India's Gold Policy- critical analysis of some of the policy initiatives in 2015

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By

Reetu Jain, I.E.S

(Roll No. 4513)

Under the guidance of

Prof. Ashok Vishandass

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CERTIFICATE

I have the pleasure to certify that Ms. Reetu Jain has pursued her research work and prepared the present dissertation titled "**India's Gold Policy- critical analysis of some of the policy initiatives in 2015**" under my guidance and supervision. The dissertation is the result of her own research work. This is being submitted to the Punjab University, Chandigarh for the purpose of Master of Philosophy in Social Sciences in partial fulfillment of the requirement for the Advanced Professional Programme in Public Administration of the Indian Institute of Public Administration (IIPA), New Delhi.

I recommend that the dissertation of Ms. Reetu Jain is worthy of consideration for the award of M.Phil. degree of Punjab University, Chandigarh.

(Prof Ashok Vishandass)
Professor (Applied Economics)
Indian Institute of Public Administration,
I.P. Estate, Ring Road,
New Delhi-110002

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Acronyms

CAD- Current Account Deficit

CPTC- Collection and Purity Testing Centre

DGFT- Directorate General of Foreign Trade

ETF- Exchange Traded Fund

GDS- Gold Deposit Scheme

GMS- Gold Monetisation Scheme

GoI- Government of India

HUF- Hindu Undivided Family

IGC- Indian Gold Coin

KYC- Know Your Customer

LBMA- London Bullion Market Association

NBFC- Non Banking Finance Company

RBI- Reserve Bank of India

RRB- Regional Rural Banks

SEBI- Securities Exchange Board of India

SGB- Sovereign Gold Bond

SHCIL- Stock Holding Corporation of India

WGC- World Gold Council

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ABSTRACT

1. Gold historically has been considered as an investment which provides high rate of returns, a hedge against inflation and economic shocks, and a standard of currency. For Indians, the relationship of individuals and families with gold is intertwined with cultural and religious overtones that adds more to the demand, make the metal circulation slow and demand less elastic. India is one of the largest consumer of gold in the world, yet it doesn't produce any significant gold. As a result, India is one of the largest importer of gold. This generates pressure on current account deficit for the country leading to unhealthy but essential cross border curbs.

2. The study critically analyses the approaches and policies adopted by India involving demand reduction, supply management and monetisation of gold and suggests policy measures including a sustainable gold policy for India. The study analyses the purpose, differences, progress and challenges faced in the execution the three Gold schemes launched in November 2015 namely Gold Monetization Scheme, Sovereign Gold bond Scheme and Indian Gold Coin. The methodology primarily replies on primary policy documents and secondary data sources, stakeholder consultations etc.

3. The Gold Monetization Scheme (GMS), was refabricated out of the erstwhile Gold Deposit Scheme and Gold Metal Loan Scheme. It was launched to mobilize idle gold in Indian households and historical gold reserves lying with religious institutions like temples. However only approximately 20.4 tonnes have been mobilized successfully under GMS upto December 2019, which is abysmally low compared to the amount of gold estimated to be lying idle in households. Schemes like Sovereign Gold Bonds and Indian Gold Coin seek to divert the demand for physical gold to paper gold and to promote GMS and Make in India.

4. The study concludes that large imports and burgeoning demands of gold needs to be reined for macroeconomic stability. Besides abinito demand reduction immediate and medium target intervention centres on incentivising the utilization of large stock of idle gold that lies inside the country . The suggestions are classifiable into demand reduction measures, supply management and measures to increase the monetisation and dematerialisation of gold.

5. *Demand Reduction Measures* include developing alternative instruments that provide a real rate of return comparable to gold. This is a long term project and takes considerable time for investors to convince themselves to diversify their investment. This may also include inducing cultural shifts to untwine gold from religious and cultural hues. Increasing the interest rate on the gold deposits under GMS by bringing it to level of atleast the saving interest rates of the banks (especially when the interest if further taxable) would help in further improving the attractiveness of the GMS.

6. *Supply Management Measures* to tap in the idle gold and integrate it formally into the monetary system. The proposal for establishing a Bullion Corporation needs to be reconsidered for action, which will be responsible for supplying gold, financing issuance of bonds, assaying gold for quality, providing storage and safekeeping facility, recycling domestic gold and trading in gold derivative products like spot, forward and options trading and gold metal certificate programmes. Gold backed financial products with attractive incentives need to be made available banks such as Gold Deposit Scheme (where gold is taken as deposit, recycled for meeting domestic demands and given back at the time of maturity), Gold Accumulation Plan (a saving plan for small buyers of gold that permits them to accumulate gold in small quantities) and Gold Pension Products. Turkeys experiment and success in mobilising its idle gold should serve as the golden benchmark for India where the idle gold is assessed to be more than 20,000 tonnes.

7. *Measures to increase the monetisation and dematerialisation of gold* such

as Gold Deposit Scheme, e-gold plan and paper gold savings account and gold derivative products, Gold Exchange Traded Funds5 (ETFs), Gold linked bonds and structured notes are such instruments. Gold not held physically ensures that the gold is in circulation and doesn't idle.

8. The success of any intervention largely lies in the structure of the scheme, its delivery structure and other soft but significant factors such as culture, tradition and religion. Tax implications, trace back and liability to explain source, minimum expected returns are the key components of the scheme design which determine the success. For small quantities atleast no question asked approach is advocated to inspire trust. Delivery medium need to be harnessed as per their reach. Post-offices, NBFCs, banks etc all need to be mobilised to ensure wide coverage. The service standards need to be upgraded including location and customer facilities at CPTC or transaction points esp in view of high value transaction and many customers being women. The ecosystem needs to inspire trust and comfort for individuals, especially women. Finally the soft but long term approach is to have marketing campaigns to popularise the schemes and incorporate these in the financial inclusion efforts. The nudges can be in terms of facility to buy or sell on special occasions such as Akshay Tritiya or Dhanteras on special rates. The schemes also need to diversify to social, charitable and religious institutions, other than temples, which also receive gold donations.
Sustained efforts from all key stakeholders (governments, jewellers, central banks etc.) are a must if the Government has to be successful in mobilising gold under the schemes. A calibrated approach, which titers its efficacy and course corrects is the call of the times. The time horizon one needs to plan is long for the vision to make Gold a more productive participant of the economy and markets.

CHAPTER 1

INTRODUCTION

Background

1.1 India's appetite for gold is one third of the world's total demand and over one billion Indians spend one trillion Indian rupees on gold imports per year. According to World Gold Council (2016), India has 23000-24000 tonnes of idle gold lying with the public, out of which only 3% is used to raise loans. According to NITI Aayog report 2018, 60% gold stock is with rural India. Each year India imports between 800 and 1000 tonnes of gold for consumption purpose, out of which an estimated 30-35% is for Investment purpose. Gold has always been a vital part of the socio-economic belief of the Indian families, mainly used in making of jewellery, for industrial purpose, as an investment holding and as a central bank holding. According to WGC (2020) India has doubled its consumer demand for gold during 1995-2019. The consumer demand for gold includes jewellery, gold bars and coins.

