भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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DBOD.No.IBS.1519/23.67.001/98-99 December 31, 1998

All the nominated banks authorised
to import Gold / Silver / Platinum

Dear Sir,

Gold Loan

Please refer to circular A.D.(G.P. Series) Circular No.7 dated March 6, 1998 permitting the nominated agencies / banks to import gold on loan basis for a maximum period of 180 days. With a view to mobilising and recycling the gold stocks available in the country, the banks were also recently advised to formulate the Gold Deposit Scheme which entailed acceptance of physical deposits of gold.

2. We have been receiving requests form banks to permit them to extend gold loans to jewellery industry. It has been decided to permit nominated agencies to grant gold (metal) loans as per Export Import Policy 1997-2002 and the Hand Book of Procedures of the Exim Policy subject to the following conditions:

(i) The banks should ensure strict compliance with the terms and conditions contained in Chapter 8 of both the Export Import Policy - and Hand Book of Procedures. The policy requires that the exporter who has obtained the gold, has to complete the exports within a maximum period of 120 days from the date of release of gold on loan basis. The period of such loan shall therefore not exceed 120 days. The nominated banks will have to obtain necessary proof of exports from the exporter as stipulated in the policy and furnish them to the Revenue authorities. In the event of default on the part of the exporter to complete the exports within the stipulated period, the nominated agencies will have to bear the duty amount and the relative local taxes. Therefore, nominated banks may obtain sufficient additional security so as to meet the duty / tax requirements in the event of default. The guidelines issued by the Revenue authorities including those regarding bonded vault, maintenance of records, obtaining one time registration certificate of the exporters, reporting cases of failure on the part of exporter and deposit of the duty amount in case of default should be meticulously observed.

(ii) The loans should be given only to jewellery exporters. Interest charged to the borrowers should be linked to the international gold interest rate.

(iii) The gold borrowings in terms of ECD circular dated March 6, 1998 referred to above and gold deposits will be subject to normal reserve requirements. Valuation of the gold for the purpose of maintaining reserves will be based on the London morining fix rate on reporting Friday crossed with closing dollar rupee spot rate on the reporting Friday. The same rate may be applied for translating gold loans to rupees for capital adequacy and balance sheet purposes.

(iv) The loan to the jewellery exporters in India will be subject to capital adequacy and other prudential requirements.

(v) Any mismatch arising out of the gold borrowings and lendings should be within the prudential risk limits approved by the bank's Board.

3. The gold borrowed from abroad / mobilised in the domestic market and lent to jewellery exporters may be reported in the statement being submitted to DBOD by the nominated banks.

4. The banks should recognise the overall risks in granting gold loans and lay down an appropriate risk management and lending policy. The policy should among others lay down a limit on the quantity of gold that may be supplied per exporter as also the total quantity of such loans that may be outstanding at any point of time.

Yours faithfully,

Sd/-
Devaki Muthukrishnan
General Manager