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A Comparative Study of Indian Gold Schemes with Special Reference to GDS and GMS in Indian Context

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Abstract*: As Gold is known as a one of the oldest and precious metal in the world's fastest growing economy and it is concerned with the wealth and symbol of status. Gold is a part of India's culture and tradition which is emotionally attached with the Indians. India was called the country of "Sonay ki Chidiya" (Golden Sparrow) in ancient time. India is the second largest importer of gold. As India import near about 900-1000 tonnes of gold per annum, for which around $35 billion pay every year. Mostly Indians prefer purchase the gold for investment point of view rather than put their money in the banks. Traditionally Indians buy gold and lock it up in the almirahs and bank lockers, which cannot generate money and nobody taking benefits from that pile of gold. In order to provide the benefit the honorable Prime Minister of India Mr. Narender Modi launched three gold based financial schemes under the banner of "Swarna Bharat" (Golden India) i.e. Gold Monetization Scheme, Sovereign Gold Bond Scheme and India Gold Coin Scheme. The Gold Monetization Scheme has been launched by abolishing Gold Deposit Scheme (GDS) and Gold Metal Loan (GML) scheme. The main purpose of these schemes invites the households and institutions to deposit their gold into banks with progressive interest instead of traditional earn interest as well as to get the rebate in tax.*

In this paper, we have studied three gold schemes with comparative analysis of GDS and GMS.

Keywords: *Monetization, Bond, Consumption, Investment, Schemes, Households.*

1. INTRODUCTION

Every country's economy depends on its natural resources, banking, financial institutions and foreign trade. India is one of the second biggest consumers of gold after china as well across the world and imports approximately 900-1000 tonnes of gold annually, for which around $35 billion pay every year. Indians are emotionally attached with gold for their loving and storing habit , but it is very harmful for our economy, due to this reason Indian government import more gold which affect the balance of payment negatively, which reduce the growth and development of country and further lead to weak economy. It is estimated that Indian consumers have holed more than 20,000 tonnes of gold over the centuries, which is lies in the bank lockers which is neither traded, mobilized nor monetized and it evaluated to worth Rs. 60 lakh crore at the current market price nor contribute to the growth of the Indian economy.

In past, India has two gold schemes i.e. Gold Deposit Scheme (GDS) and Gold Metal Loan Scheme (GML), which was not satisfactory to all the parties at different aspect such as low rate of interest, complicated procedure, increasing smuggling and import which further leads to current account deficit. New gold schemes are a great tool to make the most of the unused gold which we keep in homes or bank lockers, and earn a great capital on it. Almost every family in India has some amount of gold with them, mostly in form of jewelries. India has a large amount of gold reserves in comparison to of combined gold reserves of USA, IMF, Switzerland and Germany.

India imported 661.4 tonnes gold worth $33 billion in 2013-14 and it is the biggest imported item after Crude Oil in our imported bill. Around 967 tonnes of gold was imported in 2014-15 and the import bill was $34.4 billion. As a result, due to increase in demand of gold during past two subsequent years, government invested more money to import gold to fulfill the requirement of Indians which will further affect the investment, growth and development of various sectors in Indian economy. In this context government always try to reduce the import bill and gold's smuggling. According to Directorate Revenue Intelligence (DRI) sources approximately 886 kg gold worth Rs. 234 crore was grab in first quarter of 2015-16 alone. So, the honorable Prime minister of India Mr. Narender Modi introduces three gold based financial investment schemes. India's exports of Gems and Jewellery was recorded in negative manner in October 2014, arriving around $3.9 billion, which was low around 2.25% nearby $4 billion observed in October 2013. According to the World Gold Council (WGC), the rupee gold price in India has increased around 400% over the last decade, but gold demand (75% in jewellery form) in India continues to grow with over two-thirds of the demand coming from the rural parts of India.

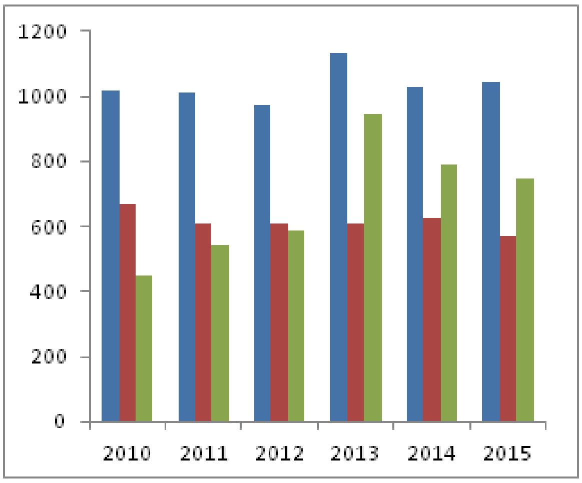

Fig 1: *Demand of Gold among India, China and Rest of the World from 2010-2015 (in Tonnes)*
Source: *Metal Focus U.S. Global Investors*

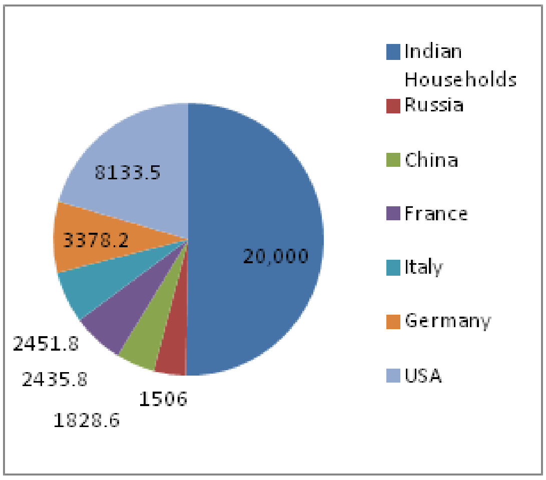

Fig 2: *Indian households own more gold than Top Six Central Banks of five different countries in Tonnes.*
Source: *Economic Times, World Gold Council, U.S. Global Investors*

Figure 1: reveals that the demand of gold of India was greater than China from 2010 to 2012 and China's demand was greater than India from 2013 to 2015. Gross demand of gold of China was greater than India in last five years. China's and India's gold demand was more than double in comparison to rest of the world in last five years. In the 1st half of 2016, world jewelry consumption goes down 29% year to year. Whereas India's, Russia's and China's consumption go down 56%, 48% and 26% respectively in 2016.