1.2 Gold has acted as a great wealth preserver from ages, by providing growth at a rate that is more than the inflation rate. Gold is popular amongst Indian households, since it is an asset which can be conveniently bequeathed, is transferable can be used in difficult times and also serves as hedge against uncertainty, including inflation. As a medium that can be easily pledged, it ensures high liquidity at short notice. Unlike other financial instruments that leave a paper trail, transactions in gold is simple and easily comprehensible to the illiterate and semi-literate population of India. Know Your Customer (KYC) norms required to be furnished for every purchase above 2 lakhs rupees worth of gold purchase. Moreover, gold has universal acceptance and Indians in particular have deep cultural and religious traditions associated with it. India is also among the largest exporter of gold jewellery and roughly 1-2 million people depend on it for their sustenance. Gold is thought of as a safe haven during financial crisis. According to Coudert and Raymond (2010), an asset with a stable real or nominal value is an uncontroversial safe haven, i.e., the holder can resell it without loss of time. Gold gives returns at much higher rate which is above the inflationary rate. According to K.C. Chakraborty, the former Deputy Governor of Reserve Bank of India gold is a safe asset which not only protects principal but also gives return which is slightly above the inflation rate. India produces only about 2 tonnes of gold a year and imports the rest of the demand. India imports gold from Australia, China, Russia, , Peru, South America, USA etc, thus negatively affecting the foreign currency available in the country which gets used in unproductive use of buying gold. In recent years, with increasing level of per capita incomes, the increased imports resulted in ballooning Current Account Deficit (CAD). The Government had to undertake remedial and corrective measures in early 2013 to contain import of gold. Consequently, the import of gold declined.

1.3 In 2015, to tap gold within the country, government launched three gold schemes – Gold Monetization Scheme (22nd October 2015), Gold Sovereign Bond Scheme (30th October 2015) and Gold Coin and Bullion Scheme (RBI, 2015). Through these schemes, in addition to targeting individuals, the Government also pursued temples with renewed focus to mobilize gold reserves. The quantity of gold available with temples in India is estimated at around 1700 tons (Annex 2, Narsimha (2016)). The objective of introducing the schemes was to mobilise gold held by households and institutions in India and to facilitate its use for productive purposes, as well as, in the long run to reduce country's dependence on imports of gold.

1.4 This study seeks to evaluate the achievements of the Gold Monetisation Scheme (GMS), Government Sovereign Bond Scheme and Indian Gold Coin Scheme launched by the Government since 2015 onwards and traces reasons for its slow take-off. The study discusses the reasons, while also analyzing the international gold policies of nations which are also among the major importers of the gold and makes recommendations so that such schemes are acceptable to both the investing population and religious institutions.

Research Objectives

1.5 The research objectives of the study are :-

(a) To study, critically analyse and examine the impact and the challenges of the policy initiatives undertaken to restrict the demand for gold and to monetize gold present in the Indian economy in 2015.

(b) To examine the policy undertaken by any other country in this regard.

(c) To recommend policy measure, which can be undertaken by the government, to improve gold monetization in the country.

Research Design

1.6 Since the study seeks to critically analyse and examine the impact of the policy initiatives undertaken to restrict the demand of physical gold and to monetize gold present in the Indian economy, the research would focus on data collection related to various policy initiatives undertaken by government in 2015 specifically Gold Monetization Scheme, Sovereign Gold Bond Scheme and Indian Gold Coin Scheme. This would be supplemented by studying their impact through various reports, papers, committee reports, parliament question responses and feedback from various stakeholders including and limited to consumers, jewellers, banks, RBI officials and officials from Ministry of Finance, GoI.

1.7 The research design adopted therefore would be

a) Descriptive analysis of various Gold Policies of 2015 of India to contain its demand/ b) Exploratory research to determine factors that have a bearing on the trends in gold demand and effectivity of various government instruments.

Literature Review

1.8 Some studies that have been reviewed are as follows:

Gold, as a subject has always caught the attention of academicians, central bankers and industry experts alike. Reddy (1997) has extensively discussed how important gold is in the Indian system. Trivedi and Behra (2012) provide comprehensive details on how gold prices in India are related to macroeconomic variables. Kollure (1981) conducted an empirical investigation for the period 1968-1980 and concluded that gold is held as an instrument to hedge against inflation. Anand and Tulin (2014) argue that substantial gold demand is its use as a hedge against inflation and there is a strong correlation between gold imports and inflation expectations of households in India.

1.9 World Gold Council on India's gold market: evolution and innovation (2017) study explain how India's gold market works across the entire supply chain – from imports and recycling through to consumer demand – and how it is likely to evolve in the coming years. It also provides an overview of existing gold-related policies and how they have evolved over recent years. The main findings of the study are :- (a) Price is not a significant driver of investment in the long run; (b) Higher import duties have had a larger impact on bar and coin demand than they did for jewellery, reducing demand by 9.5 tonnes for every percent point increase; (c) the gold demand is led by jewellery, with bars and coins being supplementary; (d) the report also analyses the various Government and regulatory interventions in Gold market. According to the report if under GMS government is able to mobilize 25-30 metric ton of gold till 2018 it can be considered as success especially after the failure of similar government effort in 1999. It further says that SGB scheme might appeal to institutional investors, but it is unlikely to appeal to retail investors. For them, physical gold is more than just a financial return. Gold is entwined with religion and emotion.

1.10 EPW Research Foundation (2005) argues that Gold imports accounting for nearly 1.5 per cent of GDP are in fact unproductive holding of assets and government should consider in position of import duty and wealth tax to wean away public from invest in gold. Paranjape (2005) details the benefits of holding gold and specifically mention “those unfortunate Indians” who do not have access to other markets conveniently save in gold. Vaidyanathan (1999 examines in depth the factors that lead to gold accumulation in India. He further mentions that gold is a highly liquid store of value and represent command over resources both had home and abroad while physical depreciation is negligible and given a well-developed world market it is a very attractive asset. NITI Aayog Committee Report on Transforming India's Gold Market (2018) provides recommendations for Gold Policy across:- Short term, Medium term and Long term areas including but not limited to recommendations focus on Make in India in Gold; Financialization of Gold; Tax and Duty Structure; Regulatory Infrastructure and Skill Development & Technology Upgradation. The major recommendations focus on measures to boost the domestic supply of gold to reduce dependence on its imports.

1.11 Gold, being an integral part of the socio-economic fabric of the Indian households, has always evoked a strong sense of cultural and sentimental attachment, making its consumption and investment in the country very distinct from that in other countries (World Gold Council, 2014), and the gold demand in India cannot be compared with any other country (RBI, 2013). This claim, can be made particularly while comparing the investment pattern and general attitude of people towards gold in Turkey, where the government has successfully managed to leverage gold to play a crucial and innovative role in the Turkish economy. Turkey has a small yet growing gold mining industry with a developed post-production supply chain. This gold market has been bolstered by effective and well-developed industrial policies and infrastructure, which are the key reasons which have helped incorporate gold as a part of Turkey's financial system (World Gold Council, 2015a).

