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An Economic analysis of 'Swana Bharat' project and its role in reducing trade deficit of the country

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Abstract:

During 2017-18, Reserve Bank of India has purchased 8.46 tonnes of gold. With this, the total gold deposit with RBI has increased to 566.23 tonne. When UPA government was in power during 2009, it has purchased 200 tonnes of gold from International Monetary Fund (IMF). After almost 9 years, this purchase is considered to be the next 'big purchase' by RBI. Remembering the importance of gold purchase, around two and half decades back, when Chandrashekar was the Prime Minister of the country, India's economic position was so poor, that, we borrowed from IMF by mortgaging country's gold reserves. Gold was air lifted to Britain for this purpose. After two and half decade, India stands at the 9th place, having largest gold reserves. Gold is a part of India's culture and tradition, which is emotionally attached with the Indians. India was called as 'Golden Sparrow' (Sonay ki Chidiya) in ancient time. India has the largest consumers of gold in the world. Despite all these facts, Indians buy gold in the form of jewellary and lock it up in the iron safe and bank lockers, which will not generate money and no body taking benefits from that pile of gold. For Indians, gold jewellaries serves twin purposes. Number one to flaunt their wealth and in turn their social status and second and the most important one, it offers a safe zone for investment, which can be effectively used to sail through financial crunch or crisis. Possessing good amount of gold, offers more back up to deal with financial turmoil. Therefore, the fascination for gold is time immemorial. But the country has a finite supply of gold and same is applicable to the world also. India has 501.83 million tonnes of gold ore reserves as of April 1, 2015, according to National Mineral Inventory data. Out of these, 17.22 million tonnes were placed under reserves category and the rest under remaining resources category. The largest reserves of gold ores are located in Bihar (44 per cent), followed by Rajasthan (25 per cent), Karnataka (21 per cent), West Bengal (3 per cent), Andhra Pradesh (3 per cent), Jharkhand (2 per cent). The remaining 2 per cent reserves are in Chhattisgarh, Madhya Pradesh, Kerala, Maharashtra and Tamil Nadu (India, 2019). India's Gold Production was reported at 1,500.00 kg in December 2018, much lesser than 6,200.00 kg's which was extracted during the year 2000 (Survey, 2019). There are multiple factors responsible for this drastic reduction in gold extraction. Escalating extraction cost, depleting reserves, obsolete technology adopted in gold mining, increased hoarding etc., contributes to this shortage. However, it has to rely on imports to meet around 80 per cent of its domestic demand for gold. Gold accounts for a preponderant share in the country's trade balance. This paper attempts to analyse ways and means to deal with shortage and how recently launched gold based financial schemes, which are grouped under Gold Monetisation Schemes, help the country in dealing with the Gold crunch.

Key words: Gold, Monetisation, Reserves, Financial Schemes, Trade Balance.

Introduction:

Government of India, in 2016, launched three gold based financial schemes under the banner of "Swarna Bharat" (Golden India) i.e. Gold Monetization Scheme, Sovereign Gold Bond Scheme and India Gold Coin Scheme. The Gold Monetization Scheme has been launched by abolishing the earlier Gold Deposit Scheme (GDS) and Gold Metal Loan (GML) scheme. The main purpose of these schemes is to invite the households and institutions to deposit their idle gold or jewellery into banks, without having to sell it, with progressive interest as well as to get the rebate in tax. The other benefit is that the gold will be deposited into the safe custody of banks, without having to cough up locker charges. Later this gold will be melted and assayed and lent to Jewellers. At the ends of the deposit term, the depositor gets back only the gold bars and not the original piece of jewellery. This is similar to a normal banking operation (like a savings bank account), but carried out in terms of gold instead of in rupee. Swarna Bharat schemes, allows the depositor of gold to earn tax free market determined interest income (denominated in gold but recoverable either in gold or in rupee [mandatorily in rupee if it is deposited for a medium or long term]) from the pure gold they deposit with banks in their "Gold Savings Accounts". Later this Gold will be melted and assayed and banks uses this to lend Jewellers as loans in their 'Metal Account'.

Gold can be submitted in any form (bullion, jewellery etc) but the amount deposited with the bank is calculated on the basis of the pure gold content of that deposit (after removing the weights of precious stones in jewellery etc.), which is verified through an accredited assayer. Both principal and interest to be paid to the depositors of gold, will be 'valued' in gold. For example if a customer deposits 100 gms of gold and gets 1 per cent interest, then, on maturity he has a credit of 101 gms. The customer will have the option of redemption either in cash or in gold, which will have to be exercised in the beginning itself (at the time of making the deposit). Only Resident Indians (Individuals, HUF, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies) can make deposits under the scheme, either individually or jointly. While 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 of 995 fineness, there is no maximum limit for deposit under the scheme. All Scheduled Commercial Banks (excluding RRBs) can accept these deposits.

Objectives of the Scheme:

The Gold Monetization Scheme (GMS) was announced in the Union Budget of 2015-16 with the following objectives:

- To mobilize the gold held by households, trusts and various institutions in India and put it into productive use.
- To provide a fillip to the gems and jewellery sector in the country by making gold available as raw material on loan from the banks.
- To be able to reduce reliance on import of gold over time to meet the domestic demand, as India is one of the largest consumers of gold with virtually no domestic production. (India imports as much as 800-1000 tonnes of gold each year)
- To make the existing schemes for mobilising Gold more effective and to broaden their ambit from merely mobilizing gold and to put this gold into a broad range of productive uses including strengthening the reserve requirements of the Central Bank.

Working Mechanism of the Scheme:

An individual can make deposit under this scheme in 3 categories:

- Short term which is 1 to 3 years that has a rollout in multiples of 1 year
- Medium term which is 5 to 7 years
- Long term that is 12 to 15 years.

Short term deposits will have interest that will be denominated in volume terms or in gold grams. Medium term and long term will have interest denominated in rupees and based on the value of the gold that was deposited. The banks will hold discretion in setting the interest rate for the short term deposits but the government will decide the interest rate for longer term deposits. The interest rate is not official but it could range anywhere between 2 to 3 percent per annum.

The banks will melt the gold and get the value from the BIS approved hallmark centres. The principal and interest payment to the customer will be valued in gold and the interest on the gold deposit will be decided by the bank. The gold purity will also be checked at the hallmark centres. If the customer is not agreeing to the machine test, then he or she can take back the jewellery. After taking the consent, the gold ornament will be sent for melting and the net weight will be calculated. If the customer is not satisfied with the value, he or she can take back the melted gold in the form of gold bars but a nominal fee will have to be paid to the centre. If the customer agree to the deposit, he or she will be given a certificate by the collection centre that certifies the amount and the purity of the gold that has been deposited. If the depositor was to redeem the Gold deposit, then he/she will be given an option to either get cash or gold for the short term deposits. The choice must be mentioned at the time of depositing the gold. The scheme is exempted from capital gain tax, wealth tax and interest tax.

The deposited gold will be utilized in the following ways:

- Under medium and long-term deposit, the Gold melted will be used for:
    - Auctioning
    - Replenishment of RBIs Gold Reserves
    - Making Coins
    - Lending to jewellers

- Under short-term deposit, the melted Gold will be used for
    - Making Coins
    - Lending to jewellers

The banks accepting such deposits may sell or lend the gold accepted under short term tenure to Metals and minerals trading corporation of India (MMTC) for minting India Gold Coins (IGC) and to jewellers or sell it to other designated banks participating in GMS. The gold deposited under medium and long term tenure will be auctioned by MMTC or any other agency authorised by the Central Government and the sale proceeds are credited to the Central Government's account with the Reserve Bