2024: Shaping the Future of Precious Metals at GIFT-IFSC

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The exchange ecosystem at GIFT-IFSC saw a pivotal transformation in 2023, driven by significant policy measures from the Government of India. Among these, the government enabled Tariff Rate Quota (TRQ) holders to import gold through purchases on India International Bullion Exchange (IIBX), and qualified jewellers were permitted to import silver via the same platform. These measures provided a much-needed boost to trade flows, leading to steady daily trading volumes. Silver, in particular, benefited significantly due to the concessional duty rate of approximately 6% under the India-UAE Comprehensive Economic Partnership Agreement (CEPA). However, gold volumes remained subdued, primarily due to high customs duties set at 15% and market anticipation of new quota allocations for FY 2024-25. The total quota allocation for gold imports for the fiscal year is estimated at 160 tonnes.

Gold trading volumes on IIBX have already exceeded 50 tonnes in FY 2024-25 due to reduced customs duties which were announced in the Union Budget 2024 post the General elections at 6% and the India-UAE CEPA's concessional rate for gold at 5%. Market projections suggest that this figure could potentially double, reaching the landmark figure of 100 tonnes, which would account for approximately 12.5% of India's total gold imports, estimated at 800 tonnes for the fiscal year. This significant growth in volumes marks a turning point for the exchange, which faced challenges during its initial years. Real activity on the exchange only began after the government enabled imports under the India-UAE CEPA by the TRQ holders through IIBX.

A major breakthrough occurred on February 9, 2024, when the Reserve Bank of India (RBI) allowed Indian banks to participate in the GIFT-IFSC exchange ecosystem. This decision opened new avenues for banks to contribute as Trading Members and Special Category Clients (SCC). Specifically, International Banking Units (IBUs)—branches of Indian banks operating at GIFT-IFSC—were permitted to join IIBX as Trading Members. Simultaneously, nominated banks authorized by the RBI to import gold and silver were given the status of SCCs. This move is expected to bring in substantial liquidity and drive growth in trading volumes on the exchange.

The next growth phase for the exchange is expected to be driven by the participation of Indian banks. The cumulative volumes of imports by nominated banks in F.Y 2024-25 (till October 2024) is estimated to be around 180 tonnes under the consignment model. It is further estimated that their annual volumes may be around 250 tonnes. Their participation is likely to bring in large-scale transaction ticket size, such as 50 kg or 100 kg deals, which can further elevate the stature of the exchange if a part of the additional 70 tonnes of the estimated volume flows largely come through the exchange mechanism. This development underscores the complementary relationship between IIBX and Indian banks. While banks have traditionally operated through consignment models, their participation in IIBX enhances liquidity and transaction flows, creating mutual value for both entities.

On the derivatives front, trading activity remains relatively low due to several challenges. Lack of liquidity, coupled with limited awareness among resident entities about the benefits of hedging, has hindered the growth of derivatives trading. Certain AD-I banks may have complicated processes in place for enabling hedging for resident entities, as this is the first time residents have been allowed to hedge gold price risks through exchange mechanisms. Additionally, informal transaction methods, such as hawala, remain prevalent among some resident entities, as they perceive them to be easier and less scrutinized.

Another critical issue is the fear of scrutiny by tax authorities. Many entities may be apprehensive about showing losses in their books due to hedging activities, despite the fact that hedging itself does not incur actual losses. This misunderstanding of hedge accounting, where losses on one side offset gains on the other, discourages many entities from adopting legal and formal hedging practices. Addressing this knowledge gap requires concerted efforts from regulators, tax authorities, and market participants to better understand the dynamics of hedging and its benefits.

As awareness and understanding grow, the exchange is expected to see a surge in derivatives trading volumes. The introduction of liquidity providers and market makers will further enhance activity on the platform, enabling India to play a more significant role in price discovery. This transition will mark a shift from the current scenario, where only one-way buy trades dominate, toward a more balanced and dynamic market.

Looking ahead, the exchange must look to launch T+2 contracts for importers once the regulatory enablers are in place. These contracts are expected to become a major driver of physical trade volumes, further solidifying GIFT-IFSC's position as a global bullion trading hub. Additionally, the International Financial Services Centres Authority (IFSCA) is anticipated to introduce Bullion Good Delivery Guidelines focused on responsible sourcing and supply chain integrity. These guidelines will encourage global refiners to adopt responsible sourcing principles, aligning with international best practices.

India's expertise in large-scale audits and compliance processes can play a crucial role in the successful implementation of these guidelines. By emphasizing proper documentation, AML-CFT compliance, and responsible sourcing, rather than stringent net worth criteria, the guidelines can foster greater participation from mining entities and aggregators. This inclusive approach can strengthen India's position in the global bullion ecosystem.

Overall, the exchange ecosystem at GIFT-IFSC is on the cusp of a significant transformation. With growing participation from banks, enhanced awareness of hedging benefits, and forward-looking regulatory measures, the platform is poised to become a key player in the global bullion market. These developments will not only boost India's role in price discovery but also establish GIFT-IFSC as a hub for responsible and sustainable bullion trading.