Figure 2: represents the Indian households have largest quantity of gold i.e. 20000 tonnes in comparison to the Central Banks of Germany, Italy, France, China, Russia and USA have gold reserve 3378.2, 2451.8, 2435.8, 1828.6 and 1506 tonnes respectively as of February 2016.

1.1 India's foreign reserves

India's foreign reserves have grown to an all-time high of nearly $360 billion as of April 2016. India's gold holdings were 5.5% of its total foreign exchange reserves in April 2016, down from 9.2% in September 2011. The percentage decrease is due in part because India has added any gold to its reserves in recent years, even though her total reserves have grown.

1.2 India's gold reserves

Gold Reserves are country's gold assets w

		March 31st, 2015		Oct. 2016	
Sr. No.	**Country**	**Gold Reserves (Tonnes)**	**Official Gold Holdings (% of Total Reserves)**	**Gold Reserves (Tonnes)**	**Official Gold Holdings (% of Total Reserves)**
1	United States	8133.50	74 percent	8,133.5	75.8 percent
2	Germany	3383.40	68 percent	3,378.2	69.6 percent
3	Italy	2451.80	67 percent	2,451.8	69.2 percent
4	France	2435.40	65 percent	2,435.8	66.6 percent
5	China	1054.10	1 percent	1833.5	2.4 percent
6	Russia	1238.30	13 percent	1526.1	16.3 percent
7	Switzerland	1040.00	7 percent	1,040	6.7 percent
8	Japan	765.20	2 percent	765.2	2.6 percent
9	Netherlands	612.50	57 percent	612.5	64.1 percent
10	India	557.70	6 percent	557.8	6.4 percent

hich is held or controlled by the central bank. Figure 3: and 4 and Table 1: reveals about the India's gold reserves. On April 1, 2016, India had 5.5% gold stock of its total foreign exchange reserve, whereas it was 9.2% on September 2011. In October 2016 India holds 557.8 tonnes (6.4%) of gold in reserve.

Table 1: *Top 10 Countries with the Highest Gold Reserves in 2015 & 2016*

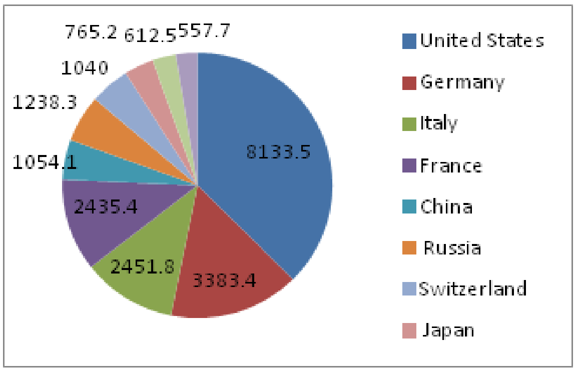

Fig 3: *Top 10 Countries with the Highest Gold Reserves in 2015.*

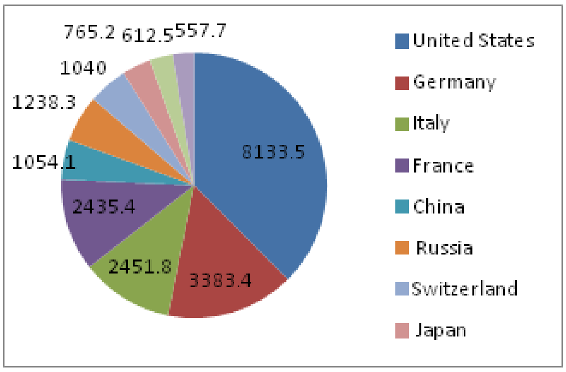

Fig 4: *Top 10 Countries with the Highest Gold Reserves in 2016.*

1.1 Need of the study

The fundamental aims of these schemes are to collect the gold held by households and organizations in the country and bring it for using in productive areas. The objectives of this study that how to these schemes to reduce the import of gold in the long-term. The scheme will provide the investor with the opportunity to earn interest by depositing of their unused gold in bank lockers.

2. REVIEW OF LITERATURE

R. Deepak (2016) conducted a study on Gold Monetization in India: A Paradigm Shift in Regulation. This study reveals that the introduction of gold schemes, there is also a perception that Exchange Traded Funds (ETFs) would lose their luster. Thus, the lessons learnt from the past have been revisited in the present in the present schemes by increasing the deposit rates to encourage investors. VR. Nanthiga (2015) conducted a study on Gold Investments Schemes in India 2015-2016. This study tells Gold Monetization Scheme and gold Bond Scheme to reduce the requirements of gold through imports. The accomplishment of economically stable gold investment schemes can bring changes in our economy. Adhana Deepak K. (2015) conducted a study on An Introduction of Gold Schemes 2015 in India. This study discusses about the probable advantages and disadvantages of gold schemes and gives some suggestions to develop gold market and monetize of gold which is held by Indian households and temples.

Top 20 Gold Mining/Producing Countries

There are 20 biggest gold producing nations for 2015; it reveals that the majority of countries show only slightly higher production rates for 2015. Some of the world's top-gold producing countries are as follows in Table 2.

