Gold Schemes in India

Why in News

The government is planning to bring **changes in the existing gold deposit** and **gold metal loan schemes** to gradually **stop investors from excessive investment in physical gold.**

Key Points

- **Background:**
    - **Despite the government's emphasis on gold monetisation** over the last few years, **including issuing gold bonds** as part of its borrowing programmes, **investment in physical gold and purchases of jewellery** continues to outpace investment through financial channels.
- **Government's Plan:**
    - A **number of amendments** have been finalised in the existing revamped **Gold Deposit Scheme,** revamped **Gold Metal Loan Scheme** and **India Gold Coin Scheme.**
    - The existing scheme will be made far from **attractive from investment convenience and taxation aspects.**

Gold Schemes

- **Gold Monetisation Scheme (GMS):**
    - GMS, which **modified the then existing 'Gold Deposit Scheme' (GDS) and 'Gold Metal Loan Scheme (GML),** was launched in 2015 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.
- **Revamped Gold Deposit Scheme (R-GDS):**
    - **Deposit limit:** The minimum deposit at any one time shall be **raw gold** (bars, coins, jewellery excluding stones and other metals) **equivalent to 30 grams of gold. There is no maximum limit** for deposit under the scheme.
        - **Proposed Changes in the existing scheme:** The minimum requirement of **30 grams could be reduced to 1 gram.** Interest earnings and capital gains under the scheme **will continue to be exempt from capital gains tax, wealth tax and income tax.**
    - **Time period:**
        - The designated banks can accept gold deposits under the **Short Term** (1-3 years) Bank Deposit (STBD) as well as **medium** (5-7 years) and **long** (12-15 years) term government deposit schemes.
    - **Implementing agency:**
        - All **scheduled commercial banks** are allowed to implement this scheme and are

also free to fix interest rates.

- **Premature Withdrawal:**

    - Depositors can also make premature withdrawal of their deposits. It will be subject to a minimum lock-in period and penalty to be determined by individual banks.
- **Associated Issue:**

    - **Cultural issue:** For long, Indians have been closely associated with gold. Getting them to part with their gold, especially when it is in jewellery form, is very difficult.

        - Under the scheme, the depositor has to make clear in the beginning whether he/she wants to redeem it in cash or in gold. Even if it is in gold, the banks will return them in standardised gold bars, that is likely to meet with a lot of reluctance.
    - **Returns on gold:** Banks pay interests on the deposited gold. These interests, rather than encouraging individuals to part with the gold they already hold, **encourages more entities to import large quantities of gold and deposit them with Indian banks as the returns will be high.** If that happens, then the entire purpose of the Gold Monetisation Scheme is negated.

- **Revamped Gold Metal Loan Scheme (GML)**

    - It is a mechanism under which a **jewellery manufacturer borrows gold metal instead of rupees** and settles the GML with the sale proceeds obtained.
    - GML can be availed for **180 days in case of domestic jewellery manufacturers and for 270 days in case of exports.**
    - Amendments are also being planned in the GML scheme.
    - **Issue of Liquidity:** According to the Scheme, the banks can lend or sell gold to jewellers or other banks that are part of the Scheme.

        - However, a cash deposit can be given to anybody. But a gold deposit can only go to those looking specifically for gold.
        - Thus, there is a chance of banks finding it difficult to **match gold borrowers with gold depositors.**
        - That means there could be a situation where banks don't have enough interest accruing to them to cater to the interest they have to pay gold depositors.
- **Sovereign Gold Bond Scheme:**

    - **Aim:** It seeks to encourage people to buy gold bonds instead of actual gold.
    - **Issuer:** The Reserve Bank of India (RBI) issues these bonds on behalf of the central government.
    - **Features:**

        - The gold bonds will be denominated in multiples of gram (s) of gold with a basic unit of one gram while the **minimum investment limit is two grams.**
        - The **maximum subscription is 500 grams** per person per fiscal (April-March) and for joint holders, the limit will be applied on the first holder.
        - The gold bonds **will be sold only to** resident Indian entities including individuals, Hindu undivided families, trusts, universities, and charitable institutions.
        - The **bond tenure is eight years with exit option** beginning the fifth year onwards. They will also be **tradable.**
        - These bonds **can also be used as collateral for loans.**
    - **Associated Issue (Discourages rupee bond):** The price of gold **internationally is linked to the dollar.** The new gold bonds, if made attractive enough, could become a **substitute to rupee bonds.**

        - Indians will start putting their money into a type of dollar bond rather than rupee bonds. This might exert an upward pressure on interest rates.
- **The Gold Coin and Bullion Scheme:**

- The government **issues gold coins,** which have the Ashok Chakra engraved on them.

Source:IE