THE CRITICAL REVIEW OF GOLD MONETISATION SCHEME AND SOVEREIGN GOLD BOND SCHEME

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ABSTRACT

The Government of India launched two Gold schemes in the month of November 2015 to reduce the physical demand for gold and to mobilize the idle gold and put into productive use. This paper is a systematic attempt to study the purpose, differences, progress and challenges faced in the execution of the two gold schemes namely Gold Monetisation Scheme and Sovereign Gold bond Scheme launched by Government of India. The paper is based on issues and challenges faced by government since its introduction.

Keywords: Gold Monetisation Scheme, Sovereign Gold Bond, Gold Import

INTRODUCTION

India is one of the biggest consumers of Gold in the world accounting for around one-fourth of the total consumption. 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. Gold in India is mainly used in making of jewellery, for industrial purpose, as an investment holding and as a central bank holding. Worldwide the majority of the jewellery consumption happens in India. Gold has acted as a great wealth preserver from ages, by providing growth at a rate that is more than the inflation rate. At the individual level, it seems to be highly advantageous buying gold but there are serious impacts at the national level. India does not produce much of the gold consumed, so is dependent on the main producers of Gold. That means we need to buy Gold from countries such as China, Russia, Australia, USA, Peru and South America etc. When we import Gold we need to pay foreign currency that directly affect the value of rupee negatively. Further, the Gold metal is not great to the economy because of its unproductive use. Most of the Gold does nothing but remain idle in safes or bank vaults. Thus the Government wants to discourage the import of Gold and wants to mobilise the idle gold and put into productive use. In the past, the Government has taken various steps such as a hike in the Import duty, the 80:20 scheme (for every 100kg of gold brought into the country, 20 kg had to be re-exported) and the Gold deposit Scheme etc. These policy measures were not able to achieve its aim.

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The demand for Gold in India is driven by the cultural values, desire for beauty and financial protection. It would be pointless to control gold demand seeing the passion of the Indian people. In this context, the Government of India has launched two Gold Scheme in the recent past to mobilise and monetize the 20000 tonnes of Gold in Indian household and to encourage people to buy a commodity in demat or paper form and thus curb imports.

OBJECTIVES

The main objectives of the study are as follows:

1. To understand the need for various Gold schemes in India.
2. To study the differences in Gold Monetisation Scheme, Sovereign Gold Bond Scheme, and earlier schemes.
3. To study the Progress achieved by government in these schemes since union budget 2015-16.
4. To analyse the challenges of these schemes mainly in Indian scenario.

RESEARCH METHODOLOGY

To study the purpose, differences, progress and challenges of Gold Monetisation Scheme, Sovereign Gold Bond Scheme, and earlier schemes the secondary data was collected from authentic sources mainly from the Reserve Bank of India, FICCI and other government websites. Primary data is also collected in the form of interviews from the common Men, Jewellers, and Chartered Accountants to understand their views on these schemes and also from bankers to know whether they are prepared with a metal account or not.

ANALYSIS

An attempt is made to analyse the gold schemes on the basis of Need, Differences, Progress so far and major challenges.

A. **Need:** Annual investment demand for gold in India is approximate 300 MT per annum i.e. around 35 per cent of India's gold import bill amounting USD 34 billion in the fiscal year 2014-15.The stock of gold is estimated to be over 20,000 tonne amounting over Rs. 60 lakh crore but this is neither traded nor monetized. Among major components of import, moreover gold is a non-essential item (unlike crude oil, capital goods, coal etc.).Thus the Government is taking several steps to reduce gold import thereby reducing the current account deficit and providing sustainable development. If India is able to reduce the current account deficit the rupee will strengthen against the dollar and other currencies and further India will need to borrow less from the outside world. This will lead to a positive cascading effect on our economy. By introducing Gold schemes i.e. the Gold Monetisation Scheme and Sovereign Gold Bond Scheme by the government of India, the government has desired to reduce the gold imports into India so as to reduce the current account deficit.

Vimal Patel, Chairman and Managing Director, Suwarnsparsh, says, "Apart from discouraging import of gold coins and promoting 'Make in India', minting of gold coins will be possible with the amount of yellow metal deployed by depositors in lieu of sovereign gold bonds. This will control the current account deficit."

