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Gold and India

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Abstract

Gold is the most liquid form of wealth for centuries. This distinct characteristic of the yellow metal has eluded researchers for several years and continues to do so. It is also used as a hedge against inflation or recession when the market does not provide optimal investment opportunities. Gold demand is a complex function of various economic determinants and is potential area of academic research etc. Therefore, this study attempts to examine level of impact of gold imports on current account deficit (CAD), and governance and regulation of gold markets in India. Finally, the study makes some suggestions to develop gold market and monetize 21,000 tonnes of gold held by households and temples in the country.

Keywords: Gold**,** Gold Market, Current Account Deficit, Gold Bond Scheme.

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Gold and India

Gold is an asset that has attracted people for thousands of years because it is durable, easily transportable and universally acceptable. India is the largest buyer of gold in the world. The preferences in India are influenced by many social, economic and cultural factors.

In India, gold is viewed as a liquid asset and hence widely recognised for intergenerational transfer of wealth as it is considered to be the most efficient store of value. In the last few years, gold imports have been rising significantly.[2] India accounts for more than a quarter of global gold imports despite being the contributor of less than 2 percent in the global trade. Gold import has been identified as a major contributor to the widening CAD and therefore Government of India (GOI) is trying to regulate gold imports.

The paper aims to understand gold market in India identifies the impact of gold imports on CAD and proposes some solutions. In this paper, primary or small sample size survey has been conducted to understand the consumer behaviour. In addition, interviews were also conducted with some small gold retailers, industry experts and gold processing centres. Finally, the paper examines the scope of participation of commercial banks in developing the gold market in India

The paper is arranged in the following sections - The review of literature is presented in Section II. The select country experiences (China and Turkey) are presented in Section III. Section IV discusses about various dimensions of gold market in India and measures announced by the authorities to curb gold imports. Section V presents the summary of primary survey and findings. Section VI discusses about the use of commercial banks to monetize gold. Finally, conclusion and recommendations are presented in Section VII.

Section II: Brief Review of Literature – Selected Articles and Reports

Gold has been uniquely important to the Indian economic system since very long because of the religious, social, cultural ritualistic and behavioural reasons. Reddy (1997) discussed about the importance of gold in Indian system. Trivedi and Behera (2012) provided a comprehensive review of how gold prices in India are related to macroeconomic variables. Reddy and Khatkhate (2012) focused on relationship between stock market and gold prices.

Reserve Bank of India (RBI, 2013a) states that demand for gold in India cannot be compared with other parts of the world. The 1.3 billion population of India would continue to generate demand for gold; the

[2] World Gold Council (2014).

demand is from both investors and gold jewellery consumers. The benefit that it offers by way of long-run inflation hedge, high liquidity and the absence of substitutes with similar risk-return profile makes it an attractive asset to store. The convenience of cash based transactions and absence of documentation (no paper trail, tax obligations, etc.) further makes it a preferred channel for money laundering. Hence, attempting to curb gold demand in India would be a difficult and complex task. RBI (2013a) also mentions that "the price of gold is inelastic". Thus, gold demand is relatively unresponsive to rising prices, and import bans would simply cause the "consumers to take recourse to unauthorized channels to buy gold". This indicates the complex behaviour of Indian consumers with respect to gold price which does not match the typical investor profile.

Balaji and Maheshwari (2014) found that in Indian jewellery market, consumer preferences are expected to lead to a more professional industry while share of family jewellers is expected to decline over the next few years. Anand and Tulin (2014) shows a strong correlation (0.83 for the 2006Q3–2013Q2) between gold imports and inflation expectations of Indian households, indicating that one reason for high gold demand is its use as an inflation hedge.

Section III: Select Country Experience

China

The case of China is very interesting. China has a long history of gold production, going back to more than 3,000 years. In view of the growing demand, after introducing "regulations on administration of gold and silver" policy in1983, People's Bank of China took control of gold market. These policies focussed on maintaining state control over gold and silver markets.

China is the number one producer and consumer of gold since the market began liberalising in late 1990s and became a key driver of global gold demand. In 2007, China was the largest producer of gold and became the world's leading gold consuming nation in 2013. In 2013, China's gold demand increased by 41 percent to exceed 1,000 tonnes for the first time, because of sharp slide in prices. In the same year gold consumption increased to 1,176 tonnes compared to the previous year, with jewellery demand accounting for 43 percent. Over the last 3 decades, Chinese gold market has transformed from a state controlled entity to a largely independent and sophisticated market.

In the last few decades, Chinese authorities created three major bodies in order to further facilitate the growth of gold market. The major bodies or the institutions are explained below-[3]

[3] World Gold Council (2014).

a) *Shanghai Gold Exchange (SGE)*

SGE is the major entity when it comes about trading in gold. It constantly monitors the flow of gold in the economy by measuring flows going through its 55 vaults situated in 37 cities. SGE does not trade in impure gold and each gold item that goes through SGE has to be from an London Bullion Market Association (LBMA) certified refiner and Au99.95 by purity. Numerous centres across the country evaluate the purity of gold for market participants.

b) *China Gold Association (CGA)*

An active player of Chinese gold industry, CGA is an intermediary between the government and gold miners to protect business interests of gold production industry, co-ordination and consultations.

c) *Shanghai Futures Exchange (SFHE)*

An institution facilitating gold price speculation market, SFHE was born as a merger of Shanghai Metal Exchange, Shanghai Commodity Exchange and Shanghai Foodstuffs Commodity Exchange in 1999. In 2008 this exchange floated first future contract on gold. The exchange is meant to primarily provide access to financial products based on gold.

China is currently the largest producer of gold in the world. A major boost to exploration programs by the government and active role of CGA in improvement of mining sector resulted in China doubling its total output from 2003 to 2013 reaching 437 tonne of production in 2013 which stands at 15 percent of the world's gold production. A limited number of domestic banks and two foreign banks (ANZ and HSBC) have import licenses in China as of 2013. This is further regulated by import quotas affected by People's Bank of China. Export of bullion is not allowed as per policy objectives. Banks have been also contributing to the development of gold market by providing finances for gold leasing and offering financial products linked to gold. Gold accumulation accounts and gold Exchange-Traded Fund (ETF) development is in a nascent stage.

China as of now has 8 LBMA approved refiners. This is due to greater domestic production and demand in the market. The output of all refineries flows through SGE. China's more than 70 percent production base is catered through Shenzhen which comprises of more than 4,000 manufacturers along with thousands of other artisans. Shenzhen Gold and Jewellery association is the representative entity for the same area. This hub supplies jewellery product to more than 1,00,000 retailers across the country. There are stringent quality measures in place to protect the interests of consumers and investors in the gold market. SGE does not accept gold items other than those certified by LBMA approved refiners. Also, National Gold Standardisation Technical Committee published standards on high pure gold (Au99.999). This has been seen as a step towards correction of physical gold trading market.

Turkey

Turkey also has a long tradition of gold market. Turkey's relationship with gold is underpinned by a deep cultural heritage. Its gold mining industry is small, but growing rapidly with significant untapped potential. Gold production has increased from 2 tonnes in 2001 to 33.5 tonnes in 2013. And this may be the tip of the iceberg: Turkey's Ministry of Energy and Natural Resources estimate gold reserves to be 840 tonnes, while resources could be as high as 6,500 tonnes.