1.12 According to Laakso (2019), there is an underlying potential for investment gold demand to skyrocket over the next 20 years (during 2019-2039) if the price of gold continues to increase and the interest paid on such investments in the gold instruments also continues to increase. Apart from investment demand, the demand-side for gold is stable and likely to grow as central banks continue to accumulate gold. Considering that inflation is likely to increase due to monetary policies conducted over the past ten years and to be conducted in case of a new global recession and that gold production is likely to be trending down over the next 20 years fundamental should provide upward pressure for gold prices over the next 20 years.

1.13 It is estimated that temples in India hold 3,000 tonnes of gold which is two-thirds of the US bullion depository holdings (Burke, 2015). Of this, about 2,000 tonnes is with rich temples in India (Narasimhan, 2016). According to Kuriakose and Iyer (2015), a large stock of idle gold lies inside the country and therefore a part of the solution lies in developing alternative avenues for investment along with integrating the idle gold for productive use in the economy. As per WGC, 2020, Gold is increasingly recognised as a mainstream investment as global investment demand has grown by an average of 14 percent per year since 2001 and the gold price has increased by almost eight fold over period (1998-2018).

1.14 Thus the need is to not only to curtail the demand of physical gold but also to monetize gold held by Indian households/Institutions/Temples etc.

Research Methods and Data Sources

1.15 This study analyses the data on the 3 schemes introduced by Government of India in 2015 viz. Gold Monetization Scheme, Sovereign Gold Bond Scheme and Indian Gold Coin Scheme and suggests changes in policy measures required to make the schemes more successful. The study also suggests some additional steps that can be undertaken to promote gold monetization in the country. For suggesting such measures besides examining the secondary data sources, stake-holder consultations have also been held with consumers, jewellers, temple trust, CPTC and Banks.

1.16 The secondary data sources are:-

a. RBI Master Circulars on gold.

b. Import of gold data from Department of Commerce, Govt of India

c. International prices and central bank holdings from World Gold Council

d. Data related to ETFs from SEBI, data related to Monetized gold from Ministry of Finance, GoI

e. Data and information from the Parliament Questions of both Rajya Sabha and Lok Sabha

Limitations of the Study

1.17 Understanding of the policy and the changes required therein could have been deepened further by meeting more customers, jewelers, associations, trusts/societies holding gold, government officials and officials from the regulator who have been and are associated with the policy making.

While there have been various initiatives undertaken by the government and the regulatory bodies including RBI and SEBI, DGFT towards containing the gold demand in the country and monetize the same. But the study is limited to analyse two major policy initiatives viz. Gold Monetization Scheme and Sovereign Gold Bond Scheme of the government undertaken to limit the demand and monetize the gold demand in the country and suggest changes in such policies to make them more effective.

CHAPTER- 2

Statement of the Problem

2.1 India: Demand and Supply Trends:

India is the second largest consumer of gold and is heavily reliant on bullion imports. Gold imports are the third biggest item in India’s trade basket. Therefore, in order to control the deteriorating current account deficit (CAD), the government often looks to curtailing import of non-essential items - like gold in the past by raising the import duty. According to data retrieved from website Eximguru, the duty rates on the import of gold as provided below, is based on the timelines when the rates were changed by the government:-

Table-2.1 : Custom duty rate on import of Gold

(%)	As on 6.7.19	As on 2.2.19	As on 1.7.17	As on 2.2.17	As on 11.7.14	As on 17.3.12
Customs Basic Duty:	12.5	10	10	10	10	10
Social Welfare Surcharge/Additional CVD	10	10	3	0	0	12
IGST/Custom Cess	3	3	3	3	3	3

Source: Eximguru website 7.3.2020 (http://www.eximguru.com/indian-customs-duty/71129100-of-gold-including-metal-clad.aspx)

2.2 In 2012, government had raised the import duty on gold to 10 per cent in order to rein in the CAD. Similarly, in February 2019 this duty was further raised to implement Social Welfare Surcharge of 10%. In July 2019 the import duty was further revised upwards from 10% to 12.5%. The details of imports of gold are as under:

Table 2.2: Import of Gold in country

FY	Quantity (Ton)
2012-13	1013.7
2013-14	661.7
2014-15	916.1
2015-16	968
2016-17	780
2017-18	955
2018-19	982

*Source: Parliament Question response by Government (*Rajya Sabha Unstarred Question No. 2472 Answered On: Tuesday, August 11, 2015 and *Lok Sabha Unstarred Question No. 3934 Answered On: Friday, August 10, 2o18)*

2.3 The hike in import duty apart from discouraging imports contributed to additional revenue to the government and helped in containing the fiscal deficit. However, the attractiveness of gold is also on account of its high return *vis-a-vis* bank deposits in a high inflation environment. This has led to a shift away from financial savings, and is not desirable in a developing economy. The fiscal measures need to be supplemented with product innovations like inflation-indexed bonds, gold-backed financial products to reduce the demand for physical gold, imposing export obligation on bulk gold importers and measures to increase monetisation of gold.

2.4 Investment Demand i.e. **Gold Exchange Traded Funds (ETFs)** in India have not performed well in India. Higher equity market returns have had investors disillusioned with gold as an asset class. Inflows into equity and equity-linked schemes have seen stronger inflows mainly on account of stronger returns.

As per the data received from SEBI and also detailed in Annex 1 since its launch in 2003, gold in ETF is approximately 2676 tonnes as on September 2019.

Central Banks Demand

2.5 As per the response given by government in Parliament, the present position and the status of gold reserves with RBI in comparison to the last six years is detailed below:-

Table 2.3: Reserve Bank of India holding of Gold

(in Metric Tonnes)						
	As n June 30, 2014	As on June 0, 2015	As on June 0, 2016	As on June 0, 2017	As on June 0, 2018	As on June 30, 2019
Held Domestic ally	292.26	292.26	292.28	292.28	292.30	292.30
Held Abroad	265.49	265.49	265.49	265.49	273.93	325.86
Total	557.75	557.75	557.77	557.77	566.23	618.16

*Source: Parliament Question response by Government of India (*Lok Sabha Unstarred Question No. 1195 Answered On – February 10, 2020*)*

2.6 India's central bank also added gold to its reserves in 2018 after a gap of almost ten years. As per the World Gold Council data, India's central bank purchased 51.93 tonnes of gold in 2018-19. As a result of these purchases, the Reserve Bank's gold holdings have gone up to 618.16 tonnes which is 6.4 per cent of total reserves. It is worth a note that the Reserve Banks' gold holdings have gone up from 358.14 tonnes at end of 2008 to 618.16 tonnes at end of 2018-19, a rise of 72.6 per cent.