Table 2: *Top 20 Gold Mining/Producing Countries in the World*

Sr. No.	Country	Production in 2015 (in Metric Tonnes)	Sr. No.	Country	Production in 2015 (in Metric Tonnes)
1	China	458.1	11	Uzbekistan	83.2
2	Australia	275.9	12	Brazil	80.8
3	Russia	252.4	13	Argentina	64.1
4	USA	216	14	Papua New Guinea	57.2
5	Peru	175.9	15	Mali	49.1
6	Canada	158.7	16	Colombia	47.6
7	South Africa	150.7	17	Kazakhstan	47.5
8	Indonesia	134.3	18	Philippines	46.8
9	Mexico	124.6	19	Tanzania	46.8
10	Ghana	95.1	20	Congo	45.7

In Table 3: we observe that accumulative gold demand in 2003-2015 was approximately 48,050 tonnes. Out of 48,050 tonnes the demand of gold approximately 62% for jewellery, 12% for industry and 26% for investment (central banks were net sellers of 1%). As from 2009, there was demand of gold62% of the 29,840 tonnes of jewellery, 12% of the 5,185 tonnes of industrial and 26% of the 12,570 tonnes of investment (central bank was purchases 8%).In 2015, mine production on peak i.e. 3,158 tonnes.

Table 3: *World Gold Supply Demand*

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Mine Production	2631	2504	2560	2497	2498	2427	2608	2734	2829	2850	3042	3131	3158
Net Producer Hedging (De-hedging)	(289)	(438)	(92)	(434)	(432)	(357)	(234)	(106)	18	(40)	(39)	104	(24)
Scrap	991	881	902	1189	1029	1387	1764	1744	1705	1701	1303	1158	1173
Total Supply	3333	2947	3370	3252	3095	3457	4138	4372	4552	4511	4306	4393	4307
Jewelry	2484	2616	2729	2334	2458	2338	1849	2064	2064	2036	2470	2242	2166
Industrial	519	564	586	482	488	476	423	476	468	426	417	398	361
Net Central Bank Purchases (Sales)	(620)	(479)	(663)	(365)	(484)	(235)	(34)	77	457	544	409	466	483
Investment	177	215	251	721	680	1279	1506	1667	1750	1624	812	946	942
Total Demand	2560	2916	2893	3172	3142	3858	3744	4284	4739	4630	4108	4052	3952
Net Balance	773	31	477	80	(47)	(401)	394	88	(187)	(119)	198	341	355

(Source GFMS Gold Survey 2015)

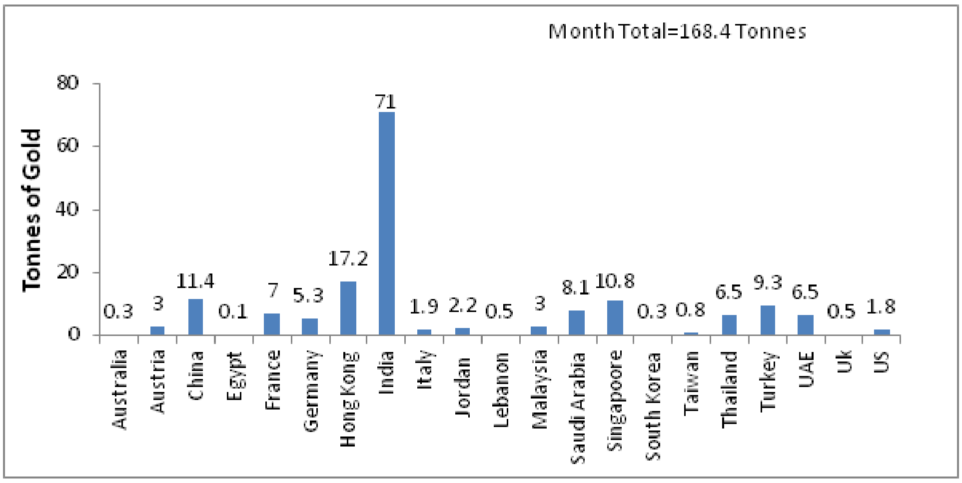

Fig 5: *Swiss Gold Exports to different major countries in July 2015*

(Source: Times of India, Friday October14, 2016 Gold Survey by GFMS)

Figure 5: represents that India was imports of gold 71 tonnes in July 2015 through Switzerland.

OBJECTIVES OF THE STUDY

1) To study the detailed concept of Gold Schemes.

2) To study how the new schemes are different from old gold schemes.

3) To understand how does the scheme work.

4) To examine the challenges, merits, demerits and timelines of gold schemes.

3. HISTORY OF GOLD FAILURES

1. The first gold bond-6.5%, 15 year instrument was floated in Nov 1962, but it could collect only 16.7 tonnes.

2. Another bond in March 1965 and it could mobilize even less and collect only 6.1 tonnes.

3. The National Defence Gold Bond Scheme in 1980 and it raised only 13.7 tonnes gold.

4. Another Gold Deposit Scheme (GDS) was approved by the Central Bank RBI in November 15, 1999.

4. DIFFERENT TYPES OF GOLD SCHEMES

4.1 GDS*:* GDS is like fixed deposit which earns interest. In GDS, the gold melted and converted to a bar, and the minimum quantity of gold deposited was 500 grams and the period of deposit ranges upto years, with a minimum lock-in period of 1 year. GDS allows maximum 1% rate of interest per annum.

4.2 GML: It is specially launched for domestic jewelry manufactures or exporters. With the help of this scheme, the authorized banks gave the loan and lease facility to the Indian jewelers or exporters and in lieu of they (bank) receive cash as interest which is close to international interest rate because of the banks acquire the gold on lease from the international financial market with a time interval belonging to 90 to 180 days for domestic players or jewelers and 270 days for exporter with Stand-By Letter of Credit (SBLC) or Bank Guarantee (BG) from a third party bank on behalf of the international financial market.

4.3 Gold Monetization Scheme*:* GMS offers gold owners to deposit their gold in the banks, and get interest on it. Basically GMS = GDS+GML. Under this scheme, depositors can deposit gold and Jewelers can avail gold as loan. India imports as high as 1,000 Tonnes of gold each year. High gold import contributes to already high fiscal deficit of India. On one side India is importing tonnes of gold each year, on other side Indian households carries >18,000-20,000 Tonnes of gold reserves. Indian government is trying to bring out a part of gold locked in household reserves. Even lot of temple trusts in India has huge reserves of gold with them. GMS plans to tap temple trust gold reserves as well. Gold monetization means India's 'gold import bills' coming down to much lower levels. Even if 10% of total household gold is monetized, it will do a world of good to our fiscal deficit.