In Turkey, individual gold reserves are the traditional form of savings. Savings rate in Turkey declined from 25 percent to 12 percent during 2011-10. High inflation coupled with increased credit inflows fuelled consumption. At the same time, low interest rates discouraged savings. However, Turkish households continued to maintain private savings due to unstable revenue streams, risk of unemployment and high dependency ratios. Private savings were mostly in the form of hedge assets like gold, foreign exchange. This saving was accumulated off the books and never made it into the official banking system. Faced with severe fall in household savings, deposit shortages and spiralling current account deficits, Turkey turned to an innovative model to monetize "under the mattress" gold savings.[4]

Istanbul Gold Exchange was opened in 1995. Turkey has large number of factories manufacturing gold jewellery.Gold deposits schemes have proved beneficial for Turkey in the past. The push to tap into the individual gold reserves—the traditional form of savings here—was part of Ankara's efforts to reduce a finance gap that was about 10 percent of gross domestic product (GDP).[5]

Isbank and Turkiye Garanti Bankasi AS, Turkey's biggest lender by market value, offer gold-backed loans, where customers can bring jewellery or coins to the bank and take out loans against their value. Garanti also has a credit card linked to gold deposit accounts.[6] Turkey was facing a bloated CAD that threated to derail the country's rapid expansion, and was trying to persuade Turks to transfer their vast personal holdings of gold into the country's banking system. In 2012 central bank announced that lenders could hold up to 10 percent of their local-currency reserves in gold, in part to tempt Turkey's gold hoarders to deposit their jewellery, coins or bullion at banks. In 2012, Turkish central bank decided to raise the proportion of reserves lenders can keep in gold to 30 percent from 25 percent, increasing its efforts to get more bullion out of the homes and into the monetary system.

[4] Carlyle (2013).
[5] Candemir and Parkinson (2012).
[6] Gold Core (2013).

a) *Reserve Option Mechanism (ROM)*

The Turkish central bank introduced ROM – a system under which any bank may substitute a part of its reserve requirements with foreign exchange or gold. The mechanism was introduced as a measure to reduce the volatility in the foreign exchange market due to capital flows and purchase of gold. Essentially, the central bank allowed the banking sector to deploy excess foreign exchange and gold holdings to fulfil their reserve requirements.

The amount of Turkish Lira reserve requirement that can be kept in gold, US Dollars or Euros is determined by two factors – The Reserve Option Ratio (ROR) and the Reserve Option Coefficient (ROC). The ROR determines the maximum share of Lira reserve requirements that banks can hold in forex or gold – currently 60 percent in foreign exchange and 30 percent in gold.[7]

b) *Reserve Options and Gold*

While the reserve option mechanism (ROM) was designed as a tool for foreign exchange stability, it has also emerged as a tool to monetize gold savings. Introducing the ROM induced banks to proactively develop instruments and designing schemes to monetize household gold savings. With the various innovative instruments as shown in **Table 1**, the commercial banks were able to source gold from within the economy to the tune of US $10 billion.

Table 1: Gold schemes in Turkey

Simple Savings Products	**Gold Current Account**	**Gold Savings Account**	**Gold-to-Gold participation account**
Advanced Investment Products	Gold linked structured Deposits		
Loan Products	Gold Loans	Personal Loans with gold payments	
Other Innovations	Gold ATM	Gold Card	Gold Cheque

Source: Carlyle (2013).

Section IV: India Experience

India is the largest consumer of gold in the world, followed by China and Japan. India consumes nearly 800 tonne of gold that accounts for 20 percent of world gold consumption, of which nearly 600 tonne gold goes into making jewellery.[8] India's domestic production of gold is very limited; the rising demand has to be sourced from outside the country. Moreover, gold as a commodity on its own does not add much to the productive capacity of the economy. When one buys gold, it is either stored in lockers or gets

[7] Carlyle (2013).
[8] World Gold Council (2014).

converted into jewellery. In both the cases, money spent on purchasing gold gets blocked since gold is not a productive asset. There are certain qualities of gold that make it a desirable investment option. These qualities are - gold can be used like an insurance against instability, also it protects against market risk. Gold is accepted universally and therefore provides liquidity.

According to estimates prepared by WGC (2010), India accounts for 10 percent of total gold stocks in the world and rural India accounts for nearly 65 percent of those stocks. During 2001-2012, the annual demand for gold remained relatively stable at around 700 to 900 tonne. With the increasing demand for gold, gold imports increased in recent years. In 2012, gold was the second biggest import commodity in India after petroleum goods accounted for half of global gold import, according to WGC. In 2012-13 total gold import accounted for US $60 billion and the CAD was US $80 billion.[9]

In 2014, jewellery demand softened by 4 percent year on year, but the comparison continues to be heavily influenced by events in 2013. Jewellery market is in good health. Investment demand posted a 6 percent increase, reaching 204 tonne, although a stable price caused investors to hold back. Central banks added a further 92.8 tonne to their coffers during the period. Supply was down 7 percent in Q3; the volume of recycled gold continuing to shrink. [10]

Till year 1991, gold imports were banned as per Government of India (GOI) regulations. Since then gold imports have been rising but was not a matter of concern. In 2008, global recession took a toll on Indian economy and growth significantly slowed to 6.8 percent in 2008–09, but subsequently recovered to 7.4 percent in 2009–10, while the fiscal deficit rose from 5.9 percent to a high 6.5 percent during the same period. India's CAD surged to 4.1 percent of GDP during Q2 FY11 against 3.2 percent in the previous quarter. A high CAD meant a threat to sovereign rating of India and hence a possible situation of capital flight out of the Indian economy. Starting in 2012, India entered a period of more anemic growth, with growth slowing down to 4.4 percent. Other economic problems also became apparent: a plunging Indian rupee, a persistent high CAD and slow industrial growth. Hit by the U.S. Federal Reserve's decision to taper quantitative easing, foreign investors had been rapidly pulling out money from India which led to unprecedented depreciation of Indian currency which went close to 70 per dollar in 2013. A depreciated rupee put enormous pressure on the CAD and GOI had to take measures to solve the problem of CAD immediately.

Since gold was a key contributor to the import bill and the highest value luxury-item to be imported, a clampdown on gold imports seemed the best way out to bring down the import bill. Consequently, GOI

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[9] FICCI and Kearney (2013).
[10] World Gold Council (2014).

raised the import duty on gold to an all-time high of 10 percent in August 2013 and later, went ahead to ban imports of gold coins and bars which made upto 36 percent of Indian demand. There were several policy measures to cut down on import bill of gold items for next few months.

RBI Circulars

RBI is the supervisor and regulator of commercial banks in India and hence regulatory guidance is circulated to the banks on issues related to gold. Pursuant to the policy of curbing gold import in the backdrop of steep CAD, RBI also issued notifications consistently since 2012 (Annex 1). The 20/80 rule and tough import rules coupled with stricter credit norms for gold loan schemes curbed the gold import levels. [11] Gold related exports increased, but so did illegal imports.

Government Notifications

Central Board of Excise and Customs (CBEC) regulates import duty, tariffs, excise duty and customs in India. In tandem with control on the quantum of gold import by the RBI, the CBEC also issued notifications for increasing import duties. The past 2 years witnessed significant rise in import duties from about 2 percent in 2012 to 10 percent in 2013 (Annex II).

Indian Jewellery Industry – Overview

The market size of Indian domestic gems and jewellery industry was estimated at Rs. 2,51,000 crore in 2013; which is projected to grow from Rs. 5,00,000 to Rs.5,30,000 crore by 2018.The primary focus of this industry is on import of gold bars, precious stones and simultaneous export of designed jewelleries, hence contributing significantly to foreign exchange earnings. Also being a labour-intensive industry, it contributes to bulk employment (2.5 million directly in 2013) and GDP growth.

In gold generally there are following two categories of demand -

1. Consumption – About 55 percent of the total domestic demand.
2. Investment – About 45 percent of the total domestic demand.

Indian jewellery industry faces a number of challenges in view of the growing demand; this includes but is not limited to skill development, worker sourcing/benefits, new technology adoption and looming threat of regulatory curbs.[12]

[11] Director General of Foreign Trade (DGFT) allowed to import gold under 20:80 scheme.
[12] FICCI and Kearney (2013).

Gold Deposit Scheme

RBI first introduced gold deposit schemes in 1999 by allowing major banks to open gold deposits and provide returns for the same either in the form of gold or equivalent cash at maturity. State Bank of India (SBI) subsequently offered a gold deposit scheme which mobilized around 400 Kgs of gold within first week of launch. Initial interest rate was 4 percent on gold and the scheme sounded lucrative. But on the back of booming economy, gold prices began to decline and soon SBI lowered interest rate to 1.5 percent. Consequently, demand for the scheme also sharply declined.