Supply Trends

2.7 India is the world’s second largest gold consuming nation but the demand in India is largely met by imports. This is because gold mining in India is very limited. The domestic demand is therefore met by non-domestic supply, which comprises of official and unofficial imports. India in 2018 produced 281.3 tonnes of fine gold from both gold and silver dore that were imported to the country. It was the highest on record and its share to gross gold imports touched 37 per cent and it share of total imports for domestic consumption (net imports) touched 55 per cent. Banks supplied 218.4 tonnes of gold to the domestic market, compared to 345.7 tonnes in 2017, down by 37 per cent. Nominated agencies also imported much lesser gold compared to last year, owing to weak domestic demand. Nominated agencies imported 60 tonnes of gold in 2018 compared to 266.7 tonnes in 2017, down by 77 per cent.

2.8 Due to cultural affinity and gold’s long term store of value, gold demand in India has not come down. From time to time Government of India (GoI) has announced various policy initiatives to limit the demand for gold or to monetize the gold present in the Indian economy especially the households.

2.9 This study seeks to analyse initiatives of the government, examine its impact in able to achieve their objectives and attempt to make policy recommendations for better results in such policy designs.

Chapter 3
Policy initiatives and their impact

Salient Features of the Gold Schemes

3.1 The gold schemes introduced by the Ministry of Finance, Government of India on November 4, 2015 included the Gold Monetisation Scheme (GMS), the Sovereign Gold Bond and the Indian Gold Coin. The key objective of these schemes is to mobilize idle gold in the country and reduce reliance on imported gold.

Gold Monetization Scheme

3.2 The Gold Monetization Scheme comprise the 'Revamped Gold Deposit Scheme' and the 'Revamped Gold Metal Loan' scheme, linked together., intended to mobilize idle gold lying in Indian households and religious institutions, and facilitate its use for productive purposes in the economy. In long run the scheme aimed to reduce country's reliance on the import of gold. Resident Indians (Individuals, HUFs, Proprietorship and Partnership firms, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies) could make deposits under the scheme. The list of eligible depositors was widened in January 2019 further to include charitable institutions, Central Government, State Government or any other entity owned by Central Government or State Government. As per the scheme, Gold i.e. Gold bars, Coins, Jewellery etc. was accepted in scrap form only whereby the customers have to submit Application Form, Identification Proof, Address Proof and Inventory Form. The scheme allowed depositors to deposit gold in a 'Gold Savings Account' with participating banks and earn interest (denominated in grams of gold) on their deposits with a minimum deposit of 30 gm (reduced from earlier 500 gms) of raw gold and maximum having no limit. Hence, a depositor was able to benefit from the interest accrued on his/her gold deposits, as well appreciation in the price of gold. Gold Deposit Certificate (in 995 fineness) is issued by Nodal Branch and is sent to the depositor by Bullion Branch, Mumbai. As per the revised notification by RBI of August 2019, Banks may identify at least one branch in a State/Union Territory where they have presence to accept the deposits under the Scheme. The scheme also allows premature redemption, after a lock-in period with a penalty on the applicable interest rate. On maturity, the depositor gets back the gold deposit with interest in the form of gold bars (of 995 fineness) or in cash, as desired by the depositor. The depositor has a choice to make deposits for short term (1-3 years), medium term (5-7 years) or on long term (12-25 years) basis. On short term, deposit-designated banks are free to fix the interest rates on these deposits, on medium term deposit – 2.25% p.a and on long-term deposit – 2.50% p.a. Loan facility is available on the Gold monetized in a Rupee form. The scheme makes the depositor free from the problems of storage, movement and security of gold in their possession. According to Annual Report of Ministry of Finance, GoI, 2019-20, scheme is running successfully and till January 2020, approximately 20547 kilograms of gold has been mobilised under GMS.

Table 3.1: Gold mobilized over the years since its launch in 2015

S.No.	**Year**	**Gold (Tonnes)**
1	2015-16	1.6
2	2016-17	4.9
3	2017-18	6.9
4	2018-19	2.8

5	2019-20 (till Dec 2020)	4.2
	Total	**20.4**

Source: Official from Ministry of Finance, Government of India, New Delhi (Middle rank official in February 2020)

Table 3.2: Types of gold mobilized under GMS since its launch in 2015

Sl.No.	Types of Deposit	Deposited gold as on 31.01.2020 (in Tonnes)
1	Cumulative Quantity of Gold (in grams)	20.54
a	Short Term Gold Deposit	6.93
b	Medium Term Gold Deposit	4.94
c	Long Term Gold Deposit	8.66
2	Number of participating Banks	11
3	Number of depositors	2952

Source: Annual Report 2019-20, Ministry of Finance, Government of India, New Delhi

3.3 All designated banks (All Scheduled Commercial Banks (excluding RRBs)) are eligible to implement the scheme as per the guidelines issued by the Reserve bank of India. Banks, which acted as facilitators for the scheme, were allowed to utilize the deposited gold by - (a) selling or lending it to jewellers, (b) selling or lending it to MMTC for minting gold coins, or (c) selling it to other designated banks which are participating in the scheme. As an incentive for investors, no capital gains tax was levied on appreciation of value of gold deposited or on interest earned from depositing gold under the scheme.

Sovereign Gold Bond

3.4 Sovereign Gold Bonds (SGBs) are government securities issued by the Reserve Bank of India (RBI) on behalf of the central government and are denominated in grams of gold. It is an important tool for the government for current account and budgetary management purposes. The SGBs were launched in 2015 with a view to shift retail investment from physical gold to paper gold. These bonds are issued at the prevailing price, as notified by the India Bullion Jewellers Association to the RBI. Even early redemption and redemption on maturity is at the prevailing price on that date. The bonds carry an interest of 2.5 per cent per annum paid semi-annually. Retail investors can invest only up to a certain amount in SGBs. Eligible investors include individuals, HUFs, trusts, universities, charitable institutions, etc, Reserve Bank on behalf of Government of India. Bonds are sold through scheduled commercial banks (excluding RRBs), SHCIL offices and designated Post Offices either directly or through their agents. The Bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the Bond shall be one gram with a maximum limit of subscription of 4 kg for individuals, 4 kg for Hindu Undivided Family (HUF) and 20 kg for trusts and similar entities notified by the government from time to time per fiscal year (April – March). Customers are issued Certificate of Holding on the date of issuance of the SGB.

3.5 If the customer meets the eligibility criteria, produces a valid identification document and remits the application money on time, he/she will receive the allotment. Securities are eligible to be used as collateral for loans from bank, Financial Institution, and NBFC.

3.6 Typical tenure for a bond is 8 years, with exit options in the 5th, 6th and 7th year. The bonds are allowed to be traded on stock exchange if held in demat form or be used as collateral for loans and carry sovereign guarantee on principal amount and interest earned.