The new GMS is a gold saving account in which households and institutions deposit their gold in physical form like jewellery, coins or bars which can predefined period and earn regular interest which depend on gold weight and exempted from the tax. The interest amount is depending on deposited gold and it can also in the form of gold. At the time of maturity, gold gets heavier because of interest generate regular on gold and peoples have an option to get principal plus interest accrued in the form of gold or cash. GMS may help reduce in amount on import of gold to fulfill the domestic demand and may create some positive impact over the year.

4.3.1 Objectives of GMS

- To use the unproductive Gold in productive manner.
- To give the customers an option to earn interest on their Gold holdings.
- To decrease dependency on import of Gold over time to meet the demand.
- To encourage the jewellery sector in the country by providing Gold available as raw material on loan from the banks.

Table 4: *Attributes of GMS*

Form of Gold	All gold ornaments, gems, bars, coins; jewellery excluding stones and other precious metals are accepted in it.
Tenure & Interest Rate	Short-Term: 1-3 years and Interest rate- 2.20% p.a. Medium-Term: 5-7 years and Interest rate- 2.25% p.a. Long-term : 12-15 years and Interest rate- 2.75% p.a.
Investment Limit	Minimum deposit is 30 grams with 995 fineness.
History	Modified in place of old Gold Deposit Scheme (GDS), 1999.

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Penalty on Premature Withdrawal	Medium Term Deposit - Applicable rate less 0.375% (if withdrawn between 3 to 5 years) Applicable rate less 0.25% (if withdrawn between 5 to 7 years) Long Term Deposit - Applicable Medium Term Rate less 0.25% (if withdrawn between 5 to 7 years) Applicable Long Term Rate less 0.375% (if withdrawn between 7 to 12 years) Applicable Long Term Rate less 0.25% (if withdrawn between 12 to 15 years)
Stakeholders	Banks, refineries, hallmarking centers, jewelers associations, RBI and various government departments.
Hallmark Centers	Currently, there are 46 assaying and hallmarking centres that are qualified to act as Collection and Purity Testing Centers (CPTCs) for handling gold under GMS.
Melting Power	Bank and Government will melt the deposited gold and kept as Bullion.
PTCs	Expected 10000 centers across the country.
Redemption	i) For short-term deposits, the customer will have the option of redemption, either in cash or in gold. ii) For medium to long-term deposits, redemption of principal will be in gold (subject to administrative charges) or cash but interest would be paid only in cash.
Tax Exemption	Customers will receive tax incentives on their gold deposits, like tax-free interest, while banks may be allowed to use these deposits to meet their requirements for statutory liquidity ratio (SLR) and cash reserve ratio (CRR).
Gold Loan Account	The jewelers, on the basis of the terms and conditions of the banks will get a Gold Loan Account opened at the banks.

4.3.3 Process of GMS

Step-1 Purity Verification and deposit of gold:

a) Purity Testing Centers (PTCs):

Presently approximate 1326 Hallmarking centers and 55 PTCs are available, which are certified by Bureau of Indian Standards (BIS). The interested investor who wants to monetize the gold goes to Hallmarking Centers. These centers take a determine fees.

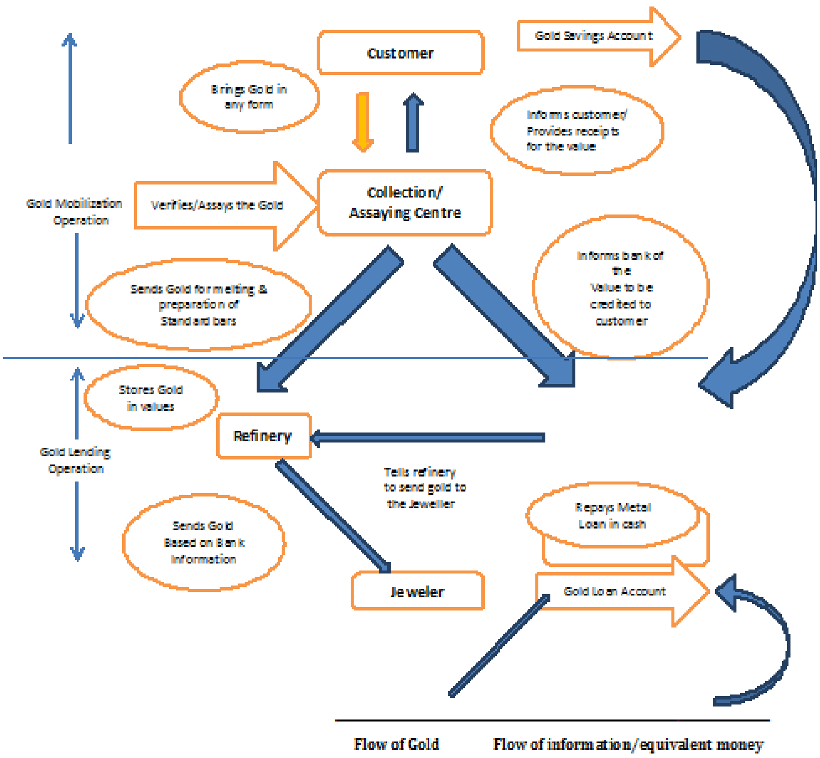

Fig 7: *PROCESS OF GMS*

b) Preliminary test: PTCs will conduct a preliminary test, where a XRF machine tests the purity, quality, amount and weight of the gold. After that if the customer will agrees, he/she will have to fill up a KYC/Bank form and give their consent to melt the gold, otherwise he/she will not agrees, they can take his gold back after paying nominal charges of the test.

c) Fire Assay Test:

After preliminary test and customer's consent, the gold sent to cleaning center where, the gold's dirt, studs, meena etc. are removed from it. And, then net weight told to the customer. Then the gold will be melted and its purity will be ascertained through fire assay test within 3-4 hours.