SBI withdrew the scheme in 2005 as it was not making profits. Post 2008 crisis, SBI re-launched the same scheme. Since then the scheme is being operated through designated branches of SBI and still hasn't drawn much attention. The interest rate nowadays ranges from 0.75 percent -1 percent. Further, SBI is finding it hard to deploy the collected gold in the economy and hence it again views the scheme as non-profitable.

Some of the reasons why gold deposit scheme of SBI did not take off well are as below:

1. Minimum limit of 500 grams of gold required to open a gold deposit account.
2. 90 days lead time required to put a value to the gold deposited.
3. Customer is unsure about the value of gold.
4. Only 50 designated branches of SBI authorized to open such account. Huge amount of gold is stashed in rural India and no method was devised to explore.
5. Very low interest rate (0.75 percent - 1.00 percent).
6. Regulatory issues – Pan Card, ID proof, and address proof required in opening a gold account.

Investors in India are unsure of the value of gold they hold and hence are apprehensive of the valuation made by the other party. To access the value of gold, the jewellery has to be melted and process is irreversible. Further, after opening of a deposit account there very low tradability in the market. The requirement to build confidence in such instruments by creating a market to trade these instruments is lacking. To incentive people for investing in gold deposit accounts probably commercial banks can help (discussed in detail in next section). As of now gold is not an eligible asset for Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as per RBI guideline. Since gold is a well-known store of value, hence it seems logical for banks to demand its entry into CRR/SLR.

The gold deposit scheme of SBI is only available in few branches across the country all of which are located in urban areas despite the fact that in India gold is majorly trapped in rural areas where a farmer sees gold investment as the best option to hedge against future uncertainties and cater to expected future expenses. Returns on gold ETF's are around only 1 percent and hence they are not attractive to the investors. Also, in India substantial amount of gold is bought with unaccounted money. But all these schemes require stringent disclosures which erase the incentive for people to participate in such schemes. On the other hand, Turkey has successfully initiated policy measures to bring out the household gold into the economy (**Table 2**).

Table2: Turkish Gold Deposits versus Indian Gold Deposits

Turkish Policies on Gold	Indian Policies on Gold
No duty on Gold import	10 percent duty
Focus to bring household in the economy	No scheme to interest attractive investors
Gold credits available to manufacturers	Gold loan facility not available
15+ different gold instruments available with facility for interbank transfer of Gold	Few schemes with no additional options available

Source: Gold Core (2013).

Temple Gold

Indians have been importing gold since the roman age and the domestic production has always been low. Before independence, India was a conglomeration of hundreds of royal families. Each of them held gold in large quantities and donated to temples along with other people. Despite looting and pilferage across ages, considerable amounts of gold remains in temples across India. The issue is on the question of the utility of temple gold. Legally this is held by temple trust which enjoys the autonomy to maintain the reserves. A comprehensive audit is rarely done or reported at temples. The example of the available estimates is explained as follows - Sree Padmanabhaswamy temple in Kerala, whose vaults were opened in 2011, possesses gold worth one trillion Rupees.[13] This is excluding the antique value associated with the ornaments. An optimum use of these deposits could help the economy in short run by providing gold supply in the market. Recently Tirupati temple deposited 1800 Kgs of gold in SBI gold deposit scheme at the rate of 1 percent.[14]

Inflation indexed bonds

India introduced inflation indexed bonds (IIB) in 2013 for retail investors to provide an investment option against gold buying. Following are some salient features of inflation indexed bonds –

a) Minimum investment of Rs. 5000 to Rs. 5 Lakh, in multiples of 5000. (Improved later with 25 lakh as the limits for HUFs). [15]
b) Sold through major scheduled commercial bank branches to retail investors.

[13] Mahapatra (2014).
[14] Press Trust of India (2014).
[15] Barman (2014).

c) Interest rate provided was 1.5 percent above the CPI inflation of previous 3 months before.[16]
d) No tradability in secondary market.[17]
e) Fixed maturity of 10 years with payment only on maturity. [16]
f) Interest gains to be taxed after adding into the annual income.[18]

These bonds did not attract much attention because of their complex structure and underlying assumption that gold buying is done to hedge against inflation. Below are few major issues that deterred investors from investing in these bonds:

a) *Liquidity issue* **–** Not tradable in secondary market and 50 percent of last coupon paid to be imposed as penalty for premature liquidation. In comparison, gold is a liquid asset.
b) *Interest gains tax*- This clause make this investment option unattractive in comparison to several options available in the market interest on which are tax free.
c) *No base cap* **–** As the interest rate is bound to CPI, in times of low inflation the bonds will become unattractive and since there is no tradability, one does not have an option to quit.
d) *Need of a bank account*- As bank accounts were necessary, the bonds could not target the non-banking rural population which is considered to be holding around 65 percent of the total gold held in India.

Thus, even the introduction of IIBS did not succeed in to curtailing demand for gold in India.

Section V: Primary Survey – Findings

A primary survey, very small in size but indicative and strategically designed was conducted to understand customer behaviour related to buying gold. The survey was conducted during April-September, 2014 and information was collected by personal interviews; focus group discussion with jewellers, retailers; miners; and visits to units manufacturing gold jewellery (Annex III). Illustrative graphs are presented in Annex IV. The survey was conducted mainly in Bangalore but some inputs have been used from survey and discussion with related parties of Mumbai and Delhi. Summary of the findings are:

1. *Focus group Discussion*

    a) Women from both traditional and contemporary families prefer to buy gold.
    b) Gold is considered as a primary investment option, because of highest and stable returns.

2. *Retailer insights*

    a) Bullion is specifically used for investment.
    b) Middle class peoples buy jewellery for emergency purposes.
    c) Customers buy more gold during festivals, new year period, valentine’s day and akshay tritiya.

[16] NDTV Profit (2013).
[17] NDTV Profit (2013).
[18] Barman (2014).

d) Discounts and sales also lead to high sales.
e) Usually customers buy gold coin in the range of 1gm-10gms and biscuits in the range of 25gms-1000gms.
f) Around 70-75 percent of gold is purchased by people who come with family, want suggestions and then make the purchase instantly.
g) The demand for different type of gold can be dependent on region also. In South, there is a huge demand for gold; North shows preference for studded gold; precious stones in North east and not so much focus on jewellery.
h) Customers prefer to purchase when the price is trending from low to high. However, in a grim economic scenario couples buy gold when the price is low.
i) Gold jewellery has certain perceptions associated with it- “Possessing gold is a measure of success”, “Wearing gold adds to your prestige” and “Gold is readily convertible to money and hence leads to prosperity”. The conventional association of money with celebrations in the family was also very pronounced.

3. *Bangalore versus Mumbai*

a) The impact of cosmopolitan culture and multi-regional population in the city is reflected in the taste and preferences of consumers in Mumbai.
b) The designs preferred among the upper class and young working population, particularly women, are more westernized and the trend is shifting towards studded gold and diamonds as compared to earlier preference for pure gold jewellery. Designer jewellery with semi-precious stones is gaining popularity among modern buyers.
c) Still, pure gold forms a major portion of jewellery sales in Mumbai, particularly among the middle and lower middle class and during wedding purchases.
d) Lower investment in real estate translates to more gold purchases in Mumbai compared to consumer segment in Bangalore.
e) Demand for pure gold jewellery with traditional designs is higher in Bangalore. There is an observable trend towards modern designs (similar to Mumbai) but the volume is much lower than Mumbai.
f) Amongst young couples, there is a greater preference towards investing in real estate and setting up their homes than buying gold. In Mumbai, business community in Mumbai, being large and affluent, investment demand for gold is very high.
g) Among the middle class, preferred retail channel is the traditional family owned jewellery shop whereas the upper middle and young buyers prefer to make their purchases from branded stores like Tanishq and give importance to in-store experience and customer service.
h) In Mumbai, preference for traditional stores is more (possibly due to a large middle class population) while in Bangalore, preference for branded stores is greater (possibly due to the young IT population). Possibly for similar reasons, impulsive buying seemed higher in Bangalore than Mumbai.
i) Majority of purchases were planned purchases in both cities.
j) The lower income group also invests in gold, though in small amounts. Also, the frequency of taking loans from local money lender against their gold jewellery is very high in this income group.

