

Indian Banks and GIFT City: Transforming the Future of the Global Precious Metals Market

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India is the second largest consumer of gold importing around 746 tonnes of gold in the year 2023 . The gold market in India has evolved over decades, which went through different phases including the restriction phase, the prohibition phase, the liberalization phase, the

intervention phase and the transparency phase after independence . The steps taken by government of India especially in last 10 years has been focused towards creating transparency and efficiency in the precious metal's ecosystem.

It is well recognized that banks are crucial in development of a dynamic precious metals ecosystem, participating both indirectly as clients of exchange members, such as those on CME Group (COMEX), and directly as members of exchanges like the Shanghai Gold Exchange (SGE). Additionally, they play an active role in the Over-the-Counter (OTC) market, facilitating the clearing of precious metals through unallocated accounts in markets such as London.

Gold transactions are inherently high-value and necessitate a deep understanding of risk management and counterparty risk. Banks, with their substantial balance sheets and extensive experience in holding positions, hedging, and financing within the precious metals market, are pivotal stakeholders. Moreover, central banks and investors typically prefer to purchase bullion through banks that specialize in bullion operations, including the management of treasury and asset-liability functions.

Source:

1. <https://www.gold.org/goldhub/data/gold-demand-by-country>
2. <https://www.iima.ac.in/publicationglittering-paradox-unveiling-indias-gold-policy-evolution-and-its-enduring-flaws#:~:text=The%20Glittering%20Paradox%3A%20Unveiling%20India's%20Gold%20Policy%20Evolution%20And%20Its%20Enduring%20Flaws,-Ramakrishnan%20Padmanabhan%2C%20Chandan&text=In%20recent%20years%2C%20despite%20reforms,lack%20of%20clear%20government%20direction.>
3. https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?id=12606

Recognizing the pivotal role of banks in the precious metals ecosystem, whether OTC or exchange-based, the IFSCA proposed to the RBI that Indian banks be permitted to participate in the exchange ecosystem of the India International Bullion Exchange IFSC Limited (IIBX) to enhance transparency and price discovery. In response, the RBI issued a circular on February 9, 2024, allowing Indian banks to participate in the IIBX. Subsequently, the International Financial Services Centers Authority (IFSCA) issued a circular containing the guidelines for participation by Nominated Banks importing gold and silver through IIBX, on April 19, 2024, titled "Import of gold and silver by Indian Banks through India International Bullion Exchange IFSC Limited (IIBX)," which permits nominated banks to participate as Special Category Clients (SCC) on the exchange. Prior to this, the import of gold was restricted to nominated banks as notified by the RBI, nominated agencies as notified by the Director General of Foreign Trade (DGFT), Qualified Jewellers as notified by the IFSCA, and valid India-UAE CEPA Tariff Rate Quota (TRQ) Holders as notified by the IFSCA.

The RBI circular enables the Indian Banks to participate as Trading Member (TM) / Trading cum Clearing Member (TCM) and SCC of IIBX. The TM/TCM shall execute trades only on behalf of clients (without proprietary trading) and the SCC shall execute only buy trades on behalf of clients. Thus, Indian banks are now permitted to undertake trading and clearing operations on behalf of foreign banks. This enablement led to the beginning of participation of major Indian Banks like SBI, ICICI Banks and HDFC Bank as TCM on IIBX. Following this, it is anticipated that many other major bullion importing Indian banks may commence their operations on IIBX soon.

The IFSCA had also submitted a proposal to the RBI to allow resident entities with gold price exposure on IFSC exchanges or the OTC market in IFSC to participate in

hedging activities. This has since been facilitated by the RBI through a notification dated April 15, 2024. Foreign banks have already initiated hedging operations through their GIFT-IFSC branches in GIFT City, providing hedging products to resident entities with gold price exposure. The Indian gold market is now very attractively placed in the precious metals' ecosystem globally. The World Gold Council forecasted that India may consume around 850 tonnes in 2024 compared to 750 tonnes in 2023 which is largely attributed to good monsoon and reduction in custom duty on gold. The custom duty on import of gold was reduced to 6% from 15% earlier vide Notification No. 33/2024-Customs dated July 23, 2024.

