



Gold Investment Schemes in India 2015-2016

KEYWORDS

Monetization, Bond, Gold, Jewellery, Investment

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ABSTRACT

India is being one of the largest consumers of gold, next to China. Gold is sensitively attached with the Indians and they prefer buying gold in the form of jewellery. The Central Government has planned to commence two schemes in November, 2015 i.e., Gold Monetization scheme and Gold Bond scheme to reduce the requirements of gold through imports. The less volatile nature of gold attracts the Indian consumers to choose gold as the best investment option. Nearly, 16,000 tonnes of gold are idle with Indian households, temples etc which is not being traded or monetised in the form of jewellery. The accomplishment of economically stable gold investment schemes can bring changes in our economy.

INTRODUCTION

Remarkably, India is being one of the largest consumers of gold, next to China. The yellow metal is considered to be auspicious and precious, as it values a lot to the Indian consumers. Gold is sensitively attached with the Indians and it symbolizes the status and wealth of Indians. The investment in physical gold keeps on growing over decades because of its stability nature to withstand against market fluctuations and rate of inflation. People are tempted towards purchasing gold as it has the capability to liquidize and earn higher returns.

Indians prefer buying gold in the form of jewellery and coins rather than in bullion bars or ETF but the heavy loss prone by the customer, in the form of wastages and making charges shows the cash outflows. Gold savings schemes are different from investment schemes. Gold savings scheme provides no monetary returns, loss in making charges at the time of selling and compulsory purchase only from that jeweler. The Government has planned to commence two schemes in November, 2015 i.e., Gold Monetization scheme and Gold Bond scheme to reduce the requirements of gold through imports. The less volatile nature of gold attracts the Indian consumers to choose gold as the best investment option in their portfolio mix and the capital appreciation in gold makes the other investment avenues weak.

INDIAN ECONOMY AND GOLD INVESTMENT SCHEMES

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.

Figure-1 Physical demand for gold

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

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According to a joint report by Industry body, Federation of Indian chambers of commerce and Industry (FICCI) and the world gold council (WGC), Indian households spend 8% of its daily consumption on gold jewelry and coins. The survey report also shows that 77% of the respondents of the study bought gold once in a year in 2013. This shows the need for long-term policies in gold to earn higher returns. Though, there are policies like gold ETF, gold mutual fund etc, government has proposed new policies in Union Budget (2015-16) to pool the asset in to the financial system.

Some Research shows that, at present nearly 16,000 tonnes of gold are idle with Indian households, temples etc which is not being traded or monetised in the form of jewellery. The value is Rs 27.2 crores that is twice the foreign exchange reserves held by the RBI. 95% of our annual demand is met by imports. As India does not have gold mines, it relies upon imports which lead to inflate current account deficit (CAD) and affects the balance of payments of the country. These attractive schemes pave the way to

convert gold savings in to economic investments. Practically, the recent schemes show signs of safer investment and have to satisfy KYC norms.

GOLD MONETISATION SCHEME

Preferably, people in India purchase gold in physical form. As gold demand in India increases abruptly, the demand is satisfied through imports. The emergence of Gold Monetisation scheme in India can bring down the dependency on gold imports. The financial institutions play a key role in this scheme to make the yellow metal to uplift the Indian economy. Gold, the unproductive asset in the hands of households can be pulled off, to be either traded or monetized through this economically stable scheme. The Gold Deposit and Gold metal loan schemes are to be substituted by the upcoming Gold Monetization scheme. 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, jewelers and individuals. The important factors to be considered are interest rate, minimum deposits, tenor and redemption.

Figure-2 Gold monetization scheme



Source: www.Relakhs.com

The scheme starts functioning with the opening of a metal account by the customer, which is again linked with the savings account of the customer. The idle gold resource is deposited in the metal account and the purity and quantity of the gold is verified by the testing and collection centre certified by the Bureau of Indian Standards. The gold is lent to jewelers by banks at an interest rate little higher than the interest paid to customers. All the stakeholders are beneficiaries in this scheme. The time period for the deposit varies from short-term (1-3 yrs) to medium-term (5-7 yrs) to long-term (12-15 yrs). The minimum tenure for gold deposit is one year and the minimum gold bullion deposit in the account can be of 30 grams. This Gold Monetization scheme bid interest to the depositors of the gold more than they expect and tax exemption for the individuals from wealth tax, capital gains tax and tax free interest income. The re-

demption can be of cash or gold as per the preference of the depositor stated during the time of deposit in short-term and only cash in medium-term and long-term.

GOLD BOND SCHEME

Gold bonds are more desirable for Indian households to invest in gold instead of procuring tangible gold. The bonds will be issued by RBI on behalf of government of India. The investor can purchase the gold bonds in denomination of 5, 10, 50, 100 grams of paper gold in banks and gain interest on it. Similar to fixed deposits in banks, these gold bonds offer fixed rate of interest in the stretch of 1-2 %. Unfortunately, these gold bonds are directly linked with the gold price fluctuations. When the price of gold shoots up, the value of the bond price also escalates equivalently. Aforesaid, if gold price hikes suddenly, the banks may face the repayment burden. They tackle the risk by hedging or by taking insurance cover. However, gold bonds are worthier than ETF's. The redemption at the time of maturity will be the amount equivalent to the gold price on that day. Investors who would like to take up the investment in Bars /coins can pick up this scheme for investment purpose. These bonds can be used as collateral security in banks.

CHALLENGES OF GOLD INVESTMENT SCHEMES

As Indian households are emotionally attached with gold, they scarcely want the gold property to lose their form by melting it in Gold monetization scheme and conversion of gold back to jewellery form absorb a lot of making charges. Coins or bars can be easily brought in to this investment scheme. The transportation and storage of the glittering gold is risky for banks and jewelers. However, satisfying the Know-your-customer (KYC) norms hinder the monetization of physical gold. The people who safeguard parental Jewellery as a sign of love are to be left out of Gold monetization scheme.

People intention towards purchasing gold in its materialistic form acts as an obstacle in gold bond scheme and the other challenges are tenure period and redemption of Gold bond scheme. The gold drained off in black money is out of the domain of the scheme. The financial illiteracy of rural households put a stop to invest in gold schemes.

CONCLUSION

Deliberately, the success of the investment schemes lies in the hands of Indian households, who are obsessed towards physical gold. Apart from this, finance minister has announced the issue of the country's sovereign gold coin with Ashok chakra on the face of it. The coins come under "Made in India" Investments products says Sudheesh Nambiath, senior precious metals analyst at GFMS. India is expecting to draw 10 to 15 tonnes of gold from Indian households, temples etc in the first year under gold monetization scheme. Kotak Mahindra bank, one of the India's largest private bank, sees the Gold bond scheme displacing 10-40% of physical investment demand within 3 years. All the stakeholders have to involve efficiently in making the investment schemes, a victorious one and spread prosperity.

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