Illustrative graphs are presented in Annex IV.

4. *Insights from Tanishq and Karigar Park visit*

During this study two visits were undertaken (Tanishq and Karigar Park) in order to understand actual gold processing activities and supply-chain flow. It helped to understand gold related standards and regulations concerning productivity in the industry as well as certain aspects of life-style management of the workers in the market. Summary of the findings are-

a) Standard machine-made jewelleries are manufacture at high volume.
b) Jewellery items like rings, pendants, coins etc. are trend and fashionable in nature.
c) Machine casting is done to produce gold jewelleries in house. Based on the types of finished product, the whole process is categorized into two major divisions inside the workshop. Gem-studded Jewelleries:
    i. High valued gems – diamond, topaz, emerald and other precious stones are studded on the gold jewelleries.
    ii. Plain Jewelleries: Standard fashionable gold jewelleries are made purely out of gold.

5. *Insights from Industry*

a) Experience shared in the gold business-
   Earlier gold was viewed as an investment opportunity, not as a commodity. To meet any financial crisis, these investments were being made. People had an affinity to invest in gold, land and other assets due to non-availability of financial instruments. Due to economic development, many investment opportunities like banks and other financial institutions have an array of instruments competing with gold as an investment product.
b) Recycling of Old Household Gold-
   Indian customers do not prefer to recycle their household gold. Old gold recycling comprises of 25 percent or less of the business of big wholesalers and rest 75 percent is contributed by direct sales of jewelleries.
c) Problems related to temple gold recycling-
    i. Non availability of strict legal support mechanism in India did not provide enough assurance to the temple trustees regarding the proper valuation of gold. Hence the reluctance to recycle gold by the temples.
    ii. Heritage loss related to cultural belief of the devotees and perception of gold being a valuable asset.
d) Challenges in the path of Hallmarking mandate
    i. High set up cost of advanced machineries associated with hallmarking process that is mostly unavailable in rural areas.
    ii. Lack of consumer awareness.

Section VI: Use of Commercial Banks to Monetize Gold – A Suggestion

Viability of gold as a high quality liquid asset

Gold has been one element whose treatment/classification/categorization as a commodity has invited substantial attention and debate. While on one hand, gold has several characteristics of a precious metal commodity class such as recyclability, low need for specialized transportation logistics and long shelf live, yet on the other hand it also behaves very similar to a foreign exchange asset (a financial asset) - illustrating it is used as central bank reserve asset and has volatility levels close to currencies, etc.

The performance of gold during 2005-2014 in comparison with the performance of other asset classes during the same period is given in **Table 3**:

Table 3: Litmus Test Outcomes for Gold in India

Litmus Test Parameters	Gold's Evaluation
"Low Risk"	*Pass:* Zero Credit Risk and Strong Inflation Hedge
"Low Volatility"	*Pass with caveats:* Less volatility than most risky assets except bonds
"Low Correlation with risky assets"	*Pass:* Demonstrates low correlation with Sensex, 10yr Govt. Bond and Silver.
"Active and Vibrant Secondary Market"	*Fail:* Currently, India lacks a vibrant gold trading market
"Flight to Quality status"	*Pass:* Enjoys "Safe Haven" status

Source: World Gold Council (2012).

Table 3 illustrates that including gold in the portfolio of banks could enhance the commercial bank Liquidity Coverage Ratio (LCR) buffer by improving the risk-reward profile of the portfolio. However, there are a few caveats that need to be kept in mind and addressed before inclusion of gold in the LCR portfolio can be considered.

Firstly, though gold is less volatile than the most risky assets except government bonds, yet the volatility is quite significant and in absence of an active gold secondary market, the banks may face significant mark-to-market losses. Secondly, though gold is currently an eligible asset under SLR investments, yet commercial bank holdings of gold are nearly zero. Thirdly, India doesn't produce gold, though it is the second largest consumer of the metal. Thus, without monetizing the 21,000 tonne of gold that is estimated to be privately held by households, it is impossible to create an active gold market in India.

The three-prong strategy to develop a resilient microstructure for gold markets in India could include addressing the need to monetize gold following the Turkey model; Redefining the role of banks in monetizing gold which would help in development of active secondary market; and innovating gold product offerings to attract market participants. The their strategies in detail are as follows-

Monetization Architecture

The objective is to develop a microstructure for monetizing gold wherein the consumers, who are currently holding about 21,000 tonnes of gold, are incentivized to deploy their gold holdings into the financial system, and more importantly, the banks are incentivized to actively seek such deposits.

Learning's for India from the Turkish Experience

While the Indian economy is facing issues similar to Turkey in terms of high share of household savings in non-financial assets and widening CAD, directly replicating the Turkey model may not work for India. India needs to consider the following issues:

a) *Un-hallmarked Jewellery* **–** Majority of the gold savings in India are in the form of traditional jewellery which is not hallmarked. This raises the question of assessing the purity and weight of gold for any financial transaction. Melting gold is the only way to assess its purity. However Indian consumers have a psychological association with their jewellery and thus melting is not an option.

Turkey has been successful primarily due to two reasons – First, gold is imported into the country only through the Istanbul Gold Exchange and hence regulated. Second, gold is primarily purchased in the form of coins and bullion hallmarked by the Turkish Refinery thus providing assurance of quality and weight. Additionally, banks in Turkey have also tied up with experts and jewellery houses for quick assaying of gold.

b) *Incentives to bring in unaccounted gold savings* **–**In India, majority of gold savings lie outside the financial system. Gold in the form of jewellery is the easiest way to pass on inheritance without paying taxes. Thus, in order to bring this gold back into the economy, the government will have to waive taxes and exonerate those who bring in unaccounted gold. In the absence of such a mechanism, consumers will not come forward to part with their savings due to fear of additional taxes.

Devising a Gold Monetization Micro-Structure in India

A micro-structure is proposed for managing and monetizing of gold holdings in India. The different aspects of this structure that can be considered are explained below:

1. *Creation of Gold Corporation of India (GCI)*

Monitoring imports and single point of contact for the incoming/outgoing gold. The GCI can be setup at national level having complete authority over gold imports and quality. MMTC, STC and other authorized agencies will also be members of the GCI. Imports could be channelized through bonded warehouses.[19]

a) Including Jewellers as an integral part of the micro-structure **-** In the proposed architecture, registered jewellers will act as collection points to handle purchase of gold. If the procured gold is not hallmarked it will be sent to either the hallmarking agency or its affiliate regional branch for quality check and value assessment. Once the value has been assessed, GCI will procure the item and either payback the retailer the due sum or add that gold to the retailers gold deposit account. If the retailer chooses not to utilize the gold, then GCI will deposit the gold in favour of the concerned commercial bank with whom the retailer is registered. At this point, the commercial bank will transfer an amount equivalent to the gold holding plus a margin to pay for the services of the retailer.

b) Enhancing the role of Banks in the monetization process **-** Recycling of gold through banks can be enhanced through products like gold deposits, gold loans, etc. These products will also allow banks to hedge their gold exposure and engage in effective risk management.

2. *Developing an Active Secondary Market for Gold*

A key reason why the previous efforts by the RBI to monetize gold have failed is the inability to foster a vibrant and active secondary market in gold trading. In order to ensure the proper functioning of the

[19] 80:20 rule for gold imports is actuated through custom bonded warehouses.

aforementioned micro-structure, it is important to incentivize the creation of a two-way secondary market. In this regards, the following developments are of great key importance:

a) Incentivize Banks to Hold Gold as Part of Their Investment Portfolio by Allowing Gold as Part of CRR **–** This is necessary to ensure that banks actively seek gold deposits and thereby mobilize more gold savings. One key suggestion in this regards is to allow banks to hold gold as part of CRR. This will allow the banks to free up more of their cash deposits and extend more credit.

b) Role of RBI as back-stopping facility **–** Similar to the existing repo markets, RBI will play the counter-party to commercial banks and hence provide the much needed liquidity to the gold market.

