All About Gold Monetization Scheme

In his Budget speech, the Finance minister Arun Jaitley announced proposals to monetize gold. This means, converting the country's gold holdings into cash to spur spending and investment, and limit the need to import gold.

Two significant schemes were proposed in this respect. **The first is the Gold Monetisation Scheme**, which would **enable depositors, such as households and jewelers, to open metal deposits with banks** and place their gold holdings in them. You can also borrow money using these accounts.

The other initiative, **a new Sovereign Gold Bond**, would enable investors to trade in gold without having to buy it physically. In addition, the introduction of **a domestically-made Indian Gold Coin, bearing an Ashoka Chakra was also announced**. This could reduce the need for importing gold coins.

The Gold Monetization Scheme

Opening of Gold Savings Account with the banks:

Gold Savings Account:

- When the customer produces the certificate of gold deposited at the Purity Testing Centre, the bank will in turn open a '**Gold Savings Account**' for the customer and credit the 'quantity' of gold into the customer's account. Simultaneously, the Purity Verification Centre will also inform the bank about the deposit made.

Interest payment by banks:

- The bank will commit to paying an interest to the customer which **will be payable after 30/60 days of opening of the Gold Savings Account**. The amount of interest rate to be given is proposed to be left to the banks to decide. Both principal and interest to be paid to the depositors of gold, will be 'valued' in gold. **For example if a customer deposits 100 gms of gold and gets 1 per cent interest, then, on maturity he has a credit of 101 gms**.

Redemption:

- The customer will have the option of redemption either in cash or in gold, which will have to be exercised in the beginning itself (that is, at the time of making the deposit).

Tenure:

- **The tenure of the deposit will be minimum 1 year** and with a roll out in multiples of one year. Like a fixed deposit, breaking of lock in period will be allowed.

Tax Exemption:

- In the Gold Deposit Scheme (1999), **the customers received exemption from Capital Gains Tax, Wealth tax and Income Tax**. Similar tax exemptions are likely to be made available to the customers **in the GMS after due examination**.

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Some Features of Gold Monetization Scheme

- The minimum quantity of **gold that a customer can deposit is proposed to be 30 grams**. The **gold can be in any form, i.e., bullion or jewellery**.
- Customer interested in depositing the gold shall get its purity tested, which shall be done at Purity Testing Centre through a XRF machine.
- **If customers agree with amount of pure gold determined after the purity testing, he shall fill-up a Bank/KYC form and give his consent for melting the gold**.
- There are 350 BIS certified Hallmarking Centres which are spread across various parts of the Country. Since these Hallmarking Centers are equipped to conduct a test of purity of jewellery in a short span of time, they shall act as **'Purity Testing Centers'** for the scheme.
- Initially the scheme is proposed to be launched in selected cities only. However, if the requirement arises the scheme shall be extended to other cities. Currently, it is proposed to open 331 such centers across India.

The banks may be permitted to utilize the gold in the following ways:

1. Deposit the mobilized gold as part of their CRR/SLR requirements with RBI;
2. Sell the deposited gold to generate foreign currency;
3. Gold can be converted in gold coins for further sale to customers;
4. Lending to the jewelers;
5. Banks may buy and sell on domestic commodity exchanges, where mobilized gold can be delivered.

When a gold loan is sanctioned, the jewelers will receive physical delivery of gold. The banks will, in turn, make the requisite entry in the Jewelers' Gold Loan Account.

It is proposed that the interest to be charged from the jeweler shall cover the following:

- Interest rate paid to the depositors of gold
- Fee paid to the refiners and Purity Verification Centres.
- Profit margin of the banks

The banks will enter into a tripartite MoU with refiners and purity testing centres, which are selected by them to be their partners in the scheme. The MoU will clearly lay down the details regarding payment of fee, services to be provided, standards of service and the details of the arrangements between the banks, refiners and purity testing centres.

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The banks can directly get gold from the international market on a consignment basis and lend it to the jewelers. If this route is more lucrative, then the entire purpose will get defeated. Thus, this aspect will also have to be kept in mind, while deciding the interest rate.

What is the Benefit of Gold Monetization Scheme?

The scheme has two-pronged benefits. First, **it will reduce the dependence on imported gold. India is the world's largest consumer of gold but has to import about 97% of its annual gold demand**. This is a drain on its forex reserves, and is a key reason why the rupee value falls.

On the other hand, **there is 20,000 tons of gold that is unproductively stashed away in household lockers, according to the Finance Minister**. **The scheme intends to circulate this stashed gold in the economy by pulling it out of domestic safes and lending it to those who need it**. This will save the **country billions of dollars of gold imports annually**.

Second, **stocks of gold jewelry represent enormous personal wealth**. However, **this wealth is only notional because it doesn't contribute to growth**. It can neither be spent nor invested. **The gold deposit scheme can attract deposits worth Rs 1 lakh crore**, according to an Economic Times report quoting SBI research. This gold will be converted into cash in the form of interest.

Gold owners can then use it for spending and banks for productive lending. Imagine how much growth an **extra trillion rupees can generate for the country**. **Another media report suggest that this scheme can add 2% to the Gross Domestic Product (GDP) – a measure of the economy**.

The Sovereign Gold Bond

The gold bond will work just like a regular coupon bearing bond that the government issues to borrow money for various purposes. **The government receives money from investors, who invest in the bond, and pays a fixed periodic interest known as coupon on it**. On maturity, it returns the money to the investors. Similarly, in a gold bond, investors, such as households, will be able to lend money to the government by investing in a bond whose price will be based on the price of a fixed quantity of gold.

Benefit of this:

The benefit of this scheme is that it will remove the need to import gold for investment purposes. At present, when people buy gold as an investment, it has to be imported from outside. This leads to an outflow of forex and increases India's current account deficit – the amount India owes to the world in foreign currency. With the introduction of the bond, the entire transaction will take place in cash, removing the need for buying imported gold.

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