ORIGINAL RESEARCH PAPER

Commerce

KEY WORDS: Gold-collateralized Credit, Gold Loans, Non-Banking Financial Companies, Financial Inclusion, Emerging Market

GOLD-COLLATERALIZED CREDIT IN EMERGING MARKETS: A COMPARATIVE CONCEPTUAL ANALYSIS OF THE INSTITUTIONAL, REGULATORY AND BUSINESS ENVIRONMENT IN INDIA AND CHINA

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ABSTRACT

Gold occupies a unique position in the financial life of the two largest emerging economies, India and China. Both hold enormous private stocks of the metal and have developed substantial markets for gold-collateralized credit, yet the organizational logic of the two systems differs fundamentally. Using secondary sources, including central bank directions, exchange rulebooks and rating agency research, this paper compares the two systems along three dimensions: the institutional environment of providers and infrastructure, the regulatory environment of rules and prudential parameters, and the business environment of market size, participants, pricing and risk. The paper finds that India has evolved a household-centered, retail model in which banks and gold-loan non-banking financial companies lend against pledged jewelry under a harmonized Reserve Bank of India framework with tiered loan-to-value limits of 85, 80 and 75 per cent, while China has developed an institution-centered, wholesale model organized around the Shanghai Gold Exchange, in which state banks lease gold to white-listed corporate users under People's Bank of China eligibility rules. The two models reflect a financial-inclusion logic in India and an industrial-policy logic in China, each with characteristic strengths and vulnerabilities. The paper closes with policy implications for both countries and for other gold-holding emerging markets.

INTRODUCTION

Gold holds significant cultural, liquidity, and collateral value in emerging economies, particularly in India and China, the world's largest consumers of the metal. In both countries, privately owned gold surpasses official reserves (World Gold Council, 2023). The financial systems utilizing gold differ notably: in India, household jewellery serves as a central component of retail credit through banks and gold-loan companies (PricewaterhouseCoopers India, 2023). Conversely, in China, gold primarily facilitates corporate credit; banks lease physical gold from the Shanghai Gold Exchange to jewellers and refiners, while loans against bullion remain relatively rare (LBMA, 2016). Both systems seek to convert dormant, opaque assets into effective credit without causing financial instability.

Gold's role in financial markets is increasingly significant due to three factors: the rise in prices since 2019, which has improved borrowing opportunities and attracted new participants; challenges in Indian and Chinese gold-loan systems, with India facing scrutiny over valuation and auction practices, and China dealing with collateral fraud; and the macroeconomic strategies in both nations, where India aims to reduce import dependency and mobilise household gold, while China focuses on internationalising the renminbi and enhancing real-economy financing.

This paper provides a comparative conceptual analysis of gold-collateralized credit in two countries, structured around three analytical lenses. It begins with a literature review that identifies the research gap, objectives, and methodology, followed by the conceptual framework. The analysis covers institutional, regulatory, and business environments, concluding each section with a comparative synthesis. The paper discusses convergences and divergences, presents policy implications, and concludes the findings.

Review of Literature

The literature identifies five key strands regarding gold in Indian household finance. First, the World Gold Council reports that Indian households hold 23,000-25,000 tonnes of gold, with a notable increase in the formalisation of the loan-against-jewellery market—where organised lenders' share rose from 35% in 2019 to 40% in 2022, with 2,950-3,350 tonnes pledged as collateral. Research from Price water house Coopers India and rating agencies like ICRA and CRIF High Mark highlights the market's rapid growth, the dominance of public sector banks, and the concentration of the non-banking financial company (NBFC) segment among four major firms, alongside a significant unorganised pawnbroker sector. This strand emphasizes gold loans as vehicles for financial inclusion, providing secured credit to households and micro-enterprises lacking documented income.

A second strand of research focuses on Indian policy regarding gold, specifically the Gold Monetisation Scheme (GMS) of 2015, which saw only 21 tonnes mobilized from a household stock of approximately 25,000 tonnes. Factors contributing to this lack of engagement include deposit thresholds, sentimental value of jewelry, melting requirements, and weak bank incentives. The third strand investigates gold financing in China, detailing the evolution of gold leasing from small interbank trades in the mid-2000s to a substantial market through the Shanghai Gold Exchange. This shift was motivated by the pursuit of cheaper working capital and involved cross-border carry trades. Additionally, the 2020 Wuhan Kingold case revealed the risks associated with lending against bullion verified solely through sampling and insurance wrappers.

