International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor- 5.564, Volume 5, Issue 4, April 2018
Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

INDIAN GOLD POLICIES-AN OUTLOOK

Anu Anna Ninan
Research Scholar,
Department of Commerce,
CMS College, Kottayam.

ABSTRACT

India has a deep historical connection with gold. This precious metal has been a valued commodity from the times of ancient civilisations. The demand for gold far exceeds the production and hence the shortfall is met by imports. If left to the designs of market forces, the foreign currency reserves would be taking a hit, the current account deficit will widen and create a payments problem. India's governments over the years have introduced measures to regulate the gold market. The paper examines the policy initiatives in India over the past several decades.

Keywords: Gold, Gold policies, Gold Control Act 1968, Gold Monetisation Scheme, Sovereign Gold Bond Scheme,

Introduction

The Indian society considers gold as part and parcel of Indian culture and symbol of their wealth identification. It becomes an integral part of almost every Indian's life from time immemorial and is sought after to the extent of being hoarded with great zeal either as a form of investment or a show of prosperity and social status. The demand for gold in India far exceeds its negligible indigenous production and hence the shortfall is met by imports leading to drastic devaluation of Indian rupee and depletion of foreign exchange reserves to alarming levels. To overcome the problems, Government of India introduced a range of policies from time to time aiming in curbing the gold imports to manageable level by imposing taxes and legal restrictions. Hence the major policy initiatives in India during the past several decades are examined.

Gold Control Act ,1968

The Act came in the backdrop of an economy feeling the ill-effects of wars against China and Pakistan, depleting foreign reserves, and a situation of devalued Indian rupee that necessitates urgent need to reduce gold imports. The conditions imposed by the Act include:

- Public were allowed to hold gold exclusively in the form of jewellery. They were also required to report all their existing holdings of gold coins and bars, if any, which had to be converted into jewellery and declared to the authorities concerned.
- All gold loans by banks were recalled.
- Goldsmiths were allowed to hold a maximum of 100 grams of gold at a time. Licensed dealers could hold up to 2 kg at the most and dealers were not permitted to trade among themselves.
- Manufacturing gold jewellery above 14 carat was prohibited.
- Forward trading in gold was banned.
- Jewellery merchants were instructed to maintain proper records of their gold business, which were made subject to regular inspections from customs authorities.

The intention of the regulations was to reduce the public affinity for gold. However the economy's response yielded unintended consequences. Although the official gold market was now restricted, the rules came to incentivise smuggling of gold. Black market flourished and the unofficial market priced gold at a heavy premium over the official price.

Kolar Gold Mine Acquisition: Another significant policy on gold was the government acquisition of the Kolar Gold Field, in 1965. A vast majority of gold production in the country was now directly controlled by the government.

Initiatives in 1970's: Gold bonds were issued and gold auctions were initiated in the 1970s, to recycle the gold in the system and reduce the dependence on black market to meet the gold demand.

Post Liberalisation Policies

India faced a severe payment crunch in 1990 and the Government of India pledged 40 tons of gold reserves of the Reserve Bank of India to overcome the situation. India embarked on a policy of liberalisation, opening the doors for foreign currency flows and foreign trade. The 1968 Gold Control Act was repealed in 1990; gold was now officially imported. In its first year, 110 tons of gold was thus brought into the country.

The NRI Scheme was introduced in 1992. NRIs were permitted to bring 5 kg of gold on payment of a nominal duty of Rs.220 per 10 grams. The limit was enhanced to 10 kg in 1997. This resulted in a strong inflow of gold. Simultaneously, a SIL (Special Import License) was introduced as well, for import of gold. The price of gold crossed a peak of Rs.5000 per 10 grams. The import duties on gold have been sufficiently high, making use of the public affinity for gold and its relative inelasticity to price. This has brought in considerable revenue for the exchequer.

In 1997, seven banks viz. Bank of India, Allahabad Bank, Indian Overseas Bank, Canara Bank, ABN-Amro Bank, Bank of Nova Scotia, and Standard Chartered Bank were licensed as official importers of gold. The gold deposit scheme of the State Bank of India was introduced in 1999 to enable the public to deposit gold with the bank for a certain interest rate. In 1997, the four big Public Sector players – MMTC (Metals and Minerals Trading Corporation of India), HHEC (Handicraft and Handloom Export Corporation), PEC (Projects and Equipment Corporation) and STC (State Trading Corporation) – were licensed to import gold. A general import license was issued for import of gold at the time. The price of gold fell below Rs.5000 per 10 grams during the course of the year.

