



Management

AN INTRODUCTION OF GOLD SCHEMES, 2015 IN INDIA



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ABSTRACT

India has toppled China to become world's largest buyer of the gold in 2015. Gold is sensitively attached with the Indians and they prefer buying gold in the form of jewellery. The Central Government has come up with three gold schemes on 5th November, 2015 i.e., Gold Monetisation scheme, Sovereign Gold Bond scheme and India Gold Coin scheme to reduce the requirements of gold through imports. The less volatile nature of gold attracts the Indian consumers to choose gold as the best investment option. Nearly, 20,000 tonnes of gold are idle with Indian households, temples etc. which is not being traded or monetised in the form of jewellery. The accomplishment of economically stable gold investment schemes can bring changes in our economy.

Therefore, this study attempts to examine the three gold schemes in detail and probable impact of gold schemes on current account deficit (CAD). This paper discuss about the probable advantages and disadvantages of Gold schemes. It also talks about the major concerns that may hinder the success of gold schemes. Finally, the study makes some suggestions to develop gold market and monetise 20,000 tonnes of gold held by households and temples in the country.

Keywords:

Monetisation; Jewellery; Investment; Current Account Deficit; Gold Bond Scheme.

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1. INTRODUCTION

Gold is an asset that has attracted people for thousands of years because it is durable, easily transportable and universally acceptable. India is the largest buyer of gold in the world. The preferences in India are influenced by many social, economic and cultural factors.

In India, gold is viewed as a liquid asset and hence widely recognized for intergenerational transfer of wealth as it is considered to be the most efficient store of value. In the last few years, gold imports have been rising significantly. India accounts for more than a quarter of global gold imports despite being the contributor of less than 2 percent in the global trade. India is the largest consumers of gold in the world, accounting for around 26% in the year 2015.

As there is no production in India majorly India has to depend on Imports for their gold requirement which is third-most imported commodity with 1,000 tonnes annual import. Further, leading to outflow of foreign currency and increasing the current account deficiency thereby mounting pressure on Reserve Bank of India (RBI) and Govt. of India (GoI). By taking this into consideration, Prime Minister Narendra Modi on November 5, 2015 launched three Gold Schemes that aims at mobilising domestic holding of gold to provide more self sufficiency to Gems & Jewellery industry of India.

2. OBJECTIVES OF THE STUDY

The study has been geared towards achieving the following objectives:

- 1) To understand the detailed concept of Gold Schemes;
- 2) To understand how does the scheme work;
- 3) To examine the advantages and disadvantages of gold schemes;
- 4) To understand the concerns which may hinders the success of gold schemes; and
- 5) To make some suggestions for developing gold market and monetising thousand tonnes of gold

3. RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from various journals, magazines, articles and media reports. Available secondary data was extensively used for the study. The investigator also procures the required data through secondary survey.

INDIAN ECONOMY AND GOLD INVESTMENT SCHEMES

In 2015, India's gold demand to be between 900 and 1000 tones as per World Gold Council. Every year, the shining metal consumption shoots up in India. Despite, of the import control measures taken up by the government i.e., 10% import tax and 20% of imported gold have to be re-exported, the country's unquenchable desire for gold persisted.



Figure 1: Physical demand for gold

Source: GFMS, Thomas Reuters

According to a joint report by Industry body, Federation of Indian chambers of commerce and Industry (FICCI) and the world gold council (WGC), Indian households spend 8% of its daily consumption on gold jewelry and coins.

India is the world's largest buyer of gold with estimated holdings of 20,000 tonnes. This gold is not being traded or monetised in the form of jewellery. The value is worth Rs 55 lakh Crore that is much more than the foreign exchange reserves held by the RBI. 95% of our annual demand is met by imports. As India does not have gold mines, it relies upon imports which lead to inflate current account deficit (CAD) and affects the balance of payments of the country. At present the current account deficit is Rs. 1.65 Lakh Crore or 1.3% of GDP. These attractive gold schemes pave the way to convert gold savings in to economic investments. Practically, the recent schemes show signs of safer investment and have to satisfy know your Customer (KYC) norms.