A fourth strand in comparative financial systems literature differentiates between bank-based and market-based systems, characterizing China's model as state-steered and exchange-centric, while India's is seen as regulator-harmonized and market-contestable. A fifth strand in collateral theory explains why gold makes effective collateral due to its homogeneity, durability, divisibility, and continuous pricing in deep markets, which reduce screening and monitoring costs. The review identifies a clear gap, as individual market studies exist, but no systematic comparison across institutional, regulatory, and business dimensions has been conducted. This paper aims to fill that conceptual gap.

Research Gap

Existing studies examine either the Indian gold-loan market or the Chinese gold-leasing market in isolation, and the policy literature on gold focuses on demand, imports and monetisation rather than on the credit systems built upon the metal. A structured three-lens comparison of the two systems, spanning the institutional, regulatory and business environments, is therefore missing, and this paper seeks to fill that conceptual gap.

Objectives of the Study

The objectives of the study are: (a) to map and compare the institutional architecture of gold-collateralized credit in India and China; (b) to compare the regulatory frameworks governing such credit in the two countries, with particular attention to loan-to-value (LTV) ratios, eligibility rules and collateral verification; (c) to compare the business environment, including market size, structure, participants, pricing, growth drivers and risks; and (d) to derive policy implications for both countries and for other emerging markets with large private gold stocks.

Methodology

The study is conceptual, comparative and qualitative in design. It rests on secondary sources: the RBI's master directions and circulars on loans against gold jewellery (Reserve Bank of India, 2024, 2025), the People's Bank of China's (PBoC's) interim measures on gold leasing (People's Bank of China, 2022), the rulebooks of the Shanghai Gold Exchange (Shanghai Gold Exchange, 2024), product documentation of Chinese commercial banks (Industrial and Commercial Bank of China, n.d.), rating agency and credit bureau reports (CRIF High Mark, 2025; ICRA, 2025), industry analyses (LBMA, 2016; PricewaterhouseCoopers India, 2023; World Gold Council, 2023) and investigative journalism on collateral fraud (Caixin Global, 2020). Data are used descriptively and interpretively, not inferentially.

Three limitations deserve mention. First, no primary data were collected. Second, both regulatory frameworks are evolving rapidly, so the description reflects the position as of late 2025 and early 2026. Third, some Chinese-language primary material is accessible only through translated excerpts, and official Chinese data on gold lending are sparse relative to Indian disclosures.

Conceptual Framework

Gold-collateralized credit is defined here as any extension of credit in which gold is the principal security. Two product families fall within the definition. The first is gold-backed lending: a borrower pledges gold, typically jewelry in India and standardized bullion in China, and receives currency, with the pledge released upon repayment (Reserve Bank of India, 2025). The second is gold leasing: a lender advances physical gold against a lease fee, the borrower uses the metal in production or sells it for working capital, and returns metal or equivalent value at maturity (People's Bank of China, 2022). The Indian system consists predominantly of the first family; the Chinese system is dominated by the second, alongside bank pledge products and licensed pawnshops.

Three properties make gold attractive collateral: it is physically homogeneous and verifiable through assaying; it has an exceptionally high value-to-weight ratio, lowering custody costs; and it trades in deep, continuously priced markets, making recovery values predictable. Such collateral mitigates the information asymmetries that ration credit to borrowers lacking audited accounts, precisely the segment gold credit serves in India. It also introduces distinctive risks: price risk between valuation and recovery, custody and theft risk, and in wholesale markets fraud risk when bullion authenticity is accepted on the basis of sampling or insurance rather than full verification.

The analytical framework distinguishes three environments. The institutional environment comprises the organizations supplying and demanding gold credit and the infrastructure, exchanges, price benchmarks, vaults and assaying networks, that supports them. The regulatory environment comprises the statutes, directions, eligibility rules and prudential parameters imposed by supervisors. The business environment comprises market size and growth, concentration, pricing, competition and the risk experience of lenders. The premise is that these environments co-evolve: regulation responds to market risks, institutions adapt to regulation, and business strategies exploit institutional comparative advantage. The two country cases are, in this sense, two distinct equilibria.