3.7 As per the details available in the Parliament Question response, there have been 33 tranches since the introduction of SGB. Details are provided below:

Table 3.3: Gold Units subscribed over years under SGB

Financial Year	Tranches	Units (in kgs)
2015-16	3	4903.29
2016-17	4	11387.77
2017-18	14	6524.69
2018-19	6	2030.87
2019-20 (till Oct 2019)	6	3797.45
Total	33	28644.07

Source: PIB release 9.12.2019
(https://pib.gov.in/newsite/PrintRelease.aspx?relid=195644)

3.8 Sovereign Gold Bond Scheme and Gold Monetization Scheme got a tax boost under the Union Budget 2016-17. In the Gold Monetisation Scheme, the interest was exempt from tax. The capital gains made on this scheme also did not suffer from capital gains tax. On the Sovereign Gold Bond Scheme, the interest earned continued to be taxed. But on redemption, capital gains tax has been done away with if the bonds are held till the maturity period. If bonds are transferred before maturity, then indexation benefits on long-term capital gains is available.

Indian Gold Coin

3.9 The Indian Gold Coin (IGC) promotes both Gold Monetization Scheme & Make in India. It is manufactured out of domestic gold (received under GMS) and it is domestically manufactured (Make in India) standard gold coins/bars in different denominations which may eventually replace the imported coins. As per Ministry of Finance, GoI, Annual Report 2019-20 till January, 2020, 779.050 Kgs of Indian Gold Coin has been sold out as per summary placed below:

Table 3.4: IGC SALES Details (5th Nov 2015 to 31st January 2020)

	Turnover (In crores)	Weight Sold (In Kgs)	Qty. Sold (in Nos.)
Grand Total	257.569	779.050	85679
Denomination-wise details (in number)			
5 gm	10 gm	20 gm	
36542	38640	10497	

Source: Ministry of Finance, Government of India, New Delhi Annual Report 2019-2020 page 28

3.10 As a part of Gold Monetization Scheme (GMS), MMTC has been authorized to manufacture Indian Gold Coins using the gold that has been domestically mobilized under the GMS. The coins minted under this scheme are of 24 carat purity and 999 fineness, hallmarked as per BIS standards. These coins are available in denominations of 5 and 10 grams, and a 20 grams bar/bullion. These coins carry unique anti- counterfeit features and tamper proof packaging as security features, helping easy recycling for the buyers of these coins.

Chapter-4

International Experience of Managing the Gold Demand

Cross Country Experience

4.1 Before we move into an analysis of the schemes launched by the Government of India, it is useful to look at how other governments have addressed demand for gold in their respective countries.

United States of America

4.2 In an Executive Order 6012 on April 5, 1933, American President Franklin D. Roosevelt signed “forbidding the hoarding of gold coin, gold bullion and gold certificates within the continental United States” which in effect, criminalised the possession of gold by any “individual, partnership, association or corporation”. This order was introduced during the peak of the Great Depression, and the stated reason for its introduction was that the Depression has caused the “hoarding” of gold by individuals, which had stalled economic growth and prolonged the Depression.

4.3 The Federal Reserve Act (1913) required that 40 per cent of all currency notes issued by the Federal Reserve be backed by gold deposits. At that time, the Federal Reserve had already hit the limit on the value of currency notes it was allowed to issue with its gold holdings, and thus was unable to print more money. The Order 6012 (dated April 5, 1933) effectively made it illegal to hold gold in any form, and any wilful violation of the said Order or its regulations would attract a fine of not more than $10,000 or imprisonment of not more than 10 years, or both. Thus, the Executive Order 6102 demonstrates government’s will to take necessary measures to enforce discipline on gold purchasing and hoarding habits in its country.

Turkey

4.4 Turkey, the fourth largest consumer of gold in the world, accounts for nearly six per cent of global consumer demand. Several economic situations including the depreciation of the Turkish Lira and the consistently high rate of inflation between 1997 and 2003 have resulted in Turkish households accumulating "under-the-pillow" gold estimated at 3500 tonnes which has increased to around 5000 tonnes in 2019 as per one of the estimates .

4.5 The gold mining industry in Turkey has expanded from producing 2 tonnes in 2001 to 33.5 tonnes in 2013. The entire value chain of gold fabrication, consumption and recycling added at least US $3.8 billion to Turkey's economy in 2012. Turkey's jewellery industry benefits from booming exports.

Turkey's Gold Monetization Scheme

4.6 The gold monetization scheme in Turkey has been a success primarily due to appropriate infrastructure and framework in place, details of which are as follows –

i. Turkey boasts of a very efficient gold assessment system with several accredited assaying units where non-standardized gold can be taken and appropriate certificates are accepted by authorized buyers and sellers of gold throughout the country. In addition to this scheme, banks introduced a number of marketing tools to engage with customers, including special days for them to bring their gold to local branches and receive better prices on old gold as compared to jewellery retailers.

ii. Turkey has a large number of London Bullion Market Association (LBMA) accredited refineries which adhere to global standards and results in Turkey importing gold in large quantities annually – part of which is used to meet local demand and the rest of it is re- exported. These refiners and even jewellers are setup as gold collection centres, and have world class facilities.

iii. The establishment of the Istanbul Gold Exchange helped support gold industry by successfully linking the precious metals market and financial markets, helping in seamless tradability of gold.

iv. As a part of the policy framework establishment, Turkish central bank implemented the Reserve Option Mechanism by which commercial banks could hold part of their domestic currency reserves (up to 30 per cent of the total deposits) in either gold or foreign currency (Oduncu, Arcelik and Ermisoglu, 2013). This option makes gold market risk free (i.e. devoid of fluctuations related to the international price of gold) as the market risk of the gold would be borne by the investors. This then helped boost gold reserves, mobilize stock of Turkey's gold and made banks more profitable as costs reduced and liquidity improved.

v. Banking regulators in Turkey allowed banks to buy and sell gold coins and jewellery.

vi. Other innovative ideas include gold-dispensing ATMs to ease the process for consumers to buy hallmarked gold and launch of mobile apps 'Gold Send', allowing people to gift gold through one of the gold-dispensing ATMs. Individual investors are on the look- out for competitive rates from the scheme, but at the same time will have faith in the scheme only if the purity of gold deposited by them is verified by internationally accredited laboratory in their presence. Hence, large number of LBMA accredited laboratories are in Turkey.

4.7 The steps enumerated in para 4.6 above led to a vibrant market in gold as banks in a bid to tap this market, offered innovative products like gold accumulation plans, gold structured products, interest bearing fixed term gold savings accounts and a similar range of other lending products.

4.8 These continued efforts resulted in a huge amount of the ‘under-the-pillow’ gold to be mobilized and monetized under the scheme. The gold thus mobilized has also been used in gold-for-gold participation schemes, which is basically financing lending in the real economy.

4.9 Turkey’s experiment clearly shows that making gold as part of financial system and then bolstering this entire system with internal resources and the right infrastructure is the key to making the gold monetization scheme work. The scheme could incentivise all stakeholders in the entire process (individual commercial banks, central bank and the government) for participating in the scheme and ensure that right infrastructure and frameworks are in place for the success of scheme.

4.10 According to NITI Aayog report 2018, these multiple initiatives of Turkey has led to a number of tangible outcomes (a) it was able to monetize around 300 tons of gold (b) with a number of gold related products, the consumer appetite started to shift away from physical gold (c) the creation of high quality gold infrastructure.