B. Differences in gold monetisation scheme, sovereign gold bond scheme and earlier schemes

The Gold Monetisation Scheme and the Sovereign Gold Bond Scheme are the two recently launched scheme by the Government of India to monetize the gold holdings and to reduce the India's import bill. The main features of both the schemes are mentioned below:

Particulars	Gold Monetisation Scheme	Sovereign Gold Bond Scheme
Objective	To mobilise the idle gold and put it into productive use. In long run to reduce country's reliance on the import of gold To provide its owners with some income apart from freeing them from the problems of storage, movement and security of gold in their possession	To reduce the demand for physical gold and encourage people to buy the commodity in demat or the paper form.
Eligibility	Resident Indians (Individuals, HUFs, Proprietorship and Partnership firms, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies) can make deposits under the scheme	Person resident in India as defined under Foreign Exchange Management Act, 1999 are eligible to invest in SGB. Eligible investors include individuals, HUFs, trusts, universities, charitable institutions, etc.
Issuer/Operator of the scheme	All designated banks (All Scheduled Commercial Banks (excluding RRBs)) will be eligible to implement the scheme as per the guidelines issued by the Reserve bank of India	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.

Acceptance of Gold	Gold i.e. Gold bars, Coins, Jewellery etc. will be accepted in scrap form only Customers to submit Application Form, Identification Proof, Address Proof and Inventory Form.	Not Applicable
Minimum/Maximum Deposit/Investment	Minimum- 30gms of Raw Gold	Minimum investment(in Rupees)in the Bond shall be 2 grams
	Maximum -No limit	Maximum buying limit of 500 grams per person per fiscal year (April – March)
Issue of Gold Deposit Certificate/Bond	Gold Deposit Certificate (in 995 fineness) will be issued by Nodal Branch and will be sent to the depositor by Bullion Branch, Mumbai	Customers will be issued Certificate of Holding on the date of issuance of the SGB. Certificate of Holding can be collected from the issuing banks/SHCIL offices/Post Offices/agents or obtained directly from RBI on email
Period of Deposit	Short term bank deposit (STBD) 1-3 Years	8 Years
	Medium and long term Government Deposit (MLTGD) Medium term 5-7 years	
	MLTGD-long term 12-15 years	
Rate of Interest	On short term, deposit-designated banks are free to fix the interest rates on these deposits	2.75 per cent (fixed rate) per annum on the amount of initial investment.
	On medium term deposit – 2.25% p.a.	Interest will be credited semi-annually to the bank account of the investor and the last

	On long-term deposit – 2.50% p.a.	interest will be payable on maturity along with the principal.
	(Accrued Interest payable at the time of Maturity based on the price of Gold prevailing at the time of redemption)	
Minimum Lock-in period	Medium term deposit-3 years	5 Years. (But the Bond will be tradable on exchange if held in Demat form and can be transferred to any other eligible investor)
	Long-term deposits 5 Years	
Premature Redemption Allowed	Yes	Yes
Process for Premature Redemption	STBD: Premature payment permitted after a lock-in period of 1 year with a penalty on the applicable interest rate.	In the case of premature redemption, investors can approach the concerned bank/SHCIL offices/Post Office/agent thirty days before the coupon payment date. Request for premature redemption can only be entertained if the investor approaches the concerned bank/post office at least one day before the coupon payment date. The proceeds will be credited to the customer's bank account provided at the time of applying for the bond.
	MLTGD: A Medium-Term Government Deposit (MTGD) is allowed to be withdrawn any time after 3 years	
	Long Term Government Deposit (LTGD) after 5 years. (Premature penalty will be as per RBI Notification dated 21.01.2016.)	
Redemption	STBD: Option to take repayment of principal either in gold or equivalent rupees as on the date of maturity.	Both interest and redemption proceeds will be credited to the bank account furnished by the customer at the time of

	MLTGD: Redemption of the deposit will be only in INR equivalent of the value of gold as per then prevailing price of gold	buying the bond.
Process	Gold Purity Certificate will be issued by the collection centre (i.e. listed BIS certified hallmarking centre). After producing a certificate, the bank will open a Gold Savings Account. Gold may be refined by any authorised refiner	Through the filing of application form and payment of issue price in cash, the investor can be issued a bond in the denomination of one gram of gold and in multiples thereof. 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.
Loan Facility	Rupee loan facility proposed	Securities eligible to be used as collateral for loans from bank, Financial Institution, and NBFC

The Gold Monetisation Scheme has been there in India for past two decades. The differentiating factor in the Gold Monetisation Scheme (Revamped Gold Deposit Scheme) is that the minimum quantity of gold that can be deposited has been reduced to 30 grams which were earlier 500 grams. The period of deposit was 3-5 years in the earlier scheme which now ranges from 1-15 years.