D) Deposit of Gold:

After above process, if the customer agrees to invest the gold, he will get a purity certificate, in which gold's weight and purity will be mentioned. Then, the center also intimates the bank.

E) Conditions:

The customer can be deposited minimum 30 gram gold and there is no maximum limit, and the gold will be accepted in any form such as, bullion or jewellery.

Step-2 opening of Gold Savings Account with the banks:

a) Gold Savings Account:

When the customer deposit purity testing center's certificate in bank, the bank will open a "Gold Savings Account". And then bank credit sufficient amount into the customer's account, which is equivalent to the quantity of standard of gold 995 fineness.

b) Interest payment by banks:

The bank will commit to pay the interest to the customer which will be payable after 30/60 days in customer's "Gold Savings Account". The bank would bear the cost of fire assay test in case of deposited gold; otherwise it would be paid by the customer.

Step-3 Transfer of gold to the refiners:

a) Refineries:

PTCs will send the gold to the refiners. For the services provided by the refiners, they will be got fee by the banks, as decided by them, mutually.

Lending gold to the jewelers:

b) Gold Loan Account: The jewelers will fulfill the requirement related to "Gold Loan Account" and opened at the bank. After open "Gold Loan Account", the jewelers get physical gold from the refineries. On the granted gold, bank will charge interest as follows i.e. interest charged by banks will be: Interest paid to depositor + Money paid to Gold Collection Centers + Money paid to refineries + Profit margin of Bank.

4.3 Charges paid by the customers under GMS:

There are some charges i.e. melting, testing and melting loss charges, which is very important to known for the consumer before investing in GMS, which is shown as follows in table 5.

Table 5: *Schedule of fees under GMS*

Fees	Grams	Rs.
	Minimum charges/upto 100 grams	Rs. 500 per lot
	100 grams to 200 grams	Rs. 600
	200 grams to 300 grams	Rs. 700
	300 grams to 400 grams	Rs. 800
	400 grams to 500 grams	Rs. 900

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Melting Charges	500 grams to 600 grams	Rs.1000
	600 grams to 700 grams	Rs. 1100
	700 grams to 800 grams	Rs.1200
	800 grams to 900 grams	Rs.1300
	900 grams to 1000 grams	Rs.1400
Testing/fire assaying charges		Rs. 300
Stone removal charges		At actuals Minimum charge - Rs. 100
Melting loss		At actuals

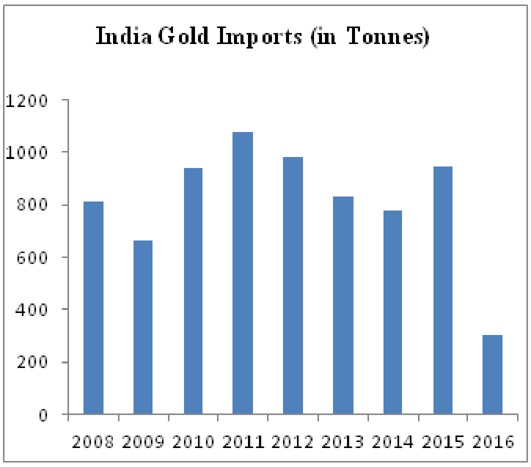

Fig 8: *India Gold Imports from 2008-2015*

Source: WGC US Global Investors

Table 6: *India has recovered 26% Gold Sept. 2015 to Aug. 2016*

Period	Gold Price (in Rs.)	Gold Price (in $)
Sept 2015	70500	1140
Oct 2015	73000	1100
Nov 2015	77000	1180
Dec 2015	71500	1170
Jan 2016	71000	1060
Feb 2016	73000	1090
Mar 2016	83000	1210
Apr 2016	84000	1280
May 2016	85000	1260
Jun 2016	85000	1280
Jul 2016	87000	1270
Aug 2016	89000	1320

Figure 8: reveals that India has about 301 tonnes import of gold after innovate GMS. Under GMS, India's gold imports drop 16% in March 2016. Indian gold imports are significant. They would be higher but for the Indian government's anti-gold policy. Indeed, as a result of the Indian government actions outlined below, Indian gold imports fell 16% in March 2016.

Table 6: reveals that India has recovered 26% of gold as of August 2016 after launched GMS.

Table 7: *Benefits of GMS to different parties*

Banks	Government	Consumers
Banks may sell the gold to promote the foreign currency in order to generate money that can then be further used for lending to exporters / importers.	Under the GMS, The import bill of our country may decrease from 10 to 20 per cent even if 1% of the gold having with people is deposited into banks.	The gold prices fall in the future

Banks to buy and sell on domestic commodity exchanges, where used gold can be delivered.	GMS will provide strength to Macroeconomic health of Indian economy by lowering the Current Account Deficit (CAD).	The investors can earn interest on their deposit gold, which encourage the investment.
Leasing/Lending to jewelers for earning extra money in cash.	GMS may lead to more investment and increase the rate of the economic growth and development.	The gold will be secure with bank and its carrying cost gets saved.
The banks use deposit gold as reserves to use for maintaining the value of CRR/SLR issued by RBI.	In current scenario jewelers having small size are buying gold from big jewelers.	It will make sure the purity of gold is good held by people.
Banks are independent to decide the interest rates on deposit gold as per RBI guidelines.	As GMS make sure the availability of gold for jeweler to full fill their cash needs in the form of loan from bank, as a result it will create stability in gold prices.	Buying back of gold or rupees is possible in physical form for giving further rear opportunity.
Banks can make coins and bars from the deposit of gold, which they can sold to their investors at profit.	GMS will provide the availability of gold with banks on the loan re-strainexclusive control.	GMS is a tax exemption scheme.

4.4 Difference between GDS and GMS:

Table 8: reveals that GMS different with GDS. GMS has some unique features which have differentiate with GDS.