Chapter -5
Stakeholder Consultations

Customers: Misconceptions

5.1 There is a lack of awareness on the schemes such as Gold Monetization Scheme, Sovereign Gold Bond and India Gold Coin. The Income Tax Act, 1961, as amended from time to time, permits holding up to 500 grams of gold. Schemes such as GDS leverages the idea of depositing gold than selling it. Depositors are apprehensive of being questioned by tax authorities regarding the source of funds that financed their gold purchases. Also, there are no records of inherited gold. Hence stakeholders expect amnesty/ 'no questions asked' policy for deposits made under the scheme. Additionally any such declaration would no doubt be taxable which has been on an average in the range of 30-33%, thereby resulting in a straight loss of one-third value of the gold. As a result many of the amnesty schemes have been unsuccessful and have not been able to bring in the gold holdings with the households into mainline. Further, majority exhibited reservation regarding people's willingness to part with gold due to emotional attachment as large amount of gold in households is inherited.

5.2 Further, Gold pricing structure across stores is not standardised and have variations with respect to making charge, wastage, and overall pricing between different jewellers. These are some of the important reasons for people not coming out and monetizing their gold, even if they might not be interested in retaining the gold in the same form. A discussion with consumers brought out a fact that consumers don't mind paying the 'making' charges at the time of buying. However reducing the value of the gold on account of wastage varies between 8% to as high as 24% of value of gold [As per website accessed on 7.2.2020 https://www.change.org/p/cro-bis-org-in-bs-bis-org-in-govt-norms-for-the-wastage-charges-in-gold-jewellery-reduction-control]. Many a times customers (avoid such expressions) are charged for the artificial/non-precious gems studded in the jewellery at the rate of prevailing gold price. Thus a common policy of measuring and standardization of gold with a common norms for wastage charges will help in improving the gold monetization among the households.

Jewellers‘ Role

5.3 Local jewellers use inaccurate and primitive techniques and as per assertions by World Gold Council, 70 per cent of Indian hallmarked jewellery is not hallmarked accurately.

5.4 As of now jewelers are allowed to take gold on loan basis only the gold received by banks under GMS. The jewellers are willing to participate in the scheme, provided there is an assured a stable supply of gold in the country. Jewellers claim that 30 per cent of the gold used in jewellery in the country in 2019 is recycled gold and they are willing to act as Collection and Purity Testing Centers (CPTC) for the Scheme subject to accreditation by the government. As per BIS website (As per website accessed on 7.2.2020 https://bis.gov.in/index.php/hallmarking-overview/gold-monetization-scheme/), only one jeweller has been identified as CPTC. The banks offer different rates of interest to jewellers based on their risk profile and credibility. In general small jewelers pay twice the interest rate than the large jewellers. Under GMS banks are free to identify the interest charged from jewellers under Gold Metal Loan.

CPTCs and Banks

5.5 Trust Deficit between CPTCs and Banks

i. Banks feel that CPTCs are undercapitalised and hence pose a financial risk. They thus seek a certain percentage of gold as guarantee from the CPTCs. But, involvement with multiple banks for a CPTC makes this infeasible.

ii. There is a probability of a discrepancy between gold content as measured by the CPTCs and refineries due to different assaying techniques. This issue is further compounded by the fact that India has only one LBMA certified refinery (MMTC-PAMP).

5.6 Economic viability for banks

GMS allows a profit margin of of 3.25-3.75 per cent for the banks – assuming jewellers will be comfortable in paying an interest rate of 6.0-6.5 per cent on gold they avail from banks on loan, and that banks will be required to pay an interest rate of 2.75 per cent to depositors under the GMS (thereby, banks' margin = 6.0-6.5 per cent minus 2.75, that is 3.25-3.75 per cent). Another view is that this profit margin of 3.25-3.75 per cent is not enough to cover the logistic expenses of running the scheme such as processing fee, insurance, transportation costs, transaction costs etc. Hence, the question of economic viability of the scheme for banks remains unanswered.

5.7 Lack of a Standard Operating Procedure (SOP) for banks

The banks do not have standardised operating and accounting guidelines so far, creating ambiguity in the system. Also, the gold that has been mobilised by the scheme till now lies idle with banks (which are bearing the carrying costs) and the process of how the gold can be auctioned to the jewellers has yet to be finalised.

5.8 CPTCs are not designed to handle retail customers

The entities that have been recognised as CPTCs by the BIS are erstwhile hallmarking centers for jewellers– they are not equipped to deal directly with consumers. Some CPTCs are located in one of the most crowded streets in cities with no parking facility available nearby. Many of the CPTC are not noticeable and have no adequate advertisement facilities like bill boards etc. Such factors may result in people, especially women, not wanting to visit the CPTC to deposit gold.

5.9 Absence of CPTCs in major metropolitan cities in India

Across India, only 47 assaying and hallmarking centres are there which have been granted the BIS license to operate as CPTCs. While metropolitan cities like Bengaluru and Chennai have only one CPTC in the entire city, cities such as Vishakhapatnam and Hyderabad have no CPTC at all. Similarly, in states like Punjab, Rajasthan and Madhya Pradesh, where there is high affinity for gold, there are no CPTCs at all. Such low CPTC coverage in the country may hinder the pan-India adoption of the scheme. And there are only 27 refineries granted license of CPTC as per the website of BIS.

Issues related to Temple Gold

5.10 Poor marketing and communication of the scheme

The limited bank branches authorized for GMS don't advertise it well. At times, even bank employees are not aware of the scheme.

5.11 Concerns with future taxation

Temple authorities, despite government assurances, are concerned with future taxation issues and do not disclose the quantity of gold held with them.

5.12 The religious sentiment around deposited gold

In case of Temples in India, 90 per cent of religious donations are in the form of gold jewellery, and melting them can be against religious sentiments of the donors and trustees of Temples. Yet, some others support melting it for welfare activities. Generally, 'used Gold' in the form of jewellery, is donated by lower income groups. Some of the gold reserves in temples like in the famous

Padmanabhaswamy Temple (Kerala) are of archaeological, historical and cultural significance and has to be preserved, for the values of such artefacts is substantially larger than metal content.

5.13 Resentment that gold in other religious institutions is not being monetized

Government has not maintained a secular stand by not approaching churches, dargahs, Gurudwaras and other religious institutions for the scheme. A temple trustee representative whom we interviewed even claimed that such differentiation called for implementation of Uniform civil code for places of worship.

5.14 After discussing Gold Monetisation with many candidates, it was found that majority of them had no idea about gold monetization scheme or Sovereign Gold Bond including such candidates being from Professional background. Those who had little idea about the schemes were not positive about these schemes because love for buying yellow metal is mainly due to emotions, sentiments, cultural and religious factors attached with the Gold.