3.Incentivizing consumers to park gold with banks/jewellers

In India gold savings have two primary concerns that will complement the aforementioned architecture.

a) Voluntary Disclosure Schemes**-** Given that majority of gold savings in India are unaccounted, for any such mechanism to work would require that the source of gold need not be specified.

b) Jewellery Scheme**-** in India one third of the gold savings is in the form of bullion and hence that component should not be affected. However, it is imperative that banks in collaboration with the jewellers come up with a scheme whereby the value-lost in melting jewellery is compensated by selling a "similar value-added" jewellery at maturity. This would incentivize both the consumers and the jewellers, and help mobilize more gold savings, be it in bullion form or jewellery form.

Salient Features of the Proposed Monetization Micro-Structure

The architecture has been designed on three fundamental principles required to setup a free market:

a)*Regulated Imports and Quality Assurance:* The benefits of this strategy are two-folds – First, all gold imports will be directed through a single channel ensuring better purchase management and regulation. Secondly, this organization will ensure that all gold which enters the economy is of particular standard and quality. Assurance of quality is essential to develop a fluid market for gold.

b) *Overhead costs management***:** The GCI will also act as the nodal body to provide storage and safe-keeping facilities for the imported gold. As moving gold physically is not required unless transacting with jewellers, provision of dematerialized gold trading accounts to the member commercial banks will ensure easier transactions and also reduce bank overhead as overheads of managing physical gold have been a major issue for banks in the past.

c) *Addresses liquidity concerns:* Creation of the repo market with the RBI at the centre will facilitate banks to seamlessly buy and sell gold within the banking network. This will allow banks to manage short term gold liquidity. Such a system will also incentivize banks to hold gold given a readily liquid market.

d) *Addresses volatility concerns:* Hedging and risk management instruments will allow banks holding gold as part of the CRR to hedge their portfolio.

Section VIII: Conclusion and Policy Recommendation

Based on findings, in India, rising gold prices have not adversely impacted the demand for gold. While higher income groups can diversify their investment portfolio in accordance with the risk-return trade off, the weaker sections of the society depend more on gold to hedge against inflation. The jewellery bought from savings is generally used during emergencies. The segment of the population facing borrowing constraints have incentives to purchase more gold jewellery during their prosperity (hence rising gold imports) to use as a collateral during distress.

There is need for a gold policy independent of CAD, to be in place. The regulatory landscape has been quite reactive in nature to the CAD problem. The sudden change from a relaxed this, however, is unhealthy for the industry owing to the fact that imports are getting routed illegally and the industry still suffers from lack of transparency. There is an imperative need for a medium-term (next 2-3 years) roadmap of regulations post deliberation and consultation from all stakeholders in the value chain.

A necessary pre-condition for reducing the excessive gold is to ensure low inflationary environment and macroeconomic stability. Absence of any close substitute to gold as an investment asset and the high liquidity that gold can offer are two major reasons why gold has become a much preferred asset for the Indian consumer.

Primary research suggests that products analogous to Inflation Indexed Bonds could be considered as alternatives. Products that have already been suggested in existing literature such as modified gold deposit scheme, gold accumulation plan and gold linked account are good alternatives to monetize gold, but evidence from similar, schemes was not successful in garnering customer trust. Therefore, following suggestions to ensure wide scale acceptance of the schemes are made - Standardised purity verification process by a government certified agency; simplified procedure for enrolment; facility to view the gold holding statement online – internet banking; flexibility to withdraw the deposit as gold or cash, on demand; lower the minimum cap on the deposit (to make the scheme more socially inclusive and to encourage people who are sceptical to also invest in the scheme).

A few recommendations are -

1. **Stabilising Gold Market**

   The government should design policies to ensure a stable and sustainable gold market. This can fructify only when the gold rates in India follow a stable index rate. Frequent fluctuations in policy have disrupted the business significantly and created difficulties for the small scale retailers in general. Rather than curbing the demand for gold through import duties, the government could consider changes in gold policy and focus on implementing better standards and regulations which would improve the governance issue in the market.

2. **Ensuring standardisation and quality assurance for gold jewelleries**

   The government should encourage and take steps towards ensuring quality assurance and standardization of gold products across the entire industry. Through better hallmarking guidelines, the standardisation in terms of quality assurance can be implemented across the industries. Hallmarking must be mandated in the organised retail sector with strict rules, regulations and policy checks. But the challenges mainly lie in the unorganised sector where there are many barriers which prevent the government from implementing these regulations. Hence, instead of imposing strict guidelines immediately, the government should invest in awareness programs and campaigns to spread the essence of hallmarking across the retailers.

3. **Better policy implementation to ensure recycling of Temple Gold**

   A well-defined code of law along with associated regulations should be enforced to win the trust of temple boards for monetising temple-gold back into the economy. Enforcement of law should also take care of better accountability factor once the gold is moved out of the temple trust.

4. **Investment in infrastructure and human resource development**

   Government should plan for higher investment in infrastructure facilities for training centres and gold workshops. Focus should also be on the training and education of the gold artisans of the overall industry. Beneficial schemes for up-liftment of the living standards of the artisans should be implemented in order to encourage more employment in this growing sector. Government should also devote some of their efforts in improving the conditions of the artisans in the unorganised sector, who mostly work in dismal environment.

5. **Ensuring effective Labour law for the working class**

   Labour laws to improve the working standards and conditions of the artisans in the unorganised sector should be considered. Insurance and health benefit schemes should be extended to both organized and unorganized sectors to improve quality of life of the working class. It should be ensured that each and every artisan in the Karigar sector is covered under some insurance scheme.

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Annexure I

RBI Notifications

Date	Notification Applicability	Key Issue	Circular Details
Pre 2012			
31-12-1998	Nominated agencies authorized to import Gold/ Silver/ Platinum	Gold Loan	Permitted to grant gold (metal) loans as per Export Import Policy 1997-2002 and the Hand Book of Procedures of the Exim Policy subject to conditions. The exporter, who has obtained the gold, has to complete the exports within a maximum period of 120 days from the date of release of gold on loan basis. The period of such loan shall therefore not exceed 120 days. The loans should be given only to jewellery exporters, and other conditions
05-10-1999	Scheduled Commercial Banks (without RRBs)	Gold Deposit Scheme – CRR exemption	Banks participating in the Gold Deposit Scheme exempted from maintenance of average Cash Reserve Ratio (CRR) on their liabilities under gold deposits mobilized in India. A complete guidelines framework for the operation of the scheme is issued
04-04-2001	All banks authorized to import Gold/ Silver/ Platinum	Sale of Gold/ Silver/ Platinum	Gold to be released only against full realization of value or proceeds of the instruments. With respect to gold sold on unfixed basis, 100 percent margin in cash for the provisional value of gold and a suitable additional margin to take care of likely price fluctuations should be collected. When gold is sold on unfixed basis, the uniform practice of settling the transaction within 5 days should be followed.
26-10-2002	All Scheduled Banks authorized to import Gold/ Silver/ Platinum	Sale of Gold/ Silver/ Platinum-Forward Contract	Authorized Banks permitted to enter into forward contracts with their constituents (exporters of gold products, jewellery manufactures, trading houses etc.) with respect to the underlying sale/ purchase and loan transactions in gold with them. The tenor of such contracts does not exceed six months
01-	All	Import of	Clarification that only these nominated agencies are permitted to