Table 8: *Difference between GMS and GDS*

Sr. No.	Basis of Difference	GDS	GMS
1	Purpose	To use the deposited gold in public and social welfare and in productive purposes and generate the interest on the gold.	To collect the gold from the Indian household and institutions and used in increase the country's wealth and decrease their burden in the form import of gold which create domestic demand.
2	Minimum quantity	500 grams (gross) – no upper limit applies	30 grams
3	Period of deposit/ Tenure	3-7 years. The maturity period was changed - ranging from six months to seven years - in February 2013.	Three options will be made available: short-term : 1-3 years (with a roll out in multiples of one year); medium-term : 5-7 years long-term : 12-15 years
4	Rate of interest and payment	The current interest rate is approximately 1% per annum. Interest is calculated in gold currency (XAU) and paid in equivalent rupees. Payable in cash at fixed intervals or at maturity, as decided by the bank.	The current interest rate is approximately 1% per annum. Interest is calculated in gold currency (XAU) and paid in gold form (grams).
5	Issue of Gold Deposit Certificate	Gold Deposit Certificate will be issued by the bank. After issuing the certificate, the gold is melted, assayed and minted at India Government Mint (IGM).	Gold Purity Certificate will be issued by the collection centre (i.e. listed BIS certified hallmarking centre). After producing certificate, the bank will open a Gold Savings Account. Gold may be refined by any authorized refiner.
6	Time taken for purity verification	Minimum 90 days	1 day
7	Utilization of gold	The utilization of gold was not clearly specified in the scheme.	Under medium and long-term deposit options, the deposited gold is proposed to be used for: Auctioning, Replenishment of RBI's Gold Reserves, Coins and Lending to jewelers. Under short-term deposit: Coins, Lending to jewelers
8	Premature Withdrawal	Premature redemption in gold will be permitted after the minimum lock-in of 1 year.	Allowed after minimum lock-in period with penalty.
9	Acceptance of gold	Gold i.e. Gold bars, Coins, Jewellery etc. will be accepted in scrap form only.	Gold i.e. Gold bars, coins, jewellery excluding stones and other precious metals.

4.5 Gold Coins and Bullion Scheme:

According to this scheme, India has minted a gold coin as part of the GMS scheme. This scheme reduce dependence on imports of gold and demand for coins imprinted outside India and also help to recycle the gold which is available in India. Now India has its own gold coin. The second gold scheme is GCS. In gold coins 24 Karat pure gold available and it will have the National Emblem of "Ashoka Chakra" incise on one side and Mahatma Gandhi on the other side, as a part of a broader push to make people deposit gold with the government. The gold coin is available in 3 sizes i.e. 5, 10 and 20 gram. About 15,000 coins of 5 gram, 20,000 coins of 10 gram and 3,750 gold bullions will be made available through MMTC outlets. On Jan. 22, 2016 The Reserve Bank of India permitted banks to sell India Gold Coins (IGC) through their branches.

Table 6: *Attributes of Gold Coin*

Purity	24 karat purity and 999 fineness.
Hallmarked	All coins will be hallmarked as per the BIS standards.
Security	The tamper proof packaging and advanced anti-counterfeit features on the coin cover makes it very safe and easily recyclable.
Availability	This coin will distribute through designated & recognized MMTC outlets.
First gold coin	The first ever national gold coin of India
Pricing of Indian Gold Coins	5 gm. Indian Gold Coin – Total Quantity: 15,000 coins – Price Rs 14,600 10 gm. Indian Gold Coin – Total Quantity: 20,000 coins – Price Rs 28,900 20 gm. Indian Gold Coin – Total Quantity: Unavailable – Price Rs 57,600

4.6 Sovereign Gold Bond Scheme (SGBs):

The RBI, in consultation with the Government of India, has launched the Sovereign Gold Bonds Scheme on July 2016 for public issue. The main aims of this scheme to motivate the investors in demat gold bonds to make the reduction in imported gold. The bonds will be issued by RBI on behalf of the Government of India. It is an indirect way of investing in gold. The investor can invest in gold in a paper form and the underlying asset which is gold in this scheme. In this scheme, jewellery, coin or bar does not acceptable. This scheme's intent is to convert the demand for physical gold, as an investment avenue, to paper gold. Rather than buy physical gold, investors would buy paper gold. The amount of gold bond increases according to the gold market conditions. The government receives money from investors, who invest in the bond, and pays a fixed periodic interest known as coupon on it. On maturity, the investors receive the money. In same manner, in a gold bond, people, such as households and investors, will be able to give credit money to the government by investing in a bond whose price will be based on the price of a certain quantity of gold. On this, they will receive a coupon periodically (apporx.1.5-2%). When bond get mature/sale, the bond holder will receive an amount equal to those value depend on the underlying amount of gold on same date. Therefore, they shall receive the same return as purchasing gold bars/coins and selling them later, when their price goes up.

The government planned to collect INR 15,000 crores by the end of March 2016 but the appearance offer of SGB has collected just INR 246 crores which is equivalent to 917 kg or about 0.1% of the country's annual consumption of gold of 820 tonnes.

4.6.1 Objectives of Sovereign Gold Bond Scheme (SGBs):

1. To reduce the demand of gold as India is biggest importer of gold.
2. To encourage people to invest in demat gold bonds.