5.15 The main challenges faced in implementing Gold Schemes are:

i. Emotions: Most of the gold stock with households is in the form of jewellery and ornaments that have some sentiments and emotions attached mainly in case of traditional jewellery. In many families, there is a tradition of passing the same gold jewellery to next generation which they got from their ancestors. Gold in India is also given to daughters at the time of their wedding and since it is a gift from parents, Indian women have special affection with Gold.

ii. Un Accounted Money: Households with huge gold deposits may be cautious of tax inspection if they do not have bills for purchase. Most of the time gold is bought by the business family without bill because they do not have the source to disclose their income or they use the unaccounted money to buy gold as it is Cash equivalent.

iii. Consumption Vs Investment: Individuals holds a lot of gold as savings. The scheme may cause gold price to fall therefore harming the value of those domestic savings. Also, as household jewellery will be converted into gold bars and coins, this may not be as attractive offer as in the case of India most of the time there is no difference in Consumption and Investment. For. Example: Mother buys the gold for consumption and assumes that it is investment planning for her kid's wedding. The gold jewellery is also associated with status and to maintain the status in the society, Indians bought gold jewellery for consumption under the assumption that they have done a good investment.

iv. Rituals: Generally gold, gold coin or jewellery is bought on any auspicious occasion and also during Diwali and is used in Puja. Once it is used in Puja, it is assumed that giving this gold to the bank can be an insult to Goddess Laxmi. Also, historically all the temple trusts have stayed away from similar gold schemes due to similar reasons. Improved income status among the Indian households have further increased the demand for gold.

v. Certification: In India barring few metros, certificates are not provided by the jewellers hence it is assumed that Jewellery and other gold retail products are less pure than what they should be. Depositing these gold items after getting them refined would mean that depositor to incur huge losses in terms of purity of their gold holdings and in term of making charges paid by them. For diamond and other gems-studded jewellery, recasting the gold jewellery will significantly increase the loss for the customer.

vi. Duration, Liquidity and Interest Offer: In the case of a bond the tenure is 5-8 years and the interest rate is low but generally the gold is bought for liquidity and is assumed to be cash equivalent. Even if there is a secondary market for Gold Bonds but that cannot be available on Saturday and Sunday. **T**he government will intermittently open a window for the fresh sale of SGBs to investors. Further, units of SGB can be redeemed only after 5 years and that too at half-yearly interval which makes it less liquid option (though one can trade the bonds in the secondary markets). Also the interest rate of 2.5% on SGB is taxable, which makes it not so profitable investment.

vii. Gold deposited under GMS has lockdown period and definitely it cannot be withdrawn on any bank holiday.

viii. Promotion of Scheme: Its success requires promotion of the scheme as the majority of the population is not aware of these schemes including few bankers. There is a need for financial literacy programs and proper awareness with bankers and banking facility to tap the untapped.

ix. Government: The challenge in front of Government is from where it will bring the money for redemption? In the highly unlikely event of the government using the subscription proceeds for a purpose other than investing only in metal gold, it will expose itself to extreme price risk as it would be committed to delivering gold returns to bond investors on redemption at the prevailing gold price. Another challenge in front of Government is that so far government does not have any hedging strategy in case of fluctuations in prices of gold. According to WGC (2020) looking back almost half a century, the price of gold has increased by an average 14.1% per year in INR since 1973 after Bretton Woods collapsed. Gold's long- term return has been comparable to Indian stocks and higher than Indian government bonds, also outperforming other major asset classes. Thus making the demand for gold even more strong. If the government goes for a hedging strategy then no asset can deliver gold returns with gold price risk, other than gold itself. If hedging is done by gold then gold demand in the Indian market will fairly remain the same.

Chapter -6

Conclusion and Recommendations

6.1 After analysing the nature of gold as an asset and its continued demand in the Indian economy, the study concludes that large imports and burgeoning demands must be reined in. A sustainable gold policy for India is needed, as the Reserve Bank of India Working Group Report notes, that there is a need for three measures- demand reduction measures, supply management measures and measures to monetise gold stocks. The main problem is the large stock of idle gold that lies inside the country even when India's appetite for the metal remains unabated. Therefore part of the solution should be developing alternate avenues for investment along with integrating the idle gold for productive use in the economy. This calls for an enlightened and open gold policy to be implemented with the help of banks and also involving Post Offices, NBFCs and RRBs that are adept in convincing the reluctant Indian customer to part with his gold while being able to face risks effectively. Such a measure in the long term will bring down the current account deficit partly without eroding house hold savings and foreign exchange reserves. Needless to say, the money saved from imports can be channelized into welfare policies and development programmes that the country is woefully short of or be saved as foreign exchange reserves.

Demand Reduction Measures

6.2 Historically, India is a country with a moderate rate of inflation. The present day high inflation should be reined in for macroeconomic stability while allowing space for growth. This is a tight rope walk and requires co-ordination between fiscal and monetary measures. Whenever the external situation is deteriorating, a hike in import duties is inevitable though it is not a panacea to reduce gold demand or consumption. Over past few years it has been observed that increased import duty rates have also led to increased smuggling of gold in the country. Developing alternative instruments that provide a real rate of return comparable to gold is the need of the hour. Documentation, tax and policy related issues must be carefully studied while bringing in new financial instruments. Banks should be trained to face new risks and investor education is mandatory. This is a long term project and takes considerable time for investors to convince themselves to diversify their investment and even expose it to price fluctuations. Increasing the interest rate on the gold deposits under GMS by bringing it to level of atleast the saving interest rates of the banks (especially when the interest if further taxable) would help in further improving the attractiveness of the GMS.

Supply Management Measures

6.3 Indians hold the largest amount of individual gold holdings in the world. Our temples are repositories of large amount of gold. Scrap gold in India comes to about 300 tonnes. There is a vast potential to tap in this idle gold and integrate it formally into the monetary system. The concept of Bullion Corporation that was mooted for the first time by the then finance minister Dr. Manmohan Singh is an idea whose time has come. A Bullion Corporation as the RBI put forth in its concept paper, is an investment bank that deals with supplying gold, financing issuance of bonds, assaying gold for quality, providing storage and safekeeping facility, recycling domestic gold and trading in gold derivative products like spot, forward and options trading and gold metal certificate programmes. Gold backed financial products with attractive incentives should be available through banks. Some of these products are Gold Deposit Scheme (where gold is taken as deposit, recycled for meeting domestic demands and given back at the time of maturity), Gold Accumulation Plan (a saving plan for small buyers of gold that permits them to accumulate gold in small quantities), Gold linked account (where the entire transaction takes place outside India) and Gold Pension Products (where the customer surrenders his gold to the bank to receive streams of monthly income for a long term).

6.4 **Measures to increase the monetisation and dematerialisation of gold** Banks should be encouraged to diversify their gold loan portfolio. This will enhance financial inclusion as the example of banks in Andhra Pradesh that implemented agricultural gold loans that helped farmers in distress. Gold Deposit Scheme that permits individuals to deposit their existing stock of gold for a lock out period, e-gold plan and paper gold savings account are examples of dematerialisation of gold. These plans help individuals trade and save a quantity of gold by entry on paper which can be converted to gold on short notice. Securitisation of gold for a period of 1-3 years and trading in gold derivative products are also feasible options in India. Select regions should have customised instruments which help in gold monetization. For eg post offices in rural India could offer gold saving accounts. Post offices having better access across rural India would be better equipped in helping in monetization of gold held in rural India.