Sovereign Gold Bond Scheme and Gold Monetization Scheme have got a tax boost under the Union Budget 2016-17. In the Gold Monetisation Scheme, this interest will now stand exempt from tax. The capital gains made on this scheme will also not suffer capital gains tax. On the Sovereign Gold Bond Scheme, the interest earned will continue to be taxed. But on redemption, you will not have to pay capital gains tax any longer. If you transfer the bonds before maturity, you will be able to claim indexation benefits on long-term capital gains.

C. Progress achieved by government in these schemes till February 2016

Sovereign Gold Bonds are issued on behalf of Government of India in tranches by RBI, from time to time, on payment of the required amount in rupees. As per its borrowing programme, the Reserve Bank of India (RBI) has to raise Rs. 15,000 crore through gold bonds in the second half of 2015-16. The first tranche of Sovereign Gold Bond Scheme was open for subscription from November 05 to November 20, 2015.As per the data provided by the Ministry of Finance, GOI, during the first tranche 62169 applications were received for a total subscription of 915.953 Kilograms of gold amounting to Rs 246.20 crore by the Banks and Post Offices. The Second Tranche of SGB was kept open from 18th to 22nd January 2016. As per the Press Information Bureau, GOI, Ministry of Finance, during the second tranche of Sovereign Gold Bond (SGB) Scheme as per initial figures, 3.16 lakh applications were received for a total subscription of 2790 Kilograms of gold amounting to Rs. 726 crore by the Banks. The trend during the Second Tranche of SGB shows that the scheme is gradually picking up amongst the investors with an increase in awareness and more clarity about the provisions of the scheme. The Government of India's plan to raise an enormous Rs 15,000 crore from the sovereign gold bond scheme in the current fiscal year may seem tough to achieve. But surely, this scheme will drive away all retail investors from gold ETFs in India as this is a paper gold, which would give interest over and above the gold rate benefit while an ETF would have loaded (in India, the load is between 1% and 2.5%negative interest).Having raised nearly Rs 1,050 crore in the first two tranches, the government will "shortly" issue the third tranche of sovereign gold bond for the fiscal, Economic Affairs Secretary Shaktikanta Das said on March 3, 2016.

The Gold Monetisation Scheme progress stands slowly in its journey from November 2015 till February 2016. The government planned to mop up gold worth nearly Rs 60 lakh crore from households and institutions in the country.

"Gold Monetisation Scheme: More than 500 kg gold already mobilised. Scheme picking up," Economic Affairs Secretary Shaktikanta Das said in a series of tweets on Thursday, 14th January 2016.

"Gold Monetisation Scheme: More than 900 kgs gold mobilised so far. Scheme making steady progress. Expected to pick up in coming months," Economic Affairs Secretary Shaktikanta Das tweeted on 23rd January 2016.

As stated by Shri Jayant Sinha, Minister of State in the Ministry of Finance on May 4, 2016, around 2820 kilograms of gold have been mobilized under the Gold Monetization scheme. Also, for handling gold under GMS, as on May 4, 2016, there are 46 assaying and hallmarking qualified centres to act as collection and purity testing centres (CPTCs).

D. Challenges: After discussing Gold Monetisation with 100+ candidates, it was found that majority of them had no idea about gold monetization scheme or Sovereign Gold Bond including some of the Finance Professionals. 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.

After going through various authentic secondary data and discussion with Professors, Chartered Accountants, Bankers and Common Man, we found that it is not easy to implement such schemes in a country like India. The main challenges faced by government in implementing Gold Monetisation Scheme and Sovereign Gold Bond Scheme 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.

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. **Fear Factor:** The rupee has depreciated by 47% against the US dollar over the past five years, gold in rupee terms is up by 28%. There is a positive correlation between consumer price index (CPI) inflation and gold purchases.

- **vii.** **Duration, Liquidity and Interest Offer:** In the case of a bond the tenure is 5-7 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 can be a secondary market for Gold Bonds but that cannot be available on Saturday and Sunday.
- 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. In last one year, the Gold prices have jumped from approximately 26000 / 10gms to 31000 / 10 grams with variations in between. 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.

  "Whether the proposed gold deposit and the lending scheme will deliver in practice will depend critically on whether we have in India both active gold trading involving, short-selling and arbitraging and gold mines of global scale. And as we already know, the above necessary and sufficient conditions are not satisfied in the Indian context. In view of all these reasons, both the Sovereign Gold Bond Scheme and the Gold Monetisation Scheme will not deliver" said V K Sharma.

CONCLUSION

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.

In the current Union Budget, the interest earned on Gold Monetisation scheme is exempted from Taxes and there will be no Capital Gain Tax for gold monetization as well as bond scheme. This step of Government may bring little hopes for the success of Gold monetization scheme.

"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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