ALL YOU NEED TO KNOW ABOUT THE GOLD SCHEMES

India with holding of 20,000 tonnes of gold worth Rs. 55 Lakh Crore is the largest buyer of gold. Millions of people India, who have been traditionally buying gold, will have more than one option to invest in the precious yellow metal. Prime Minister Narendra Modi launched three gold schemes and described as “Sone pe Suhaga”. These schemes are meant to recycle a part of the huge pile of unused and reduce import of coins and bars. A part of the gold collected through the monetisation scheme will be sent to MMTC and RBI for minting of coins and auction. The three schemes are- Gold Monetisation Scheme (GMS), Sovereign Gold Bonds and the Gold Coins bearing the national emblem Ashoka Chakra on one side and Mahatma Gandhi's image on the other.

3.1.GOLD MONETISATION SCHEME

Preferably, people in India purchase gold in physical form. As gold demand in India increases abruptly, the demand is satisfied through imports. The emergence of Gold Monetisation Scheme (GMS) in India can bring down the dependency on gold imports. The financial institutions play a key role in this scheme to make the yellow metal to uplift the Indian economy. Gold, the unproductive asset in the hands of households can be pulled off, to be either traded or monetised through this economically stable scheme.

The Gold Deposit and Gold metal loan schemes are to be substituted by this Gold Monetisation scheme. Majority of physical gold holding by temples, charitable trusts, individuals etc can be pulled in to the investment platform through this Gold Monetization scheme. The foremost players of this scheme are banks, jewelers and individuals.

The important factors to be considered are interest rate, minimum deposits, tenor and redemption.

I. Objective:

The objectives of the Gold Monetization scheme are:

- i. To mobilize the gold held by households and institutions in the country.
- ii. To provide a boost to the Gems and jewelry industry in the country, which contributes in employment creation, earns foreign exchange through exports, and the major investor in

bullion. The mobilized metal would be loaned to Jewellers as raw material by the banks to make jewellery.

- iii. To be able to reduce reliance on import of gold over time to meet the domestic demand; in turn reducing the country's need for foreign exchange reserves.

II. Scope:

The scheme requires a vast set-up of infrastructure for facilitating easy and secure handling of gold. For this reason, it may be possible to launch it initially only in selected cities. Over time, as the infrastructure for assaying and refining of gold develops, the scheme can be extended to other cities.

FEW THINGS TO KNOW ABOUT THE SCHEME

Following are the key point related to Gold Monetisation Scheme:

- Gold Monetisation Scheme can earn interest up to 2.50 % on their idle gold.
- Interest rate on Medium and Long Term Government Deposit (MLTGD) are 2.25 % and 2.20 %, respectively.
- The tenor of medium term would be between 5-7 years while long term would for 12-15 years tenure.
- The deposit under MLTGD category will be accepted by the designated banks on behalf of the central government.
- Interest on deposits under the scheme will start accruing from the date of conversion of gold deposited into tradable gold bars after refinement or 30 days after the receipt of gold at the Collection and Purity Testing Centres (CPTC) or the bank's designated branch, as the case may be and whichever is earlier.
- The principal and interest of the deposit under this scheme will be denominated in the gold.
- The gold received under MLTGD will be auctioned by the agencies notified by the government and the sale proceeds will be credited to government's account held with Reserve Bank of India.
- Reserve Bank of India will maintain the Gold Deposit Accounts denominated in gold in the name of the designated banks that will in turn hold sub-accounts of individual depositors.

HOW DOES THE SCHEME WORK?

Gold Monetisation scheme will work in a following manner:

STEP 1: Get your jewellery tested at any of the 355 Bureau of Indian Standards (BIS)-certified hallmark centres to find out the amount of gold and purity.



STEP 2: Ornaments will be cleaned and gemstones (if embedded) returned. Jewellery will then be melted and converted to bars or coins. You take it back or take a certificate



STEP 3: Deposit certificate in bank, get gold saving account



STEP 4: You will now get an interest on amount of gold



STEP 5: When you wish to retrieve the gold, you can take a certificate mentioning the amount of gold in your account to a jeweller and get the gold in the form of bar

IMPACT ON STAKE HOLDERS

There are five stakeholders i.e. customers, jewellers, government, banks/mints, non-banking financial institutions (NBFCs)/ Financial Institutions(FIs).The customers (households, temples and trusts) will get assured value, proper caratage, transparency in transaction besides the options of having cash/deposit/bonds / coins. Jewellers have the benefit of getting gold without import besides assured caratage, appropriate pricing without exchange rate fluctuations and lower inventory. The government will have the benefit of lower import, lower current account deficit, and conversion of unproductive assets to productive, thereby augmenting financial savings and economic growth. Banks, NBFCs and FIs will have the benefit of gold in their investment portfolio.