10-2003	Authorized Dealers in Foreign Exchange	gold against letter of authority issued by Nominated Authority	open Letters of Credit for import of gold under the Nominated Agency Scheme. Government's Nominated Agency Scheme for import of gold, MMTC/ HHEC, STC & PEC, designated as nominated agency by Government and banks permitted by RBI are authorized to import gold for supply to exporters with an export obligation imposed thereon
18-05-2004	All Scheduled Commercial Banks	Gold Card Scheme for exporters	All credit worthy exporters, including those in small and medium sectors with good track record, are eligible for the issue of gold card as per the criteria laid down by the individual banks. Banks specified the benefits they would be offering to the gold card holders
18-05-2004	All Commercial Banks	Export Credit Interest Rates for Gold Card Holders	In partial modification of the interest rates on post-shipment rupee export credit, the interest rate on post-shipment rupee export credit up to 90 days could be extended to exporters under the gold card Scheme announced by the RBI for a maximum period up to 365 days
09-07-2004	All Scheduled Commercial Banks – Authorized Dealers in Foreign Exchange	Import of Gold by EOUs, Units in SEZ/ EPZ, Nominated Agencies	Export Oriented Units (EOUs) under the EXIM policy 2002-07 can source gold through nominated agencies as well. ADs could therefore open Letters of Credit and allow remittances on behalf of EOUs, units in SEZs in the Gem & Jewellery sector and nominated agencies, for direct import of gold, subject to conditions
20-07-2004	All Commercial Banks	Gold Card Scheme for Exporters	Banks advised not to prescribe minimum annual turnover criterion for the eligibility of the Gold Card Scheme
29-07-2004	All Commercial Banks	Gold Card Scheme for Exporters	Banks which had not finalized their proposals with regard to Gold Card Scheme were requested to advise RBI about their 'Action Plan' for the introduction of the Gold Card Scheme latest by August 14, 2004
08-09-2004	All Scheduled Commercial Banks	Opening of LCs for Import/	With regard to opening of LCs for Import/Export of Gold and other commodities, scrutiny undertaken disclosed large scale opening of Letters of Credit (LCs) in the import for

	(excluding RRBs)	Export of Gold and other commodities	commodities other than gold as well. Banks were supposed to notify the systems put in place in the bank for ensuring the adoption of safeguards
18-02-2005	All Scheduled Commercial Banks – Authorized Dealers in Foreign Exchange	Import of Gold on Loan Basis – Tenor of Loan and Opening of Stand-by-Letter of Credit	Nominated agencies / approved banks could import gold on loan basis for lending to exporters of jewellery under this scheme. On the other hand EOUs and units in SEZ who are in the Gems and Jewellery sector could import gold on loan basis for manufacturing and export of jewellery on their own account only The maximum tenor of gold loan would be as per the Foreign Trade Policy 2004-2009, or as notified (240 days as of this notification) ADs may open Standby Letters of Credit (SBLC) for import of gold on loan basis, wherever required, as per FEDAI guidelines dated April 1, 2003. The tenor of the SBLC to be in line with the tenor of the gold loan ADs must maintain adequate documentation with them to uniquely link all imports with the SBLC issued for the import of gold on loan basis
04-03-2005	All Commercial Banks	Gold Card Scheme for Exporters	Clarification for 18th May, 2004 notification that the scheme may not be applicable to those exporters who are blacklisted by ECGC or included in RBI's defaulter's list/ caution list or making losses for the past three years or having overdue export bills in excess of 10 percent of the previous year's turnover
05-09-2005	All Scheduled Commercial Banks (excluding RRBs)	Gold (Metal) Loan	Nominated banks to import gold as per extant instructions allowed extending Gold (Metal) Loans to domestic jewellery manufacturers, who are not exporters of jewellery, subject to various conditions. The Gold Loans extended to exporters of jewellery to be 25 percent of the ceiling
02-11-2005	All Scheduled Commercial Banks	Advances against Gold Ornaments	Banks advised to consider granting advances against jewellery in view of the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon

	(excluding RRBs)	and Jewellery	
27-02-2006	All Regional Rural Banks	Advances against Gold Ornaments & Jewellery	Banks advised to consider granting advances against jewellery in view of the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon
02-03-2006	Primary (Urban) Co-operative Banks	Advances against Gold Ornaments & Jewellery	Banks advised to consider granting advances against jewellery in view of the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon
09-03-2006	All State and District Central Co-operative Banks	Advances against Gold Ornaments & Jewellery	Banks advised to consider granting advances against jewellery in view of the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon
03-04-2007	All Scheduled Commercial Banks (excluding RRBs)	Gold Metal Loan – Tenor	Nominated banks themselves to decide the tenor of the Gold (Metal) Loans - which they are permitted to extend to domestic jewellery manufacturers, who are not exporters of jewellery - provided the tenor does not exceed 180 days (earlier it was 90 days)
30-04-2007	Primary (Urban) Co-operative Banks	Loans against Gold and Silver Ornaments-Reduction of Risk Weight	The risk weight on loans up to Rs. 1 lakh against gold and silver ornaments to 50 percent from the existing level of 125 percent (Earlier it was raised from 100 percent to 125 percent)
08-05-2007	All Banks authorized to import Gold/ Silver	Import of Gold Coin – Tie-up arrangement	Nominated banks advised not to enter into any tie up arrangements for retailing of gold/gold coins with any other entity including non-banking financial companies/co-operative banks/non-nominated banks
26-11-2007	Primary (Urban) Co-operative	Gold Loan payment	Bullet repayment of gold loans up to Rs. 1 lakh permitted as an additional option. The amount of gold loan sanctioned should not exceed Rs. 1 lakh at any point of time, tenor not to exceed

	Banks		12 months from the date of sanction. Interest to be charged to the account at monthly rates but will become due for payment along with principal only at the end of 12 months from the date of sanction. The account would also be classified as NPA (sub-standard category) even before the due date of repayment, if the prescribed margin is not maintained
10-11-2008	Primary (Urban) Co-operative Banks	Advances against pledge of Gold/ Silver Ornaments	Banks advised to observe safeguards with regard to ownership, appraiser, valuation report, record of security, custody of ornaments, period of advance, margin maintained, return of ornaments, part release for part payment of loan, delivery to third parties, default, re-pledge ornaments, insurance, verification
07-09-2009	All Scheduled Commercial Banks (excluding RRBs)	Gold Card Scheme for Exporters	The requirement of overdue export bills not exceeding 10 percent of the previous year's export turnover dispensed with for one year i.e. from April 1, 2009 to March 31, 2010 (in contrast to May 2004 notification)
05-03-2010	All State and District Central Co-operative Banks	Repayment of Gold Loan	Similar to 26th November, 2007 notification, except for applicability
22-09-2010	All Regional Rural Banks	Repayment of Gold Loan	Similar to 26th November, 2007 notification, except for applicability
02-02-2011	All Scheduled Commercial Banks (excluding RRBs)	Classification of loans against gold jewellery	Non eligibility for classification under agriculture sector Loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, and investments made by banks in securitized assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/ assignment of gold loan portfolio from NBFCs
2012 onwards			

27-02-2012	All Category I Authorized Dealer Banks	Import of Gold on Loan Basis – Tenor of Loan and Opening of Stand-by-Letter of Credit	Banks to comply that: the maximum period of gold loan shall be as per the Foreign Trade Policy 2009-14, i.e., 90 days for manufacture and export and 180 days for fixing price and repayment {instead of (60 + 180) days earlier} or as notified, and the tenor of SBLC, for import of gold on loan basis, where ever required, should also be in line with the tenor of gold loan
21-03-2012	All NBFCs	Lending against security of Single Product – Gold Jewellery	All NBFCs to (i) maintain a Loan-to-Value (LTV) ratio not exceeding 60 percent for loans granted against the collateral of gold jewellery and (ii) disclose in their balance sheet the percentage of such loans to their total assets. NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of financial assets) to maintain a minimum Tier l capital of 12 percent by April 01, 2014. NBFCs should not grant any advance against bullion / primary gold and gold coins
03-04-2012	All Category I Authorized Dealer Banks	Data on import of Gold – Statements and Modification	Banks required to submit to FED, CO, RBI a monthly statement regarding the number of transactions and value in USD million and Rupees in crores of gold imported by (i) Export Oriented Units (EOUs), (ii) Units in SEZ/EPZ, and (iii) Nominated Agencies/Banks. Other details issued for reporting methods and periodical filing
18-05-2012	All Scheduled Commercial Banks (excluding RRBs)	Bank finance to NBFCs mainly engaged in lending against gold	Banks to reduce their regulatory exposure ceiling on a single NBFC, having gold loans to the extent of 50 percent or more of its total financial assets, from the existing 10 percent to 7.5 percent of banks' capital funds (5 percent relaxation for infrastructure lending). Banks to have an internal sub-limit within the total internal limit for all types of NBFCs
24-09-	All Category I Authorized	FEMA 1999 – Import of	Banks permitted to approve suppliers' and buyers' credit (trade credit) including the usance period of Letters of Credit for

