TCMB noted that “*the new policy framework... has been successful in achieving a soft landing in the economy and lessening the financial stability risks.*” The current account deficit declined from 10% to 6% of GDP between 2011 and 2012 and exchange rate volatility decreased. By these measures, the policy was a success. The IMF,

however, holds a different view. In a paper published late 2013 it noted that Turkey’s policy framework, including the ROM, had limitations. It thought that commercial banks’ reserves held at the TCMB were a poor substitute for central bank reserves during periods of economic distress and that the policy was overly complex to explain clearly to market participants.

Criticisms of financial regulators’ policy decisions were voiced at a local level too. In 2012 the Turkish banking regulator, the *Bankacılık Düzenleme Ve Denetleme Kurumu (BDDK)*, granted commercial banks the right to trade gold coins and jewellery.<sup>27</sup> Jewellers feared banks would muscle in. In a submission to the Council of State the Istanbul Chamber of Jewellers claimed that allowing banks to trade gold would mean small retailers would be “*neglected and sacrificed*” and that “*banks would dominate this field of the sector and craftsmen will be deleted from the market.*”<sup>28</sup> These fears have proved unfounded.

**Despite the mixed reviews, including gold in the policy framework has had a positive impact.** Borrowers and savers have had access to a range of gold-related products since the 1990s<sup>29</sup> and, as explained earlier, Turkey has at least 3,500t of gold tucked “under-the-pillow.” By including gold in its policy framework the TCMB allowed banks to replace higher-yielding Turkish lira with gold in their reserves. This makes banks more stable by improving their earnings<sup>30</sup> and diversifying their reserves. This created an incentive for commercial banks to draw gold from “under-the-pillow” into the banking system and put it to work in Turkey’s economy.

23 The Financial Stability Board defines macroprudential policy as one which uses primarily prudential tools to limit systemic or system-wide financial risk, thereby limiting the incidence of disruptions in the provision of key financial services that can have serious consequences for the real economy.

24 To form part of the commercial banks’ reserves gold needs to be held at either the Bank of England or Borsa Istanbul.

25 IMF Staff Report, *Turkey*, December 2013.

26 TCMB press release on the facility of maintaining reserve requirements in foreign exchange and gold, August 2012.

27 Banking Regulation and Supervision Agency, *Annual Report*, 2013.

28 Hurriyet Daily News, *Jewelers file case against lender over selling gold*, 14 March 2013.

29 World Gold Council, Research Study No. 19, *Trends in gold banking*, 1998.

30 This policy was announced by the TCMB in November 2011, details of which can be found on the TCMB website [www.tcmb.gov.tr](http://www.tcmb.gov.tr). Increases in TCMB gold reserves due to this policy are not included in the ‘central bank net purchases’ in *Gold Demand Trends*, as these do not represent purchases of gold by the central bank.





Consumers can withdraw 1 or 1.5g of 24ct gold from any of Kuveyt Türk Participation Bank's 500 ATMs.

Banks responded with vigour, promoting gold current accounts, gold accumulation plans, gold structured products, and a range of lending products. Many of these products are compliant with Islamic finance rules. Banks also created other new and innovative gold banking products. For example:

- gold accounts which allow savers to trade gold, Turkish lira and foreign currencies;<sup>31</sup>
- interest bearing fixed term gold savings accounts;
- gold-dispensing ATMs so consumers can easily buy hallmarked bars; and
- mobile apps, for example "Gold Send" recently launched by Kuveyt Türk Participation Bank, which allow people to gift gold via one of its 300 gold-dispensing ATMs in Turkey.



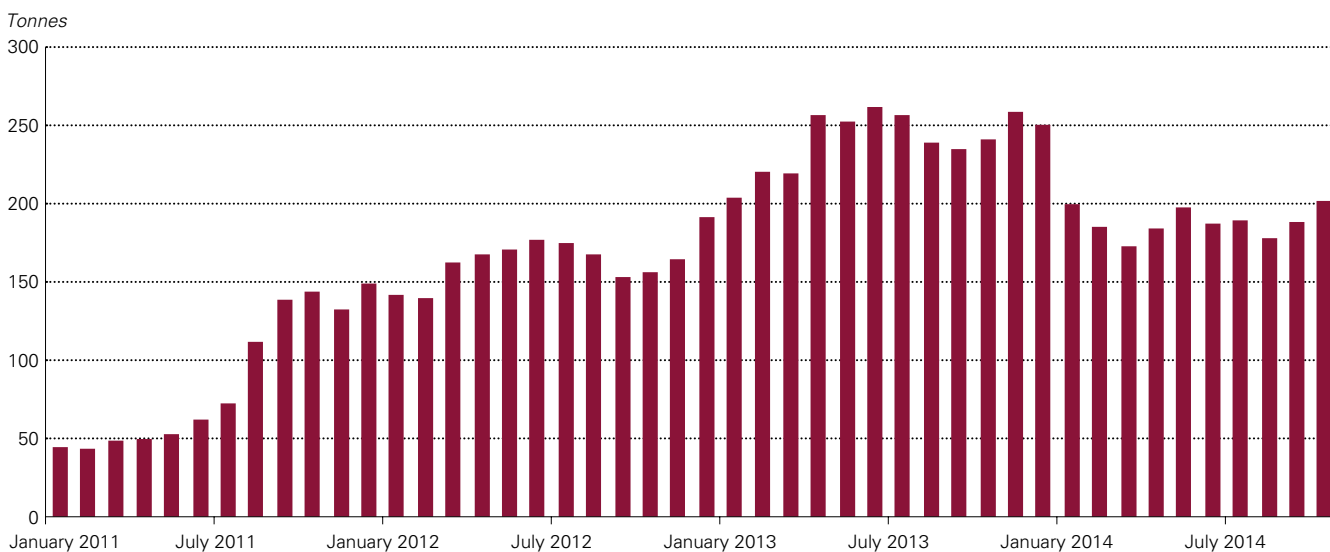
<sup>31</sup> The Turkish deposit insurance scheme covers gold as well as Turkish lira.

**As a result, by the end of 2013, 250t of gold – about US\$10.4bn – had been drawn into the financial system (Chart 5).** The lion’s share of this is from savers converting Turkish lira or foreign currency into gold held in gold accounts.<sup>32</sup> This is demand that may otherwise have been met through physical bars and coins; innovative gold banking products sucked it into the financial system rather than letting it become part of the “under-the-pillow” stock.

The other part – around 40t<sup>33</sup> – has been teased out from “under-the-pillow,” following banks’ entrance into the recycling market in 2012. Some of this gold has been used to finance

lending to the real economy. Data on this are patchy but, in its 2012 annual report, *Kuveyt Türk Participation Bank* noted that it had raised 8t of gold through its gold-for-gold participation scheme which was used to support local industry – using the average 2012 price, this is equivalent to around US\$429bn of funding. Without gold being mobilised, this lending may not have happened. And this is just the tip of the iceberg: 40t represents just over 1% of the domestic stock of gold. Banks have made steady progress mobilising Turkey’s gold stock and we expect this to continue: gold will carry on being put to work.

**Chart 5: Estimated gold holdings in gold deposit accounts**



Source: BDDK; Metals Focus; World Gold Council

32 This source of demand is captured in the *OTC and stock flows* number as reported in *Gold Demand Trends*.

33 Metals Focus.

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