This has resulted in strong demand for gold in the month of August 2024, where India imported around 140 tonnes. The per capita consumption of gold in India is currently around 0.53 grams, which is significantly lower than many other countries. India also has a strong cultural affinity for gold, which is reflected in the country's high jewellery consumption which was around 576 tonnes in 2023. S&P Global India has forecasted that India will become the third-largest economy in the world by 2031. This economic growth is likely to lead to a significant increase in per capita income, which could create a significant opportunity for growth in gold consumption in India. As people's incomes rise, they may allocate a portion of their increased spending to gold. Indian investors are also allocating funds to gold ETFs, evidenced by a recent surge in AUM and gold holdings, now reaching approximately 52 tonnes.

The recent repatriation of 100 tonnes gold from the Bank of England is a significant indication that the RBI, as a central bank, prioritizes holding custodianship within the country's borders, reflecting the strength and stability of the national economy. The timing of the RBI's repatriation and the rise of the GIFT Precious Metals ecosystem could not be more opportune. The country's strong economic growth, coupled with its cultural affinity for

4. <https://ifsc.gov.in/Viewer?Path=Document%2FLegal%2Fimport-of-gold-and-silver-by-indian-banks-through-iibx19042024062249.pdf&Title=Import%20of%20gold%20and%20silver%20by%20Indian%20Banks%20through%20India%20International%20Bullion%20Exchange%20IFSC%20Limited%20%28IIBX%29&Date=19%2F04%2F2024>
5. <https://ifsc.gov.in/Directory/index/P6YtcC69GoU=>
6. <https://economictimes.indiatimes.com/industry/cons-products/fashion/-/cosmetics/-/jewellery/wgc-raises-indias-gold-consumption-projection-to-850-tonnes-in-2024/articleshow/112904746.cms?from=mdr>
7. <https://taxinformation.cbic.gov.in/view-pdf/1010125/ENG/Notifications>
8. <https://www.gold.org/goldhub/gold-focus/2024/09/indias-gold-market-update-gold-market-broadens-expansion-physical>
9. <https://www.gold.org/goldhub/data/gold-demand-by-country>
10. <https://www.metalsfocus.com/product/gold-focus/>

gold, is likely to create a significant opportunity for growth in the gold market in the coming years as a consumption and investment product.

To seize the opportunities in this promising market, various stakeholders—including bullion banks currently observing developments in India, particularly within the GIFT Precious Metals ecosystem—may consider shifting their focus towards India through GIFT-IFSC. By engaging in the exchange-based ecosystem or the OTC market in GIFT-IFSC, banks that have not yet entered the Indian market can participate in this newly established ecosystem, thereby promoting greater efficiency, transparency, and improved price discovery for gold and other precious metals.

The participation of Indian banks as counterparties on IIBX could help mitigate concerns regarding the risks associated with exchange-based trading. By joining the exchange-based ecosystem, bullion banks can not only capitalize on the market's growth but also play a pivotal role in its development and maturation.

This presents a unique opportunity for stakeholders, particularly banks engaged in precious metals operations, to integrate into the GIFT-IFSC ecosystem and collaborate with Indian banks on the IIBX and the OTC market in GIFT-IFSC, potentially reshaping the future of the global precious metals landscape.

With inputs from:

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Volume Of Bullion Imports through India International Bullion Exchange (IIBX)

Total Gold traded through IIBX in KG			
Month	2022	2023	2024
January		1	308.2
February		13	3573.3
March		16	213.2
April	2	0	50
May	12	117	2990.3
June	0	52.8	6727.7
July	31	206.6	5165.8
August	28	272.8	10663.7
September	38	1230.2	9205.5
October	154	1197.1	
November	114	710.5	
December	2	46.5	
Sum	381	3863.5	38897.7
Sum Total			43142.2

Total Silver traded through IIBX in KG		
Month	2023	2024
January		158940
February		493600
March		235200
April		18060
May		59920
June		117320
July		32760
August		9450
September		60
October		
November		
December	21060	
Sum	21060	1125310
Sum Total		1146370

11. https://www.business-standard.com/economy/news/india-to-become-third-largest-economy-by-2030-31-says-s-p-global-124091901072_1.html

12. <https://www.gold.org/goldhub/gold-focus/2024/09/indias-gold-market-update-gold-market-broadens-expansion-physical>

13. <https://www.businesstoday.in/latest/economy/story/what-made-rbi-move-100-tonnes-of-gold-from-uk-to-its-vaults-heres-an-explainer-431671-2024-06-01>