Gold Monetization Scheme with Reference to India

Professor Ch. Chaitanya,
TMSS College of Management Studies
RCI Main Road, Mallapur, Balapur, Hyderabad

Gold is one of the most valuable assets in any economy. It has been used in India primarily as a form of saving by the housewives. It is used to be a money metal, and public memory tells that it is universally acceptable as a medium of exchange and is used for its ‘store of value’ function. Investment in the gold may be in the form of gold coins, gold bars, or gold jewellery. India is one of the largest consumers of gold in the world, accounting for around 26% (843 tonnes) of the total demand (3,217 tonnes) in the year 2014. As there is no production in India majorly India has to depend on Imports for their gold requirement which is almost next to petrol imports. 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, the Ministry of Finance (MoF) on May 19, 2015 has come up with draft Gold Monetisation Scheme that aims at mobilizing domestic holding of gold to provide more self sufficiency to Gems & Jewellery industry of India.

Introduction of Gold Monetization Scheme
Honorable Union Finance Minister Mr. Arun Jaitley, during the Union Budget presented in Parliament on 28 February 2015, proposed the ways to tap the expected 20,000 tonnes of non productive gold owned by Indian households and temples or institutions into cash by introducing three schemes as follows:

1. Gold monetization scheme to tap the country’s idle gold by allowing owners to deposit their stocks with banks and earn interest; by replacing the existing gold deposit schemes and gold metal loans.
2. Introduction of a sovereign gold bond, which will act as alternate financial asset and earns a fixed rate of interest. This is to encourage people to invest in gold-backed bonds instead of buying the actual metal and keeping it in safes.
3. Introduction of gold coins with Ashoka Chakra printed on that as to reduce the demand for coins minted outside India. This would help reduce the demand for coins minted outside India and also help to recycle the gold available in the country.

The objectives of the Gold Monetization scheme are:
- To curtail the domestic consumption of gold, and to mobilize the gold held idle by households and institutions in the country by orderly recycling and enhance transparency, benefiting millions of households and the macro economy, as it has the potential to translate gold savings into economic investments.
- 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 jewelry.
- To reduce dependence on import of gold this currently stands at nearly 1,000 tons annually, over time to meet the domestic demand; in turn reducing the country’s need for foreign exchange reserves.

Scope of the Scheme:
As the scheme requires a huge set-up of infrastructure for facilitating easy and secure handling of gold, it would be launched initially in selected cities. Further, with development of infrastructure it would be extended to other cities.
Steps for Monetization of Gold:
As soon as the gold is deposited in the metal account, it will start earning interest. The process will begin with a customer bringing gold to a bank’s or a specified agency’s counter. Then the concerned authorities will determine how pure the gold is. After that, the precise gold will be credited to the account. Customers can also be asked to fill a ‘Know Your Customer’ form as a part of the KYC process. After the gold is deposited, the banks or agencies will lend it to jewelers for a rate of interest that is a slightly higher than what is being paid to the customers.

The principal amount, as well as the interest, will be calculated on the amount of gold being deposited. For example, if someone puts in x kilos of gold and receives y percent interest on it, then at the end of the tenure, that person will receive x+y kilos. The rate of interest to be paid to the customer will be determined by the banks in question. It is likely that the gold deposits will be maintained for tenure of at least a year.

The minimum amount that one is allowed to deposit in these accounts has been fixed at 30 grams. It is expected that this would at least encourage people to make small deposits in the initial phase. The gold can be deposited in any form- jewelry or bullion. Customers will be allowed to take either gold or cash at the time they redeem the accounts. However, they need to make their preferences clear right at the time they avail the plan.

The Process:
- Purity verification and deposit of gold: The gold collected from the consumers will be sent to purity testing centers for preliminary test for purity by using fire assay test followed by assessing the value and communicating the same to the consumers by taking his/her consent the gold will be deposited with certain conditions and KYC norms.
- Opening of gold savings account with banks: The consumer to deposit his gold has to open gold savings account on which interest payment will be done by banks after 30/60 days after opening the account or at the time of redemption by paying in the value of the gold. The tenure of the deposit may be minimum 1 year and the investor is allowed with tax exemption from Capital gains, wealth and Income Tax.
- Transfer of gold to the refiners: After completing the purity check the gold will be transferred to refineries that act as custodian.
- Utilization of deposited gold: It is proposed that the measure will be taken to make use of gold as a part of their CRR/SLR with the Apex bank, to sell them in Forex market for foreign Currency reserves, coins, commodity exchanges, and lending to jewelers.
- A MoU a three party agreement will be made between Banks, Refiners and Purity Testing Centres; for payment of fees, services need to be provided by each party individually and coordinating in working of the scheme.

Advantages:
- The gold kept in the lockers may now yield an excess income as interest which is expected to be around 4-5% by the analysts. The jewelry which is in a position to dismantle can be put into this account.
- 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.
- The income coming from monetized gold may be invested in alternative investment tools.
- Investors or jewelers could also borrow money using gold savings account.
- The gold savings account can be operated like general savings account where one can withdraw/deposit gold from this account anytime.
Disadvantages:

- Investor by opting this will lose the identity of the jewelry as it will be melted after purity tests which may decline the value in case of gems studded jewelry.
- 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 jewelry but not as raw gold.
- Certain costs would be borne by account holder at the time of withdrawal for melting and recasting the gold as jewelry.
- 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.
- Banks for depositing gold in this scheme may be not adequate and a person may have to travel distance for opting the scheme.
- Most of the people preserve the parental jewelry as a symbol of affection and pass on the same to the next generation may not be covered under this scheme.

Concerns:

- Still people are not used to invest in schemes involving gold because they consider gold to be a safe option no matter how much interest government provides.
- Other potential problem lies in capital gain tax which is levied while collecting.
- Indian temples have large stocks of gold whose monetization is very difficult owing to the religious sentiments of people.
- Lack of infrastructure for easy and safe handling of gold Proper test centres need to be established where gold could be checked for purity.
- Finally, banks may not be interested to provide anticipated interest rates and some form of subsidization may be sought by these institutions.

Specific References:

- Gems & Jewellery Export Promotion Council (GJEPC), Ministry of Commerce.
- Gold Monetisation Scheme for India by Errol D’Souza, 11th India International Gold Convention, 2014.