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Performance of Gold Monetization scheme in India

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Abstract- India has topped with largest consumers of gold, next to china in the world. Indians prefer buying gold in the form of jewellery and coins rather than bullion. So, central government has come up with three gold schemes namely GOLD MONETISATION SCHEME, SOVEREIGN GOLD BOND and INDIAN GOLD COIN. The main motive of these schemes is to reduce the requirements of gold through imports. About 20000 tonnes of gold are idle with Indian households, temples, etc which is not being traded or monetized in the form of jewellery. This study attempts to scrutinize the three gold schemes in detail with pros & cons and people awareness towards such schemes particularly in Vellore District , Tamilnadu

Keywords- Gold; Monetization; Gold Monetization; India

1. INTRODUCTION

Gold has always been an integral part of the socio-economic ethos of the Indian household. As a commodity, it has always carried with it the tendency of invoking a sense of cultural and sentimental attachment, making its consumption and investment in India very different from that of other countries.

The consumption of gold has always been greatly intertwined with the Indian household's financial planning goals. Bought as bullion or as jewellery, for either personal consumption or as investment or as even a gift, gold invariably exists in every household's financial portfolio.

Gold as an asset plays a very important role in an investor's portfolio as it not only provides stability for returns but also gives an opportunity to maximize the wealth of the investor .Investors generally buy gold as a way of diversifying risk. Price of gold is determined by the market force of demand and supply. Central bank keeps some portions of their securities in the form of gold.

India has a long and special relationship with gold. From weddings to religious festivals, gold jewellery has a strong cultural relevance and its role in traditional Indian life dates back for centuries. However, gold is not just viewed as an adornment. For many people, gold is equally viewed as a safe, secure investment; a unique way to preserve their wealth. In India, gold has, through generations, remained an obvious and natural choice of saving of all households. Gold has never been an easy product around which policy could be formulated. Policies around gold (and to some extent business plans and financial innovations related to gold) have all largely been based on a couple of assumptions;

(a) Demand for gold in India will never wane;
(b) People in India will not part with their gold easily;
(c) Women are sentimentally attached to their jewellery and hence will not part with it;
(d) if given a choice between cash or gold, Indian people will opt for gold. At various points of Indian history, one or all of these assumptions have been true.

Gold makes a valuable contribution to Indian economic growth as well. It is estimated that at least 2.5 million people are employed by the gold industry and, according to consultancy PricewaterhouseCoopers, gold boosts economic output in India by at least $30 billion per annum. Gold also plays a central role in the Indian gems and jewellery export market, one of the fastest growing industries in the country and a leading foreign exchange earner. In fiscal year 2013, gems and jewellery constituted 15 per cent of India's total exports and the value of gold items alone was more than $18 billion.

Yet, in some quarters, gold is viewed as an idle asset and a key factor behind the current account deficit. Acting on this belief, the previous government implemented policy measures aimed at stemming the flow of official imports of gold. However, these measures have had unintended consequences, encouraging smuggling, an activity that was much reduced when the Indian gold market liberalised in the late 1990

In the last few years, gold imports have been rising significantly. India accounts for more than a quarter of global gold imports despite being the contributor of less than 2 per cent in the global trade. India is the largest consumers of gold in the world, accounting for around 26% in the year 2015. The outflow of foreign currency and increasing the current account deficiency thereby mounting pressure on Reserve Bank of India (RBI) and Govt. of India (GOI).

Table 1 shows rationale behind gold purchases

Why do you buy gold?	Percentage out of 4846
Safe Investment	76.62%
For Adornment	52.54%
Festivals	42.24%
For Dependent's Marriage	34.54%
Own Marriage/Engagement	32.85%
Special Occasions	30.99%
Collateral	29.92%
Gifts	25.30%
Convert into Jewellery in Future	23.05%
Towards Specific Objective	12.17%
Others	2.21%

Source: FICCI Gold Survey

Above survey by FICCI Gold survey shows that maximum people see gold as a safe investment and adornment. So, Gold Scheme (2015) by central government will be more useful for the people .

2. OBJECTIVES OF THE STUDY

1) To understand the detailed concept of Gold Schemes;
2) To understand how does the scheme work;
3) To examine the pros and cons of gold schemes;
4) To assist in creating awareness among gold schemes; and
5) To make few suggestions for making gold schemes more effective among people.

3. GOLD MONETSATION SCHEME

Gold Monetisation Scheme is a wonderful concept of monetising domestic idle gold and brings it to the use of the industry to reduce imports.

The dynamics of scheme's design and interest paid to depositors will play a major role in the success of the scheme. The previous gold monetisation scheme failed due to many factors and merely a new packaging will not help to bring the desired change of success.