3.2.SOVEREIGN GOLD BONDS

Sovereign Gold Bonds (SGBs) are government securities denominated in grams of gold aimed at bringing down gold imports and providing an alternative to physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The bond is issued by the Reserve Bank of India on behalf of the Central Government.

Here are three important facts you should know about SGB:

PROTECTION: The quantity of gold for which the investor pays is protected since he receives the ongoing market price at the time of redemption/ premature redemption. The bond offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. Investors are assured of the market value of gold at the time of maturity. Gold bonds are free from issues like making changes and purity in the case of gold in jewellery form. The bonds, to be sold by the banks and designated post offices either directly or through their agents, can be also be held in the demat form eliminating risk of loss of scrip.

PRICE/ INTEREST: The bonds bear interest at the rate of 2.75 % (fixed rate) per annum on the amount of initial investment. The bonds are issued in denominations of one gram of gold and in multiples thereof.

Minimum investment in the bond will be two grams with a maximum buying limit of 500 grams per person per fiscal year. The RBI has fixed the issue price of first tranche of gold bonds at Rs 2,684 per gram which will be open for subscription from November 5 to 20.

The price of the bonds will be fixed by the RBI on the basis of the previous week's (Monday – Friday) simple average price for gold of 999 purity. The average price of gold is published by the India Bullion and Jewellers Association (IBJA)?

Resident Indians including individuals, HUFs, trusts, universities and charitable institutions can hold these bonds.

REDEMPTION: On maturity, the redemption proceeds will be equivalent to the prevailing market value of grams of gold originally invested in Indian Rupees. The redemption price will be based on simple average of previous week's (Monday-Friday) price of closing gold price for 999 purity published by the IBJA. Both interest and redemption proceeds will be credited to the bank account furnished by the customer at the time of buying the bond.

WHY IT'S GOOD: As investors will get returns that are linked to the market price of gold, the scheme is expected to offer the same benefits as physical gold. The big advantage is 2.75 % interest on bonds. They can be used as collateral for loans and can be sold or traded on stock exchanges. Bonds can be sold or transferred also to other persons. Parents can buy bonds in the name of their minor children. The government hopes to kill two birds with one shot: — bring down gold imports and use it as a borrowing instrument.

3.3.INDIA GOLD COIN

- Prime Minister Narendra Modi launched India's first Gold Coin bearing the national emblem- the Ashok Chakra on one side and Mahatma Gandhi's image engraved on the other side, as a part of a broader push to make people deposit gold with the government.
- The coins will initially available in denominations of 5 and 10 grams. A 20 gram bar or bullion will also be available. About 15,000 coins of 5 gm, 20,000 coins of 10 gm and 3,750 gold bullions will be made available through MMTC outlets.
- The Indian Gold coin is unique in many aspects and will carry advanced anti-counterfeit features and tamper proof packaging that will aid easy recycling.
- These coins will be distributed through designated and recognised MMTC outlets.



Figure 2: New Gold Schemes

Source: www.financialexpress.com

A SALIENT FEATURE OF THE AFORESAID SCHEMES**A. GOLD MONETISATION SCHEME:**

TENURE	INTEREST RATE (%)
1-3 YEARS	Bank to decide
5-7 YEARS	2.25
12-15 YEARS	2.50

HISTORY: Replacing of existing Gold Deposit Scheme (GDS), 1999

ATTRACTIVENESS: As ornaments are melted, all gems and stones are removed there may be loss of monetary value. Also the associated sentimental value could be deterring factor.

TYPES OF DEPOSITS:

I. Short Term Bank Deposit (STBD) (1-3 Years)

II. Medium (5-7 Years) and Long (12-15 Years) Term Government Deposit Schemes (MLTGD)

PREMATURE WITHDRAWAL: Allowed after minimum lock-in period with penalty

INVESTMENT LIMIT: Minimum 30 gram of jewellery, bars, coins. No maximum limit

WHERE TO BEGIN:

1. Go to BIS-certified collection and purity Testing Centre
2. Comply with KYC (Know-Your-Customer) norms and regulations
3. Bank will issue deposit certificate equivalent to 995 fineness of gold i.e. 23.88 carat

TAXABILITY: Exemption from income tax may be available, which may be notified later

B. SOVEREIGN GOLD BONDS:

TENURE: Eight years

HISTORY: New Investment option Introduced by Government of India

ATTRACTIVENESS: In comparison, a simple investment option for Resident Indians, HUFs, Trusts and Charitable institutions.

