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STUDY ON DIFFERENT SCHEMES OF GOLD IN INDIA

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ABSTRACT

Gold is the ancient precious metal known to man & for thousands of years it has been valued as a global currency, a commodity & an investment & simply an object of beauty. Remarkably, India is being one of the largest consumers of gold, next to China. Gold is a major vehicle of saving for large number of low and middle income households in rural and urban areas. It is one commodity which plays a crucial part during major festivals like Diwali, Christmas, and year round demand during marriages. Coupled with its simplicity, enigma, liquidity, and global acceptance gold has ruled the roost for many centuries and there is no visible substitute for it. With this the increasing import of gold the Government has introduced the various Gold related investment options. This paper throws the light on shift from physical gold to paper gold.

Keywords:

Gold schemes, Investment, Monetization

INTRODUCTION:

India is the largest consumer of gold in the world. It is the most liquid form of wealth for centuries. It has immense value to the society in terms of jewelry consumption for adornment as well as a major vehicle of wealth accumulation by large number of low and middle income households in rural and urban areas. It accounts for a fifth of annual global gold consumption.

The gold industry in India employs about half a million people with a turnover more than US $ 20 billion. The following chart shows the demand for gold in India.

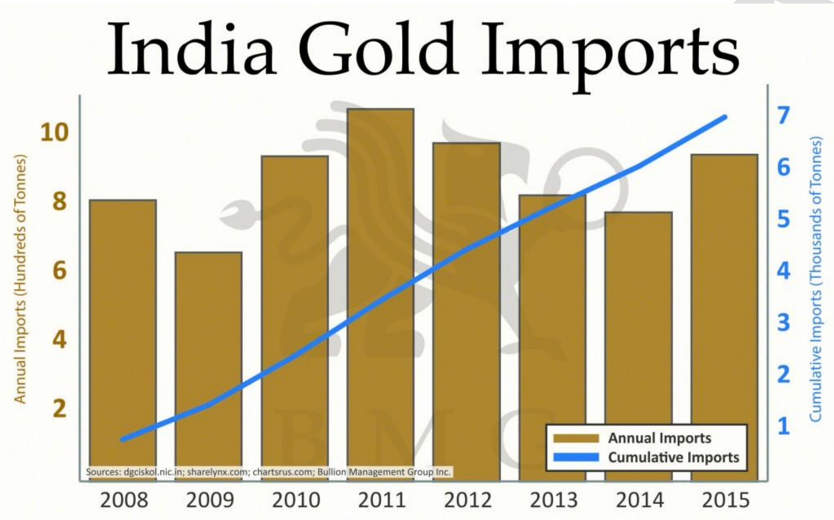
PHYSICAL DEMAND FOR GOLD

Quarter ended	World	India	India as % of world
Jun 2013	1,591	337.0	21.18
Sep 2013	1,126	161.6	14.35
Dec 2013	1,082	218.7	20.21
Mar 2014	1,090	190.3	17.46
Jun 2014	1,000	204.1	20.41
Sep 2014	1,007	225.1	22.35
Dec 2014	1,062	223.2	21.02
Mar 2015	1,016	179.5	17.67
Jun 2015	8,58	207.7	24.21

Figures in tonnes Source: GFMS, Thomson Reuters

In 2015, India's gold demand to be between 900 and 1000 tones as per World Gold Council. Every year, the shining metal consumption shoots up in India. Despite, of the import control measures taken up by the government i.e., 10% import tax and 20% of imported gold have to be re-exported, the country's unquenchable desire for gold persisted. The potentially large but dormant source is the gold locked up with the temples across India. Larger holdings of gold are estimated to be with Tirupati temple in Andhra Pradesh, Sree Padmanabhaswamy temple, Guruvayur temple and Sabarimala temples in Kerala, as well as scores of religious places in southern states, with substantial gold holdings. The Sree Padmanabhaswamy temple is estimated to have gold holdings valued at more than ` 1000 billion. Gold has remained as one of the chief contributors to current account deficit (CAD). The nation's CAD, which reached a record 6.7 per cent of GDP is widely considered the biggest concern for Asia's second largest economy.

According to the Reserve Bank of India, with domestic production of gold falling to an insignificant level, current gold consumption is met entirely through imports. In brief, if we stop importing gold, our CAD would become 1.2% of GDP. The following chart shows the increasing gold imports.



Therefore the government has taken several measures in the past financial year, to reduce gold imports. These measures include raising the import duty on the metal. However, what has happened over the last few years is that rising gold imports have coincided with a rise in its prices and a weakening of the rupee against the dollar. The combined impact has served to widen the CAD.

The Indian government has come out with various schemes and steps over the period of time the combined purposes of which are to reduce India's gold imports and bring all the gold lying idle with individuals and households in India into the economy.

Objective of the study:

1) To understand the different Gold Schemes;

2) To understand the working of the scheme;

3) To examine the advantages and disadvantages of gold schemes;

4) To make some suggestions

RESEARCH METHODOLOGY

The present study is based on the secondary data collected from different journals, magazines, sites and published data. Various studies on this subject have also been referred in this study. Researcher has also looked at various reports and articles published online.

Different Steps and Schemes:

1. The Indian government is considering steps like raising the cost of gold imports to rein in the rising current account deficit; Worried over the high current account deficit, the government doubled the import duty on gold. Both the government and the Reserve bank of India (RBI) urged the investors to refrain from investing in gold to hedge against inflation. RBI has banned gold imports with bank credit.

