

Banks tap \$4.5bn gold reserves to shore up finances



Commercial lenders in Turkey have pulled as much as \$4.5bn worth of gold reserves since mid-June in an effort to avert a liquidity crisis as the lira plunged. Weekly holdings reported by the Central Bank of Turkey fell by almost a fifth since June 15 to 15.5mn ounces with the lion's share – \$3.3bn – of the exodus sparked by the monetary authority's August 13 move to lower reserve requirements. "The commercial banks were probably switching to more liquid assets, given what has happened to the lira," Jason Tuvey, a senior emerging markets economist at Capital Economics in London said by phone yesterday.

"There's been concern at the commercial banks over their external debt burden, which has been reflected in the rising bank bond yields." Turkish lenders are allowed to meet reserve requirements with bullion deposits, unlike in most other countries. Turkey is one of the 20 largest sovereign owners of the precious metal and boasts the fifth-biggest consumer demand in the world, according to 2017 data from the World Gold Council. It refines scrap gold into jewellery sold all

over the Middle East. The central bank cut the reserve requirements for banks by 4 percentage points for foreign exchange liabilities over one, two and three years, and by 2.5 percentage points over other maturities. This equated to \$3bn worth of dollar- equivalent gold liquidity, it said in a statement. Policymakers increased the one-week repo rate by 625 basis points on Thursday to 24%, more than economists expected. The hike helped to arrest an almost 40-percent swoon in the lira this year.

Of the \$118bn in short-term debts due by September 2019, 15% accrues to publicly owned banks, and 44% to private financial institutions, according to Nora Neuteboom, an ABN Amro Group NV economist who specialises in Turkey. The banks borrow on international markets in hard currencies, hedging dollar liabilities with gold deposits rather than the volatile lira, even though their loan assets are denominated in lira. "But, of course, you can't repay your debt in gold, so they're probably selling to shore up finances for when their debt becomes due," Neuteboom said.