4.6.2 Advantages to the investors are:

1. Gold is bought at a wholesale price even for small denominations.

2. Compared to the alternative options such as ETFs, there are no transaction costs.

3. Interest can be earned.

Table 7: *Attributes of SGBs*

Form/Type	The bonds will be available both in demat and paper form.
Tenure	8 years and a minimum lock-in period of 5 years.
Interest Rate	2.75% P.A. by buying paper bonds.
Stakeholders	Bonds can be bought by only Indian Residents. NRI is not allowed to purchase this bond.
Investment Option	Bond is investment option to buy a paper bond linked to gold price. Sovereign gold bond is equivalent to Gold ETF.
Purchase limit	One person can purchase 500gms of Sovereign Gold Bonds per year.
Guarantor	The RBI will issue the guarantee for the payment on behalf of the Government of India.
Used	These bonds can be used as security while applying from loans at banks and can be sold or traded on stock exchanges.
Issued	The Bond will be issued in "Tranches".
Size	Gold bonds will be issued in 2, 5, 10, 50, 100, 500 grams of gold.
Tax Exemption	The Gold Bonds will be exempted from capital gains tax at the time of redemption.
Pre-mature withdrawal	Allowed
Redemption	On maturity, the redemption is allowed in Rupee amount only. It is based on previous week's (Mon.-Fri) simple average of closing price of gold of 999 purity published by India Bullion and Jewelers Association Ltd. (IJBA).
Transferability	The bond can be gifted/transferable to a relative/friend/anybody.
Payment mode	Cash (upto a maximum of Rs. 20,000) or demand draft or cheque or electronic banking.

Table 8: *Salient Features of Sovereign Gold Bonds – Series I of FY 2016-17*

Features	**Current Issue (FY 2016-2017)**	**Previous Year (FY 2015-2016)**
Minimum Subscription	One Gram of Gold	Two Grams of Gold
Maximum Subscription	500 Grams	Same
Interest	2.75% p.a.	Same
Physical/Demat Issuance	Demat/ Physical Options Available	Only Certificates Issued
Receiving Offices	BSE, NSE, Commercial Banks, SHIL, Designated Post Offices	Commercial Banks, SHIL, Designated Post Offices
Taxation-Capital Gain	Capital Gain Tax exempt on Redemption. Indexation Benefit Available in Case of Sale/Transfer	Capital Gain Tax Applicable as in the case of Physical Gold
Taxation- Interest Income	Taxable	Taxable

Table 9: *Collected Amounts and worth of Gold under SGBs*

Tranche	**Application Period**	**Bond Issue Date**	**No. of Applications**	**Issue Price (Per gram)**	**Maturity Date**	**Worth of Gold (kg.)**	**Collected Amount (Rs.)**
First	Nov. 5-20, 2015	Nov.30, 2015	63,000	2684	Nov 29, 2023	917	246 Crore
Second	Jan 18-22, 2016	Feb 8, 2016	316,000	2600	Feb 7, 2024	2790	746 Crore
Third	Mar 8-14, 2016	Mar 29, 2016	64,000	2916	Mar 28, 2024	1128	329 Crore
Fourth	July 18-22, 2016	Aug 5, 2016	195,000	3119	Aug 4, 2024	2950	919 Crore
Fifth	Sept. 1-9, 2016	Sept. 30, 2016	200,000	3150	Sept. 29, 2024	2370	820 Crore
Sixth	Oct. 24, 2016	Nov. 2, 2016	NA	2957	Nov. 2, 2024	Working	

5. CURRENT ACCOUNT DEFICIT (CAD)

As imported gold is the part of the current account and when government of India imports more gold it will create negative impact on balance of payment. A current account deficit reveals that the value of imported goods / services/ investment incomes is more than the value of exported items. It is also referred to as a trade deficit. We have taken only the goods (gold) items which is only part of the current account.

Table 10: *India's gold Imports Vs. CAD (in Bullion Dollars)*

Year	Gold Imports	CAD
2008-09	20.73	27.91
2009-10	28.82	38.18
2010-11	40.66	48.05
2011-12	56.5	78.16
2012-13	53.82	88.16
2013-14	28.7	32.4
2014-15	34.41	27.94

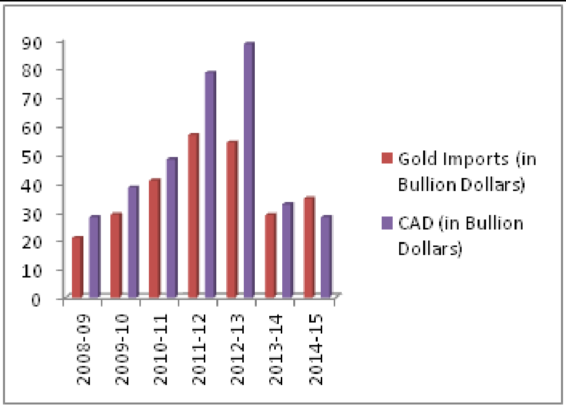

Fig 13: *India's gold imports versus Current Account Deficits*

The above Table 10: and figure 13: show that from 2008-09 to 2012-2013, larger gold was imported, which have pulled up current account deficit down. Whereas in the year of 2013-14 CAD and gold import was decreased this was just half of previous year. Further in the year of 2014-15 CAD decrease with slightly increase in import of gold as compare to year 2013-2014.

In year 2015-16, CAD has decreased 1.1% as compared to previous year. In the April-September, 2016 Gold imports down by 54%. The decline in gold imports would impact on the current account deficit (CAD) of the country. Due to lower trade deficit, the CAD has reduced to 1.3% of the gross domestic product (GDP) during the third quarter of FY 2015-16 when compared to 1.5% in the corresponding quarter of FY 2014-15.

6. MERITS OF GMS

i) The GMS is a good technique to stop the black money which, engaged in the form of gold.

ii) With the help of GMS, the import of gold will reduce because of enough quantity of gold will be available in home country.

iii) Low quantity of imported gold will help to reduce the Current Account Deficit and foreign trade, which provide stability in Rupee, inflation rate and overall macro economy

iv) The GMS will provide the availability of the loan with the banks and gold will be taken as a raw material in Gems and Jewellery (G&J) industry.

v) GMS is a good tool for customers, who are planning to buy gold at lower rate. Therefore, the gold prices will decrease.

vi) As gold prices have not fluctuated significantly during 7-8 years. Therefore, GMS will be a good track to earn interest by depositing gold.

vii) Jewelers and investors may also take more money as credit by using their Gold Saving Account.

viii) With the new GMS the accumulated gold will allow government to channelize the money in the form of cash to acquire the asset or capital formation to develop the infrastructure and industrial growth.