2. **Gold Exchange Traded Funds:** They are mutual fund schemes, listed on the stock exchanges and traded like shares. The pooled amount is invested in the physical gold. When redeeming the units, investor can go to the fund house or sell in the market and get them converted in to cash. Gold ETFs are proving to be an easier and safer mode to buy gold. The charges are very

less and the gold can be accessed electronically. Mutual funds further offer gold fund of funds in which investors can invest as much small amount as Rs. 100 every month and where they don't need to have a demat account.

3. **Gold Mutual Funds**: Gold mutual funds hold portfolios of gold mining companies and are directly linked to gold prices. They are actively managed as they are handled by the fund managers. Apart from above, various schemes announced by institutions to promote savings in gold.

4. In the Union Budget 2015, the Finance Minister proposed two significant schemes pertaining to the gold viz., gold monetization scheme and sovereign gold bond.

   The Gold Monetization Scheme: It was launched on 5th November, 2015 by the Prime Minister Narenda Modi. The scheme is designed to help you earn interest on your unused gold lying idle in bank lockers. The Gold Monetization Scheme is basically a new deposit tool to ensure mobilization of gold possessed by various families and institutions in India. It is expected that the scheme would turn gold into a productive asset in India. This new gold scheme is a modification of the existing Gold Deposit Scheme (GDS) and Gold Metal Loan Scheme (GML), and it would replace the existing Gold Deposit Scheme, 1999.

   An investor can deposit gold for short, medium and long terms under the Gold Monetization Scheme. The scheme would allow an investor to deposit gold in Short Term Bank Deposits (SRBD) and Medium and Long Term Government Deposit (MLTGD).

I. Objective:

The objectives of the Gold Monetization scheme are:

i. To mobilize the gold held by households and institutions in the country.

ii. To provide a boost to the Gems and jewelry industry in the country, which contributes in bullion. The mobilized metal would be loaned to Jewellers as raw material by the banks to make jewellery.

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

There are many positives to depositing under the Gold Monetisation scheme:

- The gold monetisation scheme earns interest for your gold jewellery lying in your locker. Broken jewellery or jewellery that you don't want to wear can earn interest for you in gold.
- Gold will be securely maintained by the bank.
- Redemption is possible in physical gold or rupees hence giving your gold purchase further earning opportunity.
- Earnings are exempt from capital gains tax, wealth tax and income tax.

Sovereign Gold bond:

It is an investment in Gold, but it does not involve the jewelry, coin or bar. The value of gold bond increases with the market rate of gold but you should not be concerned about its safety. It gives more profit than any other type of gold investment but you won't get opportunity to feel the behold of the gold. Instead of gold coin or bar you get a paper against your investment in gold bond. This gold bond is also available in digital and demats form.

The mechanism is simple. Instead of purchasing physical gold, equivalent number of gold bonds is bought. Each bond unit is equivalent to 1 gm of gold. For example, purchase 50 units of gold bonds instead of 50 gms of gold and interest on the total purchase amount is earned. On the maturity, the price of 50 gms of gold is obtained. Bonds are sold through banks and designated post offices. A few investment portals such as ICICIDirect also permit online investment in Sovereign Gold Bonds. The bonds will mature in 8 years. Bonds will be redeemed in cash on date of maturity at the prevailing price of gold.

INDIA GOLD COIN

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

LIMITATIONS–

These schemes have macro and micro implications. The much talked about Gold Monetisation Scheme implemented by the Union Government has garnered deposits to the tune of Rs 3,014 crore, with over 1,100 kg of gold collected so far. There are difficulties of testing purity and possibility of fraud given the leakiness of our banks. Consumers may be trusting banks but not Purity Verification Centers even if they can see the processes happening, as they are essentially not run by the government. When the results of the fire assay tests are told, in case the customer is unsatisfied he had to accept gold bars as refund. There are almost no Purity Verification Centres in the eastern part of India, so a consumer in states like Mizoram, Meghalaya, Tripura, etc. will not be able to make use of this scheme. Majority of gold in households is kept as jewelry to which sentimental and social status value is attached. Conversion of this gold to pure gold may not be appealing to household members.

In case of Sovereign Gold bond **its** principle is linked with current gold prices. In case of sudden fall, it will cause huge loss to investors and in case of sudden rise, government will have to bear a huge brunt on exchequer. The low interest rates, KYC norms and provision of capital tax prove detrimental to the success of scheme. Apart from this, its success requires financial literacy and banking facility to tap the untapped.

Since, two-thirds of India’s gold is consumed by rural areas, monetizing holdings or convert them into paper bonds is an alienated concept as rural crowd only understands physical.

Still people are not used to invest in schemes involving gold because they consider keeping gold to be a safe option no matter how much interest government provides. Other potential problem lies in lack of clarity on income tax and capital gain tax, lack of infrastructure for easy and safe handling of gold.

RECOMMENDATIONS:

A well-defined code of law along with associated regulations should be enforced to win the trust of temple boards for monetising temple-gold back into the economy. The government should design policies to ensure a stable and sustainable gold market. The government should plan for higher investment in infrastructure facilities for training centres and gold workshops. Proper and more test centres need to be established where gold could be checked for purity.

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