TYPES OF DEPOSITS: No classification of the Bonds

PREMATURE EXIT: Allowed from fifth year

INTEREST RATE: 2.75% a year, payable semi-annually on the initial value of investment for the bonds issued in 2015-16

INVESTMENT LIMITS: Minimum 2 units (Equal to 2 gram) and maximum of 500 gram in financial year.

WHERE TO BUY: Banks and designated post offices

ISSUE DATE: November 26, 2015

HOW IT WORKS:

1. Price linked to previous week's (Monday-Friday) simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Ltd. Redemption price to be based on same formula.
2. Comply with KYC norms- Voter Card, Aadhaar Card, PAN, TAN and Passport
3. Payment through electronic transfer, cash payment, by cheque or demand draft
4. Investors to get stock/holding certificate. Bonds can also be kept in demat form
5. They can be used as collateral for loans

DISTRIBUTORS'S COMMISSION: 1% of investment amount

TAXABILITY: Interest and capital gains would be taxable (Similar to taxation of physical gold). The detailed tax laws are yet to be notified.

C. INDIA GOLD COIN:

WEIGHT: Available in 5, 10 and 20 grams **PURITY:** 24 Carat, 999 fineness

WHERE TO BUY: Initially available at designated and recognized MMTC outlets. Will be sold through banks and post offices later

Source: Author's Presentation

4. ADVANTAGES

- 1) The gold kept in the lockers may now yield an excess income as interest which is around 2.25-2.75% (Which was 0-75-1% in Gold Deposit Scheme (GDS), 1999). The jewelry which is in a position to dismantle can be put into this account.
- 2) The total quantity still exists in consumer's ownership in his metal account along with the interest payment that is his excess inflow without losing the ownership.
- 3) Investors or jewellers could also borrow money using gold savings account.
- 4) The income coming from monetised gold may be invested in alternative investment tools.
- 5) The gold savings account can be operated like general savings account where one can withdraw/deposit gold from his account anytime.
- 6) Monetisation Scheme may help curb rising gold smuggling because of its ability to reduce demand for physical gold.

5. DISADVANTAGES

- 1) Investor by opting this will lose the identity of the jewellery as it will be melted after purity tests which may decline the value in case of gems studded jewellery.
- 2) The consumer could not get back the same as jewelry and this would become a major disappointment as Indians are crazy in holding gold as jewellery but not as raw gold.
- 3) Certain costs would be borne by account holder at the time of withdrawal for melting and recasting the gold as jewellery.
- 4) Majority of the idle gold is with rural India but the purity centres are mostly established in urban or semi urban areas which may not be viable to capture the rural gold.
- 5) Banks for depositing gold in this scheme may be not adequate and a person may have to travel distance for opting the scheme.
- 6) Most of the people preserve the parental jewellery as a symbol of affection and pass on the same to the next generation may not be covered under this scheme.

6. CONCERNS

- 1) Still people are not used to invest in schemes involving gold because they consider keeping gold to be a safe option no matter how much interest government provides.
- 2) Other potential problem lies in lack of clarity on income tax and capital gain tax.
- 3) Indian temples have large stocks of gold whose monetisation is very difficult owing to the religious sentiments of the people.

- 4) Lack of infrastructure for easy and safe handling of gold, proper test centres need to be established where gold could be checked for purity. Number of collection centres would have to be increased significantly.
- 5) Reluctance to part with family jewellery due to sentiments reasons could turn out to be the major concern for government in popularizing these schemes.
- 6) Households may find it difficult to come forward with a significant amount of gold as there is no clarity with regard to income-tax authorities wanting to know the source of gold and associated consequences.
- 7) Finally, banks may not be interested to provide anticipated interest rates and some form of subsidisation may be sought by these institutions.