2012	Dealer Banks	gold in any form including jewellery	import of rough, cut and polished diamonds, for a period not exceeding 90 days, from the date of shipment
19-11-2012	All Scheduled Commercial Banks (excluding RRBs)	Bank finance for purchase of gold	Banks not permitted to finance purchase of gold in any form other than working capital finance (Review of Monetary Policy Oct 2012). No advances to be granted by banks for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds. However, banks can provide finance for genuine working capital requirements of jewellers
05-12-2012	All Regional Rural Banks	Bank finance for purchase of gold	Similar to 19th November, 2012 notification, except for applicability
06-02-2013	All Primay (Urban) Co-operative Banks	Bank finance for purchase of gold	Banks not to grant any advance for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds. Also clarified that the purpose of the loans and/or the loan amount sanctioned are the criteria for classification as priority sector advances and not the security for the loan
07-02-2013	All State and District Central Co-operative Banks	Bank finance for purchase of gold	Similar to 19th November, 2012 notification, except for applicability
14-02-2013	All Scheduled Commercial Banks authorized to deal in Gold	Gold Deposit Scheme	Gold Deposit Scheme have been modified as follows: Banks either issue a passbook/statement of account or a certificate/bond to the depositors for deposit of gold, which will be transferable by endorsement and delivery. Now it would include final receipt in dematerialized form as well Fire assay/ destructive assay done away with, to ascertain gold

			content/ caratage in jewellery by a non-destructive technique such as X-Ray/carat meter followed by a full-proof method like fire assay Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations also allowed to invest in the scheme Authorized banks not required to obtain prior approval of RBI for introducing the scheme, except for informing
13-05-2013	Scheduled Commercial Banks – Authorized Dealers in Foreign Exchange	Import of Gold by Nominated Agencies	Restricted the import of gold on consignment basis by banks only to meet the genuine needs of exporters of gold jewellery. (Earlier bulk of the gold imported by nominated banks was on consignment basis whereby nominated banks did not have to fund the stocks)
27-05-2013	NBFCs	NBFCs finance for purchase of gold	NBFCs not to give advances purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds (earlier only bullion, primary gold and gold coins)
27-05-2013	All Scheduled Commercial Banks	Lending against Gold	While granting advance against the security of specially minted gold coins sold by banks, ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) should be within the Board approved limit
04-06-2013	Scheduled Commercial Banks – Ads in foreign exchange/ nominated agencies	Import of Gold by Nominated Banks / Agencies	W.r.t. May 2013 restrictions, any import of gold on consignment basis by nominated agencies and banks permissible only to meet needs of gold jewellery exporters (extension to nominated agencies/ premier/star trading houses) All Letters of Credit on 100 percent cash margin basis, all imports against Documents against Payments basis (against acceptance disallowed)

06-06-2013	State and Central Co-operative banks	Lending against Gold	Similar to 27th May, 2013 notification for Scheduled Commercial Banks, except for applicability
25-06-2013	Regional Rural banks	Lending against Gold	Similar to 27th May, 2013 notification for Scheduled Commercial Banks, except for applicability
27-06-2013	Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies	Import of Gold by Nominated Banks / Agencies	AD Category I Banks required to ensure that credit in any form or name is not enabled for import of any form of gold. Import of gold on loan basis may, however, continue to be allowed, i.e., import of gold against suppliers/buyers credit has to necessarily observe the discipline stipulated relating to cash margins and Documents against Payment (DP) basis
22-07-2013	Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies for import of gold	Import of Gold by Nominated Banks / Agencies/ Entities	Nominated banks/nominated agencies to ensure that at least one fifth of every lot of import of gold (in any form/purity including import of gold coins/dore) is exclusively made available for the purpose of export Required to retain 20 percent of the imported quantity in the customs bonded warehouses Permitted to undertake fresh imports of gold only after the exports have taken place to the extent of at least 75 percent of gold remaining in the customs bonded warehouse
14-08-2013	Category I AD Banks, Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies for import of gold	Import of Gold by Nominated Banks / Agencies/ Entities	Import of gold in form of coins and medallions prohibited Supply of gold in any form to the domestic users other than against full payment upfront shall not be permitted. 20/80 principle to be monitored by customs authorities port-wise; to be applicable for gold dore as well; gold dore import only against license from DGFT The nominated banks/agencies/refineries etc. to ensure that there is no front loading of imports, particularly in the first and second lots of imports. Imports exceeding more than two months of requirements of the exporters in a lot would be

			considered unusual Any authorization such as Advance Authorization/Duty Free Import Authorization (DFIA) to be utilized for import of gold meant for export purposes only. No diversion for domestic use shall be permitted Entities/units in the SEZ and EOUs, Premier and Star trading houses (irrespective of whether they are nominated agencies or not) are permitted to import gold exclusively for the purpose of exports only
16-09-2013	NBFCs (excluding PDs)	Lending against Security of single product – Gold Jewellery	Appropriate infrastructure for storage of gold ornaments to be ensured Prior approval of RBI for opening branches in excess of 1000 Gold jewellery accepted as collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days Keep record of the verification of the ownership of gold jewellery pledged Insist on a copy of the PAN Card for all transactions above Rs. 5 lakhs; High value loans of Rs. 1 lakh; disbursed only by cheque; Documentation across all branches must be standardized; NBFCs not to issue misleading advertisements
11-11-2013	Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies	Import of Gold by Nominated Banks / Agencies/ Entities	Exports towards fulfilment of obligation under AA/DFIA scheme shall not qualify as export for the purpose of 20/80 For any AA / DFIA issued prior to 14th August 2013 the condition of sequencing the imports prior to exports not to be insisted upon
30-12-2013	Scheduled Commercial Banks (without RRBs)	Non agriculture loans against gold ornaments/	Permitted bullet repayment of loans extended against pledge of gold ornaments and jewellery for other than agricultural purposes subject to guidelines

		jewellery	
31-12-2013	Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies	Import of Gold by Nominated Banks / Agencies/ Entities	Refineries allowed to import dore up to 15 percent of their gross average viable quantity based on their license entitlement in the first two months for making this available to the exporters on First in First out (FIFO) basis
08-01-2014	NBFCs (excluding PDs)	Lending against Security of single product- Gold Jewellery	Permitted LTV ratio from 60 percent (earlier) to 75 percent Status quo on NBFCs requests for changes to previous notifications
20-01-2014	Scheduled Commercial Banks (without RRBs)	Lending against Gold Jewellery	Similar to 8th January, 2014 notification, except for applicability
14-02-2014	Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies	Import of Gold/ Gold Dore by Nominated Banks / Agencies/ Entities - Clarifications	Imports made as part of the AA / DFIA scheme will be outside the purview of the 20/80 scheme. Such Imports will be accounted for separately and will not entitle the Nominated Agency/ Banks/ Entities for any further import Import of gold in the third lot onwards will be lesser of the two: (i) Five times the export for which proof has been submitted; or (ii) Quantity of gold permitted to a Nominated Agency in the first or second lot
02-04-2014	Scheduled Commercial Banks	Gold (Metal) Loans	Additional guidelines issued to stand-by LC/BG issuing bank and the GML providing banks
09-05-	Primary (Urban) Co-	Advance against	Permitted LTV ratio from 60 percent (earlier) to 75 percent Gold jewellery accepted as collateral will have to be valued at