The Institutional Environment

India: A Household-Centered, Dual-Provider Architecture

The Indian gold jewellery system is characterized by a household stock estimated at 24,000-25,000 tonnes, often valued at over 40% of GDP. Gold jewellery serves as adornment, savings, and liquidity, with households typically pledging rather than selling their ornaments. The supply side includes commercial banks, particularly public sector banks, which provide jewellery-secured loans, and gold-loan NBFCs like Muthoot Finance and Manappuram Finance, prominent in the retail sector. Additionally, co-operative and regional rural banks operate at smaller centres, while a significant informal segment of pawnbrokers and moneylenders dominates transactions by volume.

Supporting infrastructure in the gold sector has evolved significantly over two decades, with price discovery linked to the India Bullion and Jewellers Association (IBJA) prices and SEBI-regulated exchanges, recognized by the RBI as valuation benchmarks. Assaying capacities have improved with adherence to the India Good Delivery standard, and gold spot exchanges have emerged. The 2015 Gold Monetisation Scheme aimed to convert idle household gold into bank deposits for jewellers, but has seen modest uptake at around 21 tonnes. The government plays a regulatory and enabling role, establishing parameters and monetisation options while the market displays competitive dynamics among regulated providers.

China: An Exchange-Centered, Bank-Dominated Architecture

The Chinese gold market is structured around institutions, with the Shanghai Gold Exchange (SGE), established in 2002, serving as the central hub. It manages the spot market, physical delivery, leasing infrastructure, and sets benchmark prices. Major state commercial banks, particularly the big four, act as bullion banks for corporate borrowers. The market evolved from small over-the-counter transactions around 2005 to clearing over 3,100 tonnes of leased metal by 2015, with the largest banks holding approximately 443 billion yuan in precious metals, equivalent to about 2,000 tonnes of bullion.

The gold borrowing market predominantly serves corporations within the gold value chain, such as jewellers, manufacturers, refiners, and miners. In some cases, industrial firms outside the gold sector utilize gold leases for financing; an example is a notable 3-billion-yuan lease by an aluminium producer from the Bank of Communications. The individual credit market remains underdeveloped, with options like accumulation plans restricted to depository banks, pledge loans against bullion offered by certain banks, and small secured loans through licensed pawnshops. The People's Bank of China (PBoC) plays a central regulatory role, controlling market access and lending eligibility through listings and oversight.

Table 1 Institutional Environment of Gold-Collateralized Credit in India and China

Dimension	India	China
Primary collateral form	Household jewelry and ornaments	Standardized bullion deliverable on the SGE; account gold
Dominant borrower	Individuals, farmers, micro and small enterprises	Corporations in the gold value chain

Key providers	Public sector and private banks; gold-loan NBFCs; co-operative banks; informal pawnbrokers	Large state commercial banks as bullion banks; SGE members; licensed pawnshops
Market infra-structure	IBJA benchmarks; commodity exchanges; India Good Delivery; gold spot exchanges; GMS	Shanghai Gold Exchange: spot, delivery, leasing, benchmark prices, vaulting
Role of the state	Enabling and regulatory; monetization schemes	Directive; PBoC approves products and participant eligibility
Household participation	Central: jewelry pledge is a mass retail product	Peripheral: accumulation plans and niche pledge products

Note. Compiled by the author from RBI directions, PBoC measures, SGE rules, World Gold Council, LBMA and ICRA publications.

Comparative Institutional Synthesis

The contrast is structural. India's architecture is plural and decentralised: two competing provider types regulated under a common prudential umbrella, with a long informal tail. China's is monolithic and centralised: one exchange, a handful of bullion banks, and an eligibility regime channelling gold credit towards designated corporate users. The Indian configuration maximises geographic and household reach; the Chinese maximises control and concentration of risk in a few supervised institutions. These differences foreshadow the regulatory choices examined next.

The Regulatory Environment

India: A Harmonised, Rule-Based Prudential Framework

The regulatory history of Indian gold lending revolves around the Loan-to-Value (LTV) ratio. Initially set at a uniform ceiling of 75% in 2014, this was temporarily increased to 90% during the pandemic and later reverted. Concerns arose in 2024 when an RBI review uncovered irregular practices such as third-party involvement and inadequate monitoring of LTV breaches. A circular on September 9, 2024, mandated banks and NBFCs to revisit their gold-loan policies. These guidelines culminated in master directions issued in June 2025, effective from April 1, 2026, introducing a tiered LTV regime based on loan amounts, standardized valuations, and transparency in auctions. Additional regulations prioritize agricultural loans and impose restrictions on cash disbursements, establishing a comprehensive, rule-based framework aimed at protecting borrowers while regulating lenders.

