80:20 Scheme and Bank Frauds

What is the issue?

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- The recent PNB fraud caught the public attention towards the credibility of banks.
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- In this backdrop, it is alleged that the 80:20 (gold import) Scheme was designed to help jewellers such as Nirav Modi.
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- A 2016 CAG report has also observed that the scheme had resulted in a loss of over Rs 1 lakh crore to the exchequer.
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What was the 80:20 scheme?

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- The scheme was introduced in August 2013.
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- Under the scheme, 80% of gold imports under the scheme could be sold in the country.
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- And at least 20% of imports had to be exported before importers could bring in new consignments.
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- The permission to import the next lot was to be given upon the fulfilment of the export obligation.
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What was the need?

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- India is one of the biggest importers of gold globally.

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- In 2013, the country's macroeconomic indicators, especially the current account deficit, were weak.
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- The rising gold import and its impact on the current account deficit was further a cause of concern.
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- It posed a risk of capital outflows and further weakening of the rupee.
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- Coupled with this, the high crude oil prices forced the authorities to implement preventive measures.
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- The 80:20 scheme thus aimed to discourage gold imports to rein in the widening current account deficit.
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- Subsequently, the rupee recovered after the RBI announced a slew of measures to boost inflows and stabilise the currency.
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Why were the rules eased?

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- Jewellers, bullion dealers, authorised dealer banks and trade bodies approached the Finance Ministry.
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- They requested for a relaxation of the policy.
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- Crude oil prices also dropped to a four-year low in 2014.
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- The 80:20 scheme was thus relaxed in May 2014 by the RBI at the behest of the Finance Ministry.
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- The rules were apparently eased to facilitate gem and jewellery export, which had declined following the curb on gold import.
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What was the outcome?

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- Initially, only state-owned banks and firms were permitted to import gold.

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- These banks and their nominated agencies were allowed to provide gold loans for domestic use to jewellers and bullion traders.
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- However, the easing of rules allowed more agencies to import gold.
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- In its May, 2014 review, the central bank allowed star and premier export houses to import gold subject to some restrictions.
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- 6 to 7 private sector trading firms were also permitted to import gold under the scheme.
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- These private firms accounted for 40% of the total gold imports in April-September that year.
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What is the concern?

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- The relaxation of the rules is now questioned based on the CAG's 2016 report.
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- The report indicated that the scheme was misused by jewellers including Nirav Modi.
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- Particularly, it was used for round tripping of black money and money laundering.
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What happened thereafter?

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- In November, 2014 months after the change of government in the Centre, the scheme was scrapped.
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- It has been decided by the Government to withdraw the scheme and restrictions placed on the import of gold.
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- The legal import of gold declined in the following months.
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- In all, sources claimed that the 80:20 Scheme was encouraging smuggling and was also misused by many traders.
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- A sub-committee of the PAC recently asked the Revenue Department to share details of the scheme and its alleged link with the Punjab National Bank fraud case.
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Source: Indian Express

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