2014	operative Bank	pledge of gold/ silver ornaments	the average of the closing price of 22 carat gold for the preceding 30 days
21-05-2014	Scheduled Commercial Banks – ADs in foreign exchange/ nominated agencies	Import of Gold by Nominated Banks / Agencies/ Entities	Star Trading Houses / Premier Trading Houses registered as nominated agencies by the DGFT allowed to import gold under 20/80 scheme subject to conditions: Get the required verification done by the Department of Customs for pre 20/80 rule import The first lot of gold under this scheme would be based on the highest monthly import during any of the last 24 months prior to the RBI's notification dated August 14, 2013, subject to maximum of 2000 Kgs Before import, they must submit the import plan, port-wise and quantity-wise, to the concerned Customs office Permitted the nominated banks to give Gold Metal Loans (GML) to domestic jewellery manufacturers out of the eligible domestic import quota of 80 percent to the extent of GML outstanding in their books as on March 31, 2013
01-07-2014	State and Central Co-operative Banks	Lending against Gold Jewellery	Permitted LTV ratio from 60 percent (earlier) to 75 percent
22-07-2014	Scheduled Commercial Banks (excluding Local Area Banks and Regional Rural Banks)	Loans against gold ornaments and jewellery for non-agricultural end uses	Loans extended against pledge of gold ornaments and jewellery, for other than agricultural purposes, where both interest and principal are due for payment at maturity of the loan subject to (additional/revised) conditions: Banks as per their ceiling may decide the quantum of loans against pledge of gold jewellery and ornaments for non-agricultural uses Banks may use the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission on a consistent manner
15-	Category I	Data on	Banks are required to submit a statement to RBI on import of

09-2014	Authorized Dealer banks	Import of Golf Statement – Submission under XBRL	gold on a monthly and half-yearly basis. The shift is from manual reporting to extensible Business Reporting Language (XBRL). Manual reporting shall be dispensed from October 2014
30-10-2014	Primary (Urban) Co-operative Bank	Gold Loan – Bullet Repayment – UCBS	Quantum of loan that can be granted, increased from Rs. 1 lakh to Rs. 2 lakh, subject to certain conditions
28-11-2014	Category I Authorized Dealer banks	Import of Gold (under 20:80 Scheme)	The scheme introduced vide notification dated 14th Aug, 2013 withdrawn, i.e., the 20:80 scheme is withdrawn

Source: RBI.

Annexure II

CBEC Notifications

Particulars (Import Item)	January 2012	March 2012	January 2013	June 2013	August 2013
Gold bars (other than tola bars) bearing manufacturer's or refiner's engraved serial number and weight expressed in metric units and gold coins having content not below 99.5 percent, imported by eligible passenger/ other than import of such goods through post, courier or baggage	2%	4%	6%	8%	10%
Gold in any form (other than those specified above) including liquid gold and tola bars	5%	10%	10%	10%	10%
Gold dore bar having gold content not exceeding 95 percent	1%	2%, 4%	6%	8%	10%
Gold ores and concentrates for use in gold manufacturing	2%	4%	6%	8%	10%
Silver, in any form including ornaments, but excluding ornaments studded with stones or pearls	6%	6%	6%	6%	10%
Platinum	2%	4%	6%	8%	10%

Source: Adapted from bullionbulletin.in.

Annexure III

1. Personal interviews with 15 retailers – divided across 3 different segments: retailers for affluent to higher middle income group, higher to lower middle income group, and small retailers on Bannerghatta Road, Bangalore.

2. 4 Focus group discussions: 3 targeting women in the age group of 25-40 years age group and one focus group targeting married men in the same age group.

3. 50 consumers were interviewed in person/ telephone at Mumbai/Delhi/Bangalore.

4. 20 people, in addition to personal interviews mentioned in item 3 above, participated in the social group platform - most participants were from Bangalore.

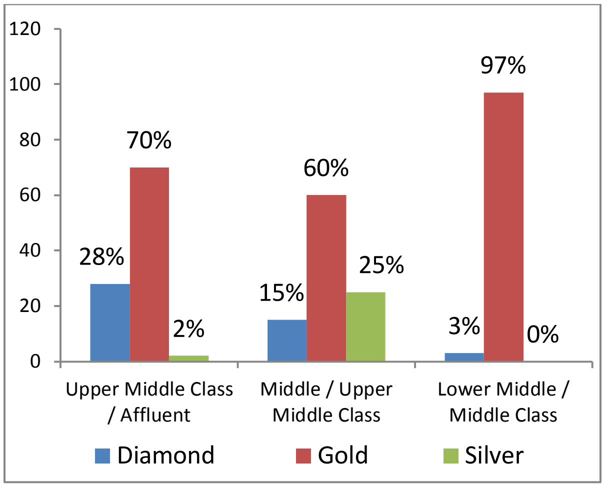
5. Visit to the Tanishq showroom on Dickenson road and Karigar Park in Hosur Karnataka, to understand the demand for different types of jewellery and the supply chain issues involved in the production of jewellery

6. Interaction with Shri G Srivastava, President, Foretell Business Solutions Pvt Ltd; Mr. Somasundaram (MD, India - World Gold Council); Mr. Rajesh Khosla (MD of MMTC-PAMP India Pvt. Ltd.); and Mr. Subramaniam (CFO, Tanishq)

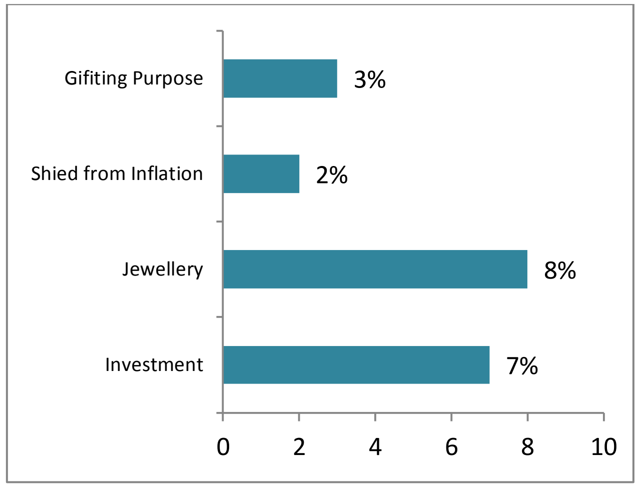
Annexure IV

Findings from Survey: Mumbai and Bangalore

Graph 1: Type of Gold That Customers are Buying

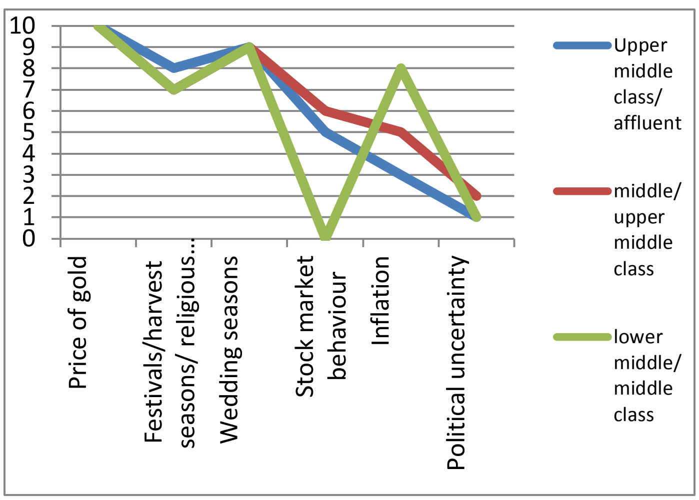


Graph 2: Intention for Purchase of Gold



Source: Collected from primary survey.

Graph 3: Factors Influencing Gold Sales



Source: Collected from primary survey.