6.5 **Gold related investment products and gold backed investment products**

Gold Exchange Traded Funds5 (ETFs) are presently available with companies on stock exchange with 100% gold reserve corresponding to the full value of investment. Gold fund of funds are mutual funds that has invested in other mutual funds that have invested in Gold ETFs. They give a return closely comparable to gold and are attractive investment options. Gold linked bonds and structured notes are complex instruments that expose the principal to price fluctuations but give an option to save a part of investment in traditional savings.

6.6 Formulation and successful implementation of a policy around gold can never be easy task because of sentimental value of gold for an Indian. Thus, sustained efforts from all key stakeholders (governments, jewellers, central banks etc.) are a must if the Government has to be successful in mobilising gold under the schemes. Having launched the scheme in November 2015, and not been able to successfully mobilize enough gold since then, it is imperative for the government to identify gaps in policy formulation and implementation on gold, and ensure that such identified gaps are addressed, to encourage confidence and participation from households without which the policy will not be able to achieve its intended objective of reducing dependence on imports of gold.

6.7 There is little international experience on tapping gold within the economy except that from Turkey. But under the pillow gold in Turkey is 25% of what India has i.e. Turkey has around 5000 tonnes of Gold while India has more than 20,000 tonnes of gold yet to be monetized.

6.8 Need to make CPTCs customer friendly

CPTCs, as they exist at present, have been designed to primarily serve as hallmarking centres for jewellers, and are not equipped to handle retail customers for GMS deposits. Thus, CPTCs that are located in crowded industrial zones and lack customer amenities (parking space, seating lounge, proper lighting) need to be revamped to inspire trust and comfort for individuals, especially women.

6.9 Need to design a Marketing Campaign for Gold Monetisation Scheme to enhance financial literacy

There is need to launch a marketing campaign to popularise the scheme. The campaign must emphasise that investments in GMS are exempt from capital gains tax and income tax. It should also emphasize that married women, unmarried women, and men (married or unmarried) can deposit 500, 250 and 200 grams of gold respectively without attracting income tax enquiries. Also, the scheme's standardised pricing model and flexibility to choose mode of redemption (metal or cash) should be highlighted.

6.10 Consider offering an option to redeem deposits on Akshaya Tritiya or Dhanteras day, there is need to leverage occasions such as Akshaya Tritiya and Dhanteras which are considered auspicious for buying gold in India. To promote participation in the scheme, the Government could consider allowing consumers to schedule redemption of their gold deposits on such festive auspicious occasions. Just like in Turkey special rates may be offered on these auspicious occasions to encourage GMS, SGB and Indian Gold Coin.

6.11 Need for a regulatory body of jewellers

There is substantial price variation across jewellers in terms of making, wastage charges and other hidden costs both during purchase and resale of jewellery. The non-uniformity in the pricing structure of gold and jewellery at retail level emphasises a need for a regulatory body to oversee the jewellers' business. There is also a need to encourage a self- regulatory body of jewellers. Further there is need to ensure that there is standardization and hallmarking of the gold sold, which would help in better monetization of gold as customers would know in advance at the time of buying itself its re-sale value in terms of gold weight.

6.12 **Need to make the scheme more attractive for the banks**

To make the scheme more attractive for them, they may be allowed to use gold deposited under GMS to satisfy the RBI's CRR (as a substitute for cash) and SLR both the requirements. As of now the deposit will attract CRR and SLR requirements as per applicable instructions of RBI from the date of credit of the amount to the deposit account. However, the stock of gold held by banks in their books will be an eligible asset for meeting the SLR requirement. Banks should also be allowed to directly sign agreements with large refineries such as MMTC PAMP and India Gold Mint where larger volumes of gold (especially temple gold) get deposited. This will result in cost efficiencies through economies of scale.

6.13 Need to involve institutions other than temples in GMS

Various social, charitable and religious institutions, other than temples, also receive gold donations. These institutions must also be encouraged to become a part of the scheme. In general, successful implementation of GMS requires addressing issues related to consumer behaviour and preferences, and calls for all stakeholders to come together to create a robust ecosystem for the Scheme that minimises inefficiencies and takes care of the interests of all parties involved.

6.14 Finally, if government clarifies and assures that all individuals depositing 500 gm of gold shall not be asked any questions and shall not be taxed, would definitely be an incentive for households to declare their gold and put in gold monetization scheme.

6.15 Various Gold schemes are good in general but not successful in Indian Context due to emotional and sentimental factors associated with the yellow metal. Between Gold Monetisation and Gold Sovereign Bond, the chances of acceptance in case of the bond are much more in a country like India again due to social factors associated with it.

“These schemes will be transformative for the Indian gold industry. However, the expectations from the schemes in the short term must be tempered as it will take the time to build the infrastructure and products and for customer, acceptance to grow,” said World Gold Council MD (India) Somasundaram.

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APPENDICES

Annexure –1

Table A.1: Gold ETF Holding in India

	ETF holdings company wise											
	Sprott	GBS Gold Bullion Securities	SPDR® Gold Shares	iShares COMEX Gold Trust	iShares ETC	ZKB Gold	Wisdom Tree Gold	Xetra Gold	DB	Invesco Physical Gold ETC	China Gold ETFs	Others
Total ETF Holdings	3%	3%	34%	13%	5%	6%	8%	7%	5%	6%	2%	8%
Tonnes	89.25	79.04	920.84	342.52	140.53	150.8	207.34	197.01	143.51	149.29	51.78	204.09
Tonnes as on 30 Sep 2019	2676											

Source: SEBI website

Table A.2 Year-wise stock position of gold holdings in Gold ETF

Yr and mon	Tonnes	Yr and mon	Tonnes
Jan2003	7.40	Jan2014	1794.43
Jan2004	47.59	Jan2015	1727.28
Jan2005	235.82	Jan2016	1598.23
Jan2006	468.55	Jan2017	2091.66
Jan2007	645.14	Jan2018	2274.30

Jan2008	926.61	Jan-19	2375.13
Jan2009	1327.97	Sep-19	2676.33
Jan2010	1819.53		
Jan2011	2160.61		
Jan2012	2442.18		
Jan2013	2682.53		

Annex - 2:

Table A.3: Estimates of Gold reserves in major temples in the country

S.No.	**Religious Institution**	**Gold Possessed (in Kg)**
1	Sri Venkateswara Temple, Tirumala, Andhra	250,000-300,000
2	Padmanabhaswamy Temple, Kerala	1,300,000
3	Vaishno Devi Temple, Jammu	1,200
4	Siddhivinayak Temple, Mumbai	160
5	Saibaba Temple, Shirdi, Maharashtra	376
6	Shree Krishna Temple, Guruvayur, Kerala	2,000
7	Jagannath Temple, Puri, Odisha	208
8	Somnath Temple Trust, Gujarat	35

Source: Narasimhan, T. (2016)