Evolution of Reforms in Indian Bullion Industry and Role of Nominated banks

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The phenomenal growth that India is witnessing today can be traced to the progressive reforms our country has made since Independence. In a country like ours, with its growing population & diverse characteristics, Sound reforms form the basis for sustainable growth and much needed to shape the growth trajectory in a controlled and requisite manner.

The role GOLD plays in the world economy, bolsters its title as a "Safe Haven" in times of trouble. Due to such significance, absence of policies revolving around gold, has its effect on the country's economy.

India currently being the second major consumer of gold in the world, has always had a yearning for the yellow metal. It is much cherished fact that Gold has an unstinted attachment with the people of our country cutting across people, age and beliefs. In time, this precious metal has catapulted itself into the chambers of policies and governance. India has seen the formulation of numerous committees and groups at various levels to study the practical involvement of gold in the financial system.

History and Evolution:

Over the years, we have seen the gradual transition in the regulatory framework to moderate the bullion ecosystem– being price sensitive and impactful. These transitions can be traced when Bullion imports and exports were banned under the Foreign Exchange Regulation Act and gold production was controlled by the Mysore Government in November 1956. The proportional reserve system was replaced by the minimum reserve system, for purposes of note issue. A glimpse of few other transitions the industry had undergone are given hereunder:

- Issue of 15-year Gold Bonds at 6.5 per cent was made in November 1962.
- Commercial banks were advised to consider recalling loans made against the security of gold and asking public to refrain from buying gold and to surrender their holdings to the government.
- Forward trading in gold was banned in November 1962.
- In January 1963, The Gold Control Rules prohibited manufacturing of gold ornaments of more than 14 carat purity.
- In March, 1965 a new series of 7 per cent Gold Bonds 1980 was issued.
- In October 1965, third series of gold bonds - National Defence Gold Bonds, 1980 at 6.5 per cent was issued.
- In 1966, the rules were amended to manufacture

ornaments of more than 14 carat purity.

- In September 1968, the Gold (Control) Act 1968 came into existence.
- The Special Import License Scheme was introduced which ultimately came into licensing for Nominating Banks and Agencies to import gold/Silver

The industry is regulated by the Government of India through:

- Ministry of Finance and
- Ministry of Commerce.

Ministry of Finance has empowered Reserve Bank of India (RBI), as the apex body to Nominate banks for Bullion imports and also the International Financial Services Centres Authority (IFSCA) to regulate trades/imports through IIBX Ltd.

Directorate General of Foreign Trade (DGFT), under Ministry of Commerce monitors the imports by Nominated agencies. The operations of the bullion imports are under the guidelines of Customs authorities under the Ministry of Finance.

In the case of Nominated Banks, RBI plays a significant role, besides the management of gold reserves, in terms of monitoring and governance of imports and bullion products.

Advent of the Nominated Banks in 1998:
In 1998, Government of India permitted nominated agencies viz. MMTC, HHEC, STC, etc., and also banks authorized by Reserve Bank to import and sell Gold and Silver. The Nominated Agencies and Banks were allowed to import gold under different arrangements with their foreign suppliers, presently done as below:

- Import of gold on loan basis
- Import of gold on consignment basis
- Import of gold on unfix basis.

With the mix of the above arrangements in importing gold, the banks were able to serve all segments of the gem and jewellery industry according to their requirements. All the contributors to gem and jewellery sector such as Traders, Jewellers, Large scale Jewellery Manufacturers, Merchant exporters, manufacturer cum exporter, and the small artisans across the country were covered by Nominated Banks and Agencies.

Over the years, Nominated Banks and Agencies had adapted and gained experience to various changes/modification in the rules and regulations to get synchronized along-with the changes in the international environment.

Significance of Nominated Bullion Banks:
India is making every attempt to rise higher by achieving higher economic growth in every sector. Nominated Banks play a major and important role in the development of India's Gold Industry. The banking expertise gained over two decades aid in developing a bullion banking ecosystem.

At present, Government of India has regulated the import of gold as below:
Dore Gold imports with Actual User (AU) condition where in the refiners are provided license by Directorate General of Foreign Trade (DGFT) to import Dore gold for refining.
Refined Gold can be imported through:

- Nominated Agencies – MSTC Ltd, HHEC, Others
- Nominated Banks – 14 Banks for FY 24-25 (3 Banks can import only gold)
- Export oriented units (EOUs) / units in Special Economic Zones (SEZs)
- India International Bullion Exchange (IFSC) Ltd
- Against Advance authorisation from DGFT for export purposes

Nominated Banks have committed themselves to the Gold/Silver industry giving the regulators ease of monitoring and regulating the industry as per government policies. The global trade of gold and Silver are mostly through International Bullion Banks who remain the major suppliers to India. The supply to India by the International Bullion Banks to Nominated Banks/Agencies are based on certain arrangements which is set through their credit appraisal.

Recent Developments:
Global trade is presently fraught with increasing complexities in the modern world. Every country across the globe is leaning towards protecting their economy. India is motoring ahead with the vision of being a developed nation by 2047. This aspiration is resulting in forging of numerous trades, bilateral and multilateral relationships with different countries and world organizations.

On 1st May 2022, Government of India and UAE signed "Comprehensive Economic Partnership Agreement" (CEPA). Under this agreement the import duty of gold and silver originating from UAE will be given Import Duty Concession.

Likewise, Government of India had further signed Trade agreements with Australia "India-Australia Economic Cooperation and Trade Agreement (INDAUS ECTA)" and with the governments of EFTA states (Government of Iceland, Principality of Liechtenstein, Kingdom of Norway, and Swiss confederation) "Trade and Economic Partnership Agreement" where country specific duty concession was agreed. India-Australia Economic Cooperation and Trade Agreement (INDAUS ECTA) was signed without any changes to the gold and silver industry.

Some of the other Schemes and developments in the industry include:

- Gold Monetisation Scheme.
- GMS-linked Gold Metal Loan (GML) scheme.
- Mandatory Hallmarking and Assaying.
- Sovereign Gold Bond scheme.

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Way Forward:
In today's age of growing conflicts and distrust, every country is racing in its way towards the, "Weaponization of Gold". Governments and Central Banks are scampering to protect their interests through a build-up of gold reserves and financial inclusion of gold in the overall economy and global trade. The Bullion banks will ensure that all measures and developments are in the interest of the country, its participants and overall within the crafted Domestic and International guidelines and regulations like OECD rules, AML, FATF, Responsible sourcing, etc. Bullion banks, through the directions of the regulators, will feature in developing these frontiers with their professional experience, pool of knowledge and global connect.

Bullion banks play a vital role in the bullion eco-system in terms of imports and regulations. They are the guardians in carrying forward the policies of the regulators & have a good grip of the bullion supply chain from the originating supplies to the end consumer. Banks act as the intermediator in the supply chain and have been bestowed with the responsibility of carrying forward the essence of the government policies in letter and spirit.

Our country is well poised to play an important role in the global bullion market with its robust regulatory environment encouraging the complete bullion ecosystem. It is not just going to be the flow of bullion into India, but also influencing global bullion markets.

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