Figure 1 shows Gold deposit scheme

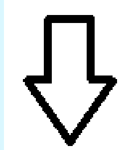
Source: www.Relakhs.com

The financial institutions play a key role in this scheme to make the yellow metal to uplift the Indian economy. Majority of physical gold holding by temples, charitable trusts, individuals etc can be pulled in to the investment platform through this Gold Monetization scheme. The foremost players of this scheme are banks, jewellers and individuals. The objectives of the Gold Monetization scheme are:

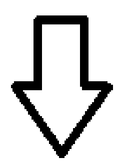
- To mobilize the gold held by households and institutions in the country.
- To provide a boost to the Gems and jewellery industry in the country, which contributes in employment creation, earns foreign exchange through exports.
- To be able to reduce reliance on import of gold over time to meet the domestic demand; in turn reducing the country's need for foreign exchange reserves.

4. WORKING PROCEDURE

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



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



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

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

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

There are five stakeholders i.e. customers, jewellers, government, banks/mints, non-banking financial institutions/ Financial Institutions. The customers (households, temples and trusts) will get assured value, proper cartage, transparency in transaction besides the options of having cash/deposit/bonds / coins.

Jewellers have the benefit of getting gold without import besides assured cartage, appropriate pricing without exchange rate fluctuations and lower inventory.

For a gold mobilization scheme to be successful three important considerations must be kept in focus:

• Valuation: Establishing the purity of the gold in a transparent and efficient manner within a defined time frame is essential.

• Storage and Distribution: Well-developed logistics to prevent fraud, tampering, and enable inventory tracking.

• End-to-end customized enterprise resource planning (ERP) software.

5. SOVEREIGN GOLD BONDS

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

5.1 Interest rate

The bonds bear interest at the rate of 2.75 % (fixed rate) per annum on the amount of initial investment. The bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the bond will be two grams with a maximum buying limit of 500 grams per person per fiscal year. The RBI has fixed the issue price of first tranche of gold bonds at Rs 2,684 per gram which will be open for subscription from November 5 to 20.

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

5.2 Protection

The bond offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. Investors are assured of the market value of gold at the time of maturity. Gold bonds are free from issues like making changes and purity in the case of gold in jewellery form.

Interest on bonds is taxable as per the provisions of Income Tax Act 1961.Here, capital gains tax treatment will be the same as that for physical gold. Moreover, these bonds can be used as collateral against loans from banks, financial institutions and NBFC. The Loan to Value ratio is the same as applicable to ordinary gold mandated by RBI from time to time. So if an investor is looking to invest in gold for medium to long term then this can be preferred option over other alternatives available.

6. INDIAN GOLD COIN

The Indian Gold Coin Scheme launched by PM Narendra Modi bearing Ashok Chakra on one side and Mahatma Gandhi image on the other side is the first ever India Gold Coin. Initially, the coins will be available in denominations of 5 grams and 10 grams. A 20 gram bar or bullion will also be available. About 15,000 coins of 5 gm, 20,000 coins of 10 gm and 3,750 gold bullions will be made available through MMTC outlets.

6.1 Features

1. The Indian Gold coin and bullion has 24 carat purity and 999 fineness, similar to Swiss Coins which are currently imported.
2. All coins are hallmarked as per BIS (Bureau of Indian Standards) Standards.
3. The tamper proof packaging and advanced security features make it very easy for recycling.
4. The partners of this scheme are MMTC, BIS and World Gold Council.

Table 2 shows the most preferred investment

INVESTMENT	NO.	%
Gold	30	60%
Bank	15	30%
Real estate	4	8%

Table 3 shows the most preferred form of investment in gold

INVESTMENT FORM	NO.	%
Coins, jewelleries and bars	49	98%
Futures and options	0	0
Exchange traded funds(ETF`s)	0	0
E-gold	1	2%
Mutual Funds	1	2%

7. FINDINGS OF THE STUDY

The data were analyzed using statistical tests that have been described earlier and the results drawn based on these tests are given below:

- **60 percent respondents preferred gold as an investment**, 30 percent respondents prefer bank, 8 percent respondents prefer real estate and only 2 percent respondents prefer mutual funds. This shows that gold is perfect for investment.
- **98 percent respondents preferred coins, jewelleries and bars as a form of investment**, 2 percent respondents prefer e-gold and no respondents were aware of futures & options and ETF’s.
- 20 percent respondents prefer government gold schemes, 8 percent respondents prefer bank gold scheme and **72 percent respondents prefer jewellery gold scheme.** Thus jewellery gold scheme are very popular among people.
- **52 percent respondents prefer friends and neighbours as a source of information**, 40 percent respondents prefer journal and only 8 percent respondents prefer brokers.
- 62 percent respondents are aware of gold schemes (2015) and 38 percent respondents are not aware of it.
- Respondents who know about the schemes are also not ready to invest in it because of the following reasons:

a) Same jewellery couldn’t be retained in monetisation scheme-48%
b) Long distance travel for opting this scheme-46%
c) Improper response from the bank-6%

- Respondents who doesn’t know the scheme says the following:

a) It is not popular like Clean India and Make In India-52%
b) No great opinion from the people who know-26%
c) Lack of information-22%

- **60 percent respondents prefer advertisement through media is the way to make awareness towards such schemes**, 22 percent respondents prefer educate people about gold investment and 18 percent respondents prefer campaigns and rallies.

8. REFERENCES

[1] BSE.COM
[2] NSE.COM
[3] Relax.com