China: An Eligibility-Based, Exchange-Embedded Supervisory Regime

Chinese regulation of the gold market is structured around participant and product eligibility rather than borrower-level ratios. The People's Bank of China (PBoC) governs gold leasing and banking conduct, while pawnshops and gold futures fall under different regulators. In December 2022, the PBoC introduced Interim Measures for Gold Leasing that took effect in January 2023, limiting gold account services to depository banks and the Shanghai Gold Exchange (SGE). These measures categorize inter-institutional gold leasing as interbank borrowing and restrict lending to non-financial institutions where borrowers are gold-related enterprises. Bank lending must comply with pre-approval and reporting requirements. The SGE operationalizes leasing through a white-list system, where eligible banks and lessees are scrutinized, and it publishes a daily benchmark lease fee rate. Additionally, banks offer pledge-lending products based on the assessed value of gold, with specific terms, while pawnshops are subject to capital and fee regulations. Gold accumulation plans are restricted to depository banks per 2018 measures.

Table 2 Regulatory Environment of Gold-Collateralized Credit in India and China

Dimension	India	China
Principal supervisor	RBI (all regulated lenders); state authorities for moneylenders	PBoC (gold market); banking regulator; commerce authority (pawnshops); CSRC (futures)
Core instruments	Master directions on loans against gold/silver (2025); 2024 circular on irregular practices	PBoC interim measures on gold leasing (2022); SGE leasing rules (2024); pawn measures (2005)
Eligible lenders	All regulated entities: banks, SFBs, co-operatives, NBFCs, HFCs	Only banking depository institutions may lend gold to non-financial firms
Eligible borrowers	Any creditworthy borrower; agri gold loans under priority sector	Financial institutions inter se; non-financial borrowers restricted to gold-related enterprises
Key prudential parameter	Tiered LTV: 85% (up to Rs 2.5 lakh), 80% (Rs 2.5-5 lakh), 75% (above Rs 5 lakh)	No statutory national LTV; bank pledge rates up to about 80%; eligibility and white-listing instead
Valuation and verification	IBJA or exchange closing prices; intrinsic metal value only; customer-present assaying	SGE prices (e.g., five-day weighted average); SGE custody and registration
Default resolution	Mandated transparent auctions with notice periods	Contractual pledge enforcement; exchange-registered transfers

Note. Compiled by the author from RBI Master Directions (2025), PBoC interim measures (2022), SGE detailed rules and bank product documentation.

Comparative Regulatory Synthesis

The regulatory philosophies in India and China differ significantly. India focuses on regulating the contract itself with a quantitative ceiling and conduct rules applicable to all parties involved. In contrast, China emphasizes regulating the participants, restricting transactions to verified users in the real economy and confining gold credit. India's system encourages distribution innovation, including fintech partnerships, yet relies heavily on compliance with valuation rules, highlighted by issues in 2024. China's model ensures collateral verification within exchanges but concentrates risk among a few bullion banks and lacks a channel for household credit, limiting wealth monetization to accumulation plans.

The Business Environment

India: A Fast-Growing, Retail-Intensive Market

The Indian gold-loan market is expected to reach approximately 11.8 trillion rupees in assets under management by March 2025, growing at 26% annually, with estimates of 15 trillion by 2026 and 18 trillion by 2027. Public sector banks dominate this market, holding about 82% of the organised portfolio, shifting towards retail gold loans from primarily jewellery-secured agricultural credit. The Non-Banking Financial Companies (NBFC) segment is valued at 2.4 trillion rupees, growing over 40% year-on-year, with the top four firms holding 80% of the market share. Despite a large unorganised segment, this offers a formalisation opportunity. Small-ticket loans below 2.5 lakh rupees represent over 40% of the portfolio. Credit costs remain low due to high recovery rates, while growth is driven by rising gold prices and a

slowdown in unsecured lending, moderated by regulatory adjustments planned for 2024-25.

China: A Wholesale Market Rebuilt After Excess

Chinese gold leasing rapidly became the world's largest market, clearing over 3,100 tonnes in 2015. It offered lower costs than cash loans for corporate borrowers and generated revenue for banks. Demand stemmed more from the credit environment than jewellery needs, with a notable cross-border carry trade. However, vulnerabilities emerged, including jeweller defaults, a collapsing carry trade due to renminbi depreciation, and significant collateral frauds, revealing counterfeit bullion. One major case in 2020 involved 83 tonnes of gilt copper in loans amounting to 20 billion yuan. Subsequent regulatory changes have created a stricter, exchange-verified market, while niche products persist for small borrowers through banks and pawnshops.