The demand for gold increased even as Indian economy grew at a rapid pace. The import of gold increased from a range of 400-500 tonne in the 1990s to close to 1000 tonne by the late 2000s. The price of gold increased at a galloping rate and it reached the highs of Rs. 29236 per 10 grams in 2013.

Gold Exchange Traded Funds were introduced in 2007. Since 2009, the import of gold is permitted for the Banks nominated by RBI and the Agencies notified by the Department of Commerce. Three more PSUs – DIL (Diamond India Ltd), STCL and MSTC Ltd were also authorised for gold imports. Agencies notified to import gold includes, the four-star and five-star rated trading houses. The rating was assigned based on the value of their exports. The sale of gold coins through banks and post offices was banned in 2012.

The 80:20 Scheme – With gold demand not wavering despite the soaring price, the government came up with a policy to regulate import of gold. The scheme was introduced in 2013. It mandated that an importer of gold must export at least 20 % of the value of the total gold imported by them, leaving the remaining 80% eligible for use in India. This condition had to be met for being able to import any further. The rules were relaxed in May 2014 by the RBI, owing to the constraints expressed by jewellers, bullion dealers and authorised banks. The 80:20 scheme was withdrawn in November 2014. Recent reports have revealed that the scheme was misused by some traders and jewellers. A practice among the jewellers was to have gold exported, which was melted down and made into bars and coins and the same imported into the country. It has been known as roundtripping, and facilitates the trader to display enhanced trading volumes and avail cheaper finance. According to a CAG Report in 2016, the loss to the government as a result of the 80:20 scheme was estimated at Rs.1 lakh crore. While India’s gold demand and imports have increased over the years, the volume of smuggled gold has been a headache for the government. It reached its peak during the 80:20 scheme.

Recently Introduced Schemes

The latest gold policies by Indian government are commendable although there is much work to be done in this regard. Scrapping of the 80:20 rule is one. Further, the Gold Monetisation Scheme and the Sovereign Gold Bond (SGB) Scheme introduced in 2015 had the right intention towards recycling gold in the system. The new Bureau of Indian Standards Act of 2016, mandating hallmarking as a compulsory requirement is a welcome move, as well.

Gold Monetisation Scheme, 2015

The scheme modifies the existing ‘ gold deposit scheme’(GDS) and ‘Gold Metal Loan Scheme’(GML) and is intended to mobilise gold held by households and institutions of the country and facilitate its use for productive purposes, and in the long run to reduce country’s reliance on the import of gold.

I) Gold Deposit Scheme: It operates through:-

i) **Short- Term Bank Deposit (STBD)-** The deposit of gold made under the Gold Monetisation Scheme with a designated bank for a short- term period of 1-3 years.

ii) **Medium and Long –Term Government Deposit (MLTGD)-** The deposit of gold made under the GMS with a designated bank in the account of the Central

Government for a medium term period of 5-7 years or a long term period of 12-15 years or for such period as may be decided from time to time by the Central Government.

The principal and interest on STBD shall be denominated in gold. In the case of MLTGD, the principal will be denominated in gold while the interest shall be calculated in Indian Rupees with reference to the value of gold at the time of the deposit.

II) Gold Metal Loan(GML) Scheme

The gold mobilised under the STBD may be provide to the jewellers as GML. The designated banks can also purchase the gold auctioned under MLTGD and extend GML to the jewellers.

Sovereign Gold Bond(SGB) Scheme

The SGB is an investment that is an alternative to physical gold. It aims to channel the interest in physical gold into a long term fund for the government. The bonds are certified as a certain amount of gold, expressed in grams. The period of investment is for eight years, with an exit option from the fifth year onwards. The bonds will be redeemed in cash on maturity. It can be used as collateral for loans and the loan-to-value (LTV) ratio is equal to ordinary gold loan mandated by the Reserve Bank from time to time. Trading in the gold bonds was facilitated in BSE and NSE in June 2016.

Conclusion

Gold based products such as Gold Monetization Scheme and Sovereign Gold Bond scheme shall be made popular through increased public awareness and its consequent marketing to reduce the interest in physical gold. Government should offer incentives like noticeable tax benefits to the participants of the schemes envisaged for curbing the import of gold.

References

1. **https://www.gold.org/research/why-india-needs-a-gold-policy**
2. **https://en.wikipedia.org/wiki/The_Gold_(Control)_Act,_1968**
3. **https://www.gold.org/research/india-gold-market**
4. **https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10084&**
5. **https://rbi.org.in/Scripts/BS_SwarnaBharat.aspx**