7. ANALYSIS OF GOLD SCHEME TILL 20 NOVEMBER 2015

According to one official statement of Gem and Jewellery Export Promotion Council (GJEPC), the Gold Monetisation Scheme has so far attracted 400 grams of Gold. But this is not a great start for an ambitious scheme. Industry representatives on 19 November 2015 met Economic Affairs Secretary Shaktikanta Das and discussed ways for opening more centres for gold testing. The representatives requested the government to allow jewellers registered with BIS to act as collection point for gold. At present, there are 3.5 lakh jewellers in the country, of which 13,000 are BIS-certified. If these 13,000 BIS-certified jewellers are allowed to act as collection agents, then the scheme will take off in a good way. Now the government in principle has agreed to make them eligible as testing centres. There are 29 testing centres and four refineries presently accredited to this scheme.

The government has also agreed to increase the number of testing centres to 55, and refineries to 20, by the end of the year. Economic Affairs Secretary has asked BIS to fasten the process of registration of jewellers as collection agents and give out the licences within 15 days. Another scheme, to mint own series of gold coins, is going a bit better as compare to the deposit scheme. Buyers have acquired 6,200 of the Ashoka Chakra coins.

8. RECOMMENDATIONS:

Other than the suggestions of industry representative's people, a few recommendations from my side for successful implementation of gold schemes are as follows:

8.1. STABILISING GOLD MARKET

The government should design policies to ensure a stable and sustainable gold market. This can fructify only when the gold rates in India follow a stable index rate. Frequent fluctuations in policy have disrupted the business significantly and created difficulties for the small scale retailers in general. Rather than curbing the demand for gold through import duties, the government could consider changes in gold policy and focus on implementing better standards and regulations which would improve the governance issue in the market.

8.2.ENSURING STANDARDISATION AND QUALITY ASSURANCE FOR GOLD JEWELLERIES

Through better hallmarking guidelines, standardization in terms of quality assurance can be implemented across the industries. Hallmarking must be mandated in the organised retail sector with strict rules, regulations and policy checks. But the challenges mainly lie in the unorganised sector where there are many barriers which prevent the government from implementing these regulations. Instead of imposing strict guidelines immediately, the government should invest in awareness programs and campaigns to spread the essence of hallmarking across the retailers.

8.3.BETTER POLICY IMPLEMENTATION TO RECYCLING OF TEMPLE'S GOLD

A well-defined code of law along with associated regulations should be enforced to win the trust of temple boards for monetising temple-gold back into the economy. Enforcement of law should also take care of better accountability factor once the gold is moved out of the temple trust.

8.4.INVESTMENT IN INFRASTRUCTURE & HUMAN RESOURCE DEVELOPMENT

The government should plan for higher investment in infrastructure facilities for training centres and gold workshops. Focus should also be on the training and education of the gold artisans of the overall industry. Beneficial schemes for upliftment of the living standards of the artisans should be implemented in order to encourage more employment in this growing sector.

9. CONCLUSION

Underlying that India, which has around 20,000 tonnes of idle gold lying with households, has no reason to be described as a poor country. People should take advantage of the golden opportunity to help India march to a golden period.

While Gold Monetisation Scheme (GMS) will allow residents Indians to deposit their household gold and earn an interest up to 2.5%, Sovereign Gold Bonds are intended to convert the investment demand for physical gold into paper demand, fetching an annual interest rate of 2.75%. The earnings from monetisation scheme would be exempt from capital gains tax, wealth tax and income tax. At present one can only earn interest after a month of depositing the gold, but under Monetising scheme once consumer deposit their gold with jewellers, they can start earning interest from the next day. The move would also help in reducing imports of the metal. Every year, India imports an average 1,000 tonnes of the yellow metal, which impacts the India's foreign exchanges reserves and puts pressure on the current account deficit- the difference between the inflows and outflows of a foreign currency. According to estimates, Indians buy about 300 tonnes of gold bars every year purely as investment assets. So for them this scheme will be a better option. There is great bond of trust that family goldsmith enjoys in India. Once they gain familiarity with these plans, they could become the biggest agents of the schemes.

The gold scheme is launched come at time when gold smuggling is on the rise. Over 886 kg gold worth Rs. 234 Crore was seized in first quarter of 2015-16 alone, according to Directorate of Revenue Intelligence (DRI) sources. The numbers are bound to increase, are in line with all-time

high gold seizures of 2,372 kg and 4,082 kg recorded in 2013-14 and 2014-15 respectively. Such figure is worrisome as the first quarter figures are higher than the seizure made in entire 2012-13. However the ability of GMS to reduce smuggling, mainly by reducing demand for physical gold, will depend on how Indians react to the scheme.

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