7. DEMERITS OF GMS

i) Those accumulated gold will be deposited in the banks by the consumers, would not be kept as before, it will be treated as scrap and further will be melt by taking the consent of investor. As a result investor will have to receive in modified form of gold i.e. coins and bars.

ii) Under the GMS Purity Testing Centres and Hallmark Centres are available in most of metro cities rather than in urban and semi-urban areas. Due to this reason the banks are located in rural areas will not collect the gold from investors belonging from same area.

iii) Under the GMS the awareness is very low in rural areas that are why the people will not deposited their gold in banks; as a result it will decrease the quantity of gold with banks. In addition to this the rural people will not get benefitted under this scheme.

iv) Generally mostly Indians are emotionally attached with gold. Due to this they don't want to deposit their gold in banks.

v) In India, peoples have no technique to analyses the purity of gold with gold seller and there are few reputated and branded gold dealers are available to sale the gold with purity parameter certificate. Under GMS this facility is also lacking.

vii) Under GMS, some fixed charges or fees will be paid by the customer to purify the gold at testing centres, which will create extra financial burden on investors.

viii) There are no fix parameter or slab for capital gain and tax exemption/rebate in connection with gold deposited in banks by the investors.

8. CHALLENGES AGAINST GMS

i) GMS may not attract the major segment of gold owners. Investor will go under the GMS if the rates of returns are higher at 3-5 % and the gold will be purchased only for investment. Currently interest is being given at low rate i.e. from 2.20 to 2.75 per annum.

ii) Gold jewellery, especially inherited and having sentimental attachment among the investors and many people won't like to perceive it melted down.

iii) The average gold investor is a conservative person who doesn't like to part with his gold for a certificate from the bank. In order to make proper implementation and pool of maximum gold from people, government needs to change the psychological thinking of investors.

iv) A bigger problem related to Wealth tax issues is that depositing gold could open a can of tax worms. True, the bank will not ask any questions when investors submit the gold. But this is not an amnesty scheme and the tax department might want to know if they have paid wealth tax on the gold in the previous years.

v) The process of testing for purification and determination of the quality of gold is a difficult process for both the consumers as well as the bank. In India few refineries are available and located at urban and sub urban areas which may create transportation problems for the rural people.

vi) Banks are major player to implement the GMS. However it is very difficult task for banks to manage all the things on their own. Therefore involvements of various intermediaries are necessary for the smooth working of this scheme which will further increase the transaction and handling cost for the banks and jewelers.

Table 10: *Timelines of GMS*

Sr. No.	Date	Timelines/Achievements
1	March 23, 2016	India's gold import soaks up by 34-36.9% tonnes in February as compared to the same month of previous year.
2	April 2, 2016	First half of 2016 has been the second highest for gold on record, weighing in at 2,335 tonnes.
3	April 05, 2016	India's gold imports drop 34% in February 2016.
4	April 19, 2016	Tirupati temple deposits 1,311 kg gold in PNB.
5	April 30, 2016	Banks have collected about 1,500 kg of gold from temples and trusts under GMS.
6	May 01, 2016	The Tirumala Tirupati Devasthanam (TTD), which manages the world's richest Hindu temple of Sri Venkateshwara Swamy, may move all of its 7.5 tonnes stashed gold under GMS.
7	May 05, 2016	According to gold and silver refiner MMTC Pamp, gold imports fell by 67.33 percent in April 2016.
8	May 14, 2016	Gold imports down 60.4% to $1.23 billion in April 2016.
	May 2016	India's gold imports decreased for the third straight month in April 2016. The country has imported $1.24 billion worth gold, which is 60.47% down from $3.13 billion in the same month previous year. Import of gold has decreased to 19.6 tonnes in April 2016 from 60 tonnes in the previous year and the bullion shipment of total imports was at 13.14 tonnes in April as against the 54 tonnes in the previous year.
9	June 09, 2016	Rajesh Exports Ltd (REL) has received an export order worth Rs.653 crore from Singapore.

10	June 2016	The shrinkage of the inward shipment of gold has made trade deficit to decrease at $6.27 billion in May 2016 when compared to $10.4 billion in the corresponding period last year.
11	June 16, 2016	Gold imports decline 39% to $1.47 billion in May 2016.
12	June 17, 2016	Total gold collected under the gold schemes is 2891 kg in May 2016.
13	July 31, 2016	Banks cover 2.95 tonnes of gold Under GMS.
14	Oct 12, 2016	At present, gold prices for 24 carat purity are ruling at Rs.31, 000-Rs.31, 500 in major cities of India according to an ASSOCHAM Paper.
15	Oct 15, 2016	Rajesh Exports bags Rs 786 crore jewellery order from UAE.
16	Oct 17, 2016	The imports of gold during January and September 2016 period aggregated around 270 tonnes compared to 658 tonnes in the same period of previous calendar year.

9. CONCLUSION

As India is known as poor country but in fact it is very rich in natural resources as well as with other items. India has around 20,000 tonnes of gold lying with Indian households and temples. The key to the success of the investment scheme will be depending in the hands of Indian households, temples and investors. In addition to this it has been observed that GMS helped to reduce India`s CAD after initiation of GMS. Creating awareness among the consumers over the presence and benefits of scheme shall be critical (especially for the rural population), along with offering them attractive interest rates to part away with their gold holdings. The interest rates on deposited will start from the next day after depositing the gold, which was not available in other previous gold schemes. Gold coins and bars are easily available for the peoples which are used as investment assets. Gold bonds are available in demat form which is very secure and easy for using. These investment schemes was launched at that time when the gold smuggling was on the peak and the government seized of 2,372 kg of gold of worth Rs. 557.83 crore in year 2013-14 and 4,082 kg of gold Rs. 832.08 crore and 886 kg gold of Rs. 429.84 crore recorded in year 2014-15 and 2015 to November, 2016 respectively. Although the presence of gold investment schemes is for minimizing the smuggling of gold as well as for reducing demand of gold. Now, India is exporting the gold to foreign countries as per their demand in order to reduce the CAD as well as for giving the strengthen to economy.

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