Table 3 Business Environment of Gold-Collateralized Credit in India and China

Dimension	India	China
Market scale	Organised AUM about Rs 11.8 trillion (March 2025); projected Rs 15 trillion by March 2026	Leased volumes above 3,100 tonnes cleared via SGE at the 2015 peak
Structure	Banks about 82% of organised book; NBFC top four about four-fifths of NBFC book; large informal fringe	Concentrated in a few bullion banks dealing through one exchange
Typical ticket	Small retail: up to Rs 2.5 lakh is over 40% of portfolio and about 80% of accounts	Large corporate leases; personal pledge products from about RMB 5,000
Pricing	NBFC yields about 200-300 bps below early-2020s peak	Lease fees benchmarked to SGE rates; historically below benchmark lending rates
Growth drivers	Gold prices, unsecured-lending headwinds, formalisation, fintech partnerships	Relative cost of funds, hedging needs, import quotas, real-economy demand
Principal risks	Price volatility against LTV; custody risk; auction-conduct risk	Collateral fraud; counterparty default; carry-trade and currency exposure
Stress experience	RBI findings on irregular valuation, auction and end-use practices (2024)	Jeweller defaults (2015); Shaanxi-Hunan and Wuhan Kingold collateral frauds (2016, 2020)

Note. Compiled by the author from ICRA, CRIF High Mark, RBI, LBMA, CNBC and Caixin reports.

Comparative Business Synthesis

In business terms, India's and China's markets are complementary yet distinct. India's market is broad, focused on small loans against ornaments with low credit losses and competitive pricing dynamics. In contrast, China's market is narrower, dealing with fewer banks that lease metal to corporations based on a benchmark fee rate. India's market commonly faces conduct failures and irregularities affecting small borrowers, while China's encounters collateral fraud linked to large corporate clients. These different failure modes have prompted regulatory responses that have reshaped their respective business environments.

DISCUSSION

Beneath their differences, India's and China's gold credit systems share a common historical trajectory, evolving from informal credit to formal banking structures while facing stresses that revealed vulnerabilities. India focuses on financial inclusion, aiming to convert household gold into liquidity, while China's system supports industrial policy, directing gold credit primarily to corporate uses. Both approaches have limitations: India overlooks significant unorganised gold and dependence on imports, while China leaves much household gold inactive and corporate gold credit prone to collusion. Notably, China's exchange operates as the core of its credit system, contrasting with its role as a mere pricing tool in India, where collateral verification relies on lenders rather than an exchange infrastructure. The Kingold fraud highlighted these systemic vulnerabilities, prompting regulatory changes since 2022.

Policy Implications

For India, there are four main implications: the tiered loan-to-value (LTV) policy should be continuously monitored; formalisation costs for small borrowers need to be reduced; monetisation through credit is more effective than the Gold Monetisation Scheme; and lessons from 2024 require supervisory investment to support fintech partnerships. For China, three implications include leveraging household gold as collateral for individual credit; the white-list regime that risks concentration in a few banks; and the need for ongoing international dialogue on the Singapore Exchange's lease fee rate. Emerging markets should adapt their gold management strategies based on how households and firms hold gold, with countries favoring retail-pledging looking to India for regulatory frameworks and others with centralized gold resources considering China's leasing model, ensuring that their respective weaknesses are monitored.

CONCLUSION

This paper analyses the institutional, regulatory, and business environments of gold-collateralized credit in India and China, revealing distinct contrasts. India operates a household-centered, retail-intensive credit system based on pledged jewellery, supported by a tiered loan-to-value regime and borrower conduct rules under the RBI. Its aim is financial inclusion, with the primary risk being conduct failure. In contrast, China's system is exchange-centered and wholesale, where state banks provide metal to approved enterprises under the PBoC's rules, focusing on state-directed real-economy finance, with collateral fraud as the key risk. Both systems reinforce their unique institutional arrangements, presenting opportunities for mutual learning; for instance, India's monetization issues might benefit from China's custody technology, while China's household collateral could be revitalized through India's pledge method. Future studies could quantitatively compare interest-rate dynamics and recovery rates or include other gold-intensive countries like Turkey, Vietnam, or Egypt to enhance the typology of gold-collateralized credit systems.

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