



Key Trends, Challenges and recent reforms in Indian Bullion Market

Major Drivers of Indian Gold Markets

- Cultural affinity and festival gifting are significant drivers of gold demand
- Long term demand determined by income levels, govt. policies and gold price trends
- In the short term, inflation, taxation, gold price and rainfall data are major influencers of gold demand
- Jewellery demand more responsive to long term factors whereas investment demand in the form of coins and bars more inclined towards short term factors
- For inflation to increase by 1%, gold demand increases by 2.6%
- 1% increase in the rainfall increases gold demand by 0.2%
- Indian rural belt prefers to buy jewellery for their cultural, religious and investment needs.
- Consumption pattern in urban belts is more leaning towards bars and coins and even digital gold products
- Rising urbanization will lead to change in the consumption pattern

Key Trends

- Gold demand in last couple of quarters subdued due to lockdowns, picked up in Q3
- Goods & Services Tax collection in Q3 at pre-lockdown levels indicating recovery post lockdown
- Gold imports in August at 122MT and September 97MT due to festival demand
- Vaccination in India crossed 1 billion population
- Indian working age population is likely to add on an average 7 million more workforce each year, in the next two decades.
- India is one of the largest populated countries and the youngest too.
- Median age at present is 27 years and is likely to be within 35 in the next decade

Key Trends (cont...)

- India is progressing towards a strong era of economic expansion which will lead to rising incomes, more disposable funds and a growing middle class, all these conducive to gold demand.
- Employment in agriculture sector has declined from 63% in 1991 to 43% in 2019 and is projected to decline to 25.7% by 2050.
- Share of agriculture income in GDP of India down from 41% in 1960 to 16% in 2019.
- Urbanization up from 18% to 34% within the same period
- Such a shift in the income pattern are indicators of both the growing urbanization and the rising income levels
- Indian savings increased from 6% in 1960 to over 34% in 2010 before tapering off a bit since then.

Key Trends (cont...)

- Growing financial inclusion over the years covering the remotest villages
- Greater need of alternative investment options.
- The trends indicate higher share of investment gold over gold jewellery going forward.
- Contracted GDP due to COVID, higher gold prices and postponement of weddings contributed to lower jewellery demand which dropped by ~42% in 2020
- Govt. policies still play a major role in gold demand though the contribution of gold in total imports is now at a moderate 7% level.

Challenges

- High import duty of 10.75% on gold to discourage imports
- Unofficial market of gold due to higher taxation
- Large unorganized market and lack of institutional participation
- Lack of gold liabilities products and demand is largely met through imports
- India's affinity towards physical gold and lack of alternative investment products
- Lack of efficient price discovery mechanism
- Lack of standardization in the quality of gold

Recent reforms in Indian Gold market

- India Good Delivery norms released in January 2020 by the Bureau of Indian Standards (BIS)
- Indian commodity Exchanges introduced gold options in early 2020 to facilitate hedging
- A unified regulator, The International Financial Services Centre Authority (IFSCA) was created to develop and regulate financial markets in India's first free zone in financial services, known as IFSC GIFT City in Gujarat
- To bring trust in purity of gold, hallmarking of gold jewellery made mandatory
- Greater engagement between Indian market participants and OECD to devise a workable implementation plan for responsible sourcing of gold

Recent reforms in Indian Gold market (Cont.)

- Rationalization of import duty on gold
- Greater thrust on Recycling and success of Gold Monetization Scheme
- Mining – The Mines & Minerals (Development & Regulation) Amendment (MMRDA) Bill, 2021 was passed in March 2021. It will help unleash India's vast untapped mining reserves.
- Setting up of an International Bullion Spot Exchange
- Setting up of Domestic Spot Exchange

Where is Indian Bullion Trade headed

- Development of Gold Spot Exchanges to resolve issues like lack of institutional participation, unorganized trade, lack of products, transparency, recycling and standardization.
- Indirect reforms like digitalization of economy, roll out of welfare schemes for rural population will lead to financial inclusion and better income distribution
- Indian reform process has been consultative, which cause delays at times, however, ensures least disruptions when implemented
- More efforts required towards implementation

International Bullion Exchange (IIBX) at Free trade Zone

- Likely to be the gateway of gold imports into India
- Free trade zone so no import taxes till the metal is transferred to domestic area
- IIBX incorporated in March 2021 and pilot run already concluded successfully in August 2021
- Promoted jointly by 3 leading Indian exchanges and 2 Depositories
- Expected to be one of the major trading hubs of Asia with state-of-the-art digital platform and vaulting infrastructure

Trade at International Bullion Exchange

Who can trade

- IBUs at IFSC Gift City
- Subsidiaries/ Branches of entities dealing in financial products - set up in IFSC Gift City
- Nominated Banks and Agencies authorized by RBI and DGFT respectively
- International banks and other traders can trade through Trading members if they prefer not to have a physical presence

Trading Modes

- Order matching on price time priority
- Block deals
- Market Making
- Benchmark Price fixing

Benefits of trading at Bullion Exchange

- Improved price discovery
- Economies of scale resulting in better pricing of metal
- Enabler to launch gold backed financial products
- Opportunity to dissociate metal procurement and leasing deriving benefits of both
- Wider Supplier base
- Positions India as a leading global trading hub
- Financing of metal to all participants at competitive cost
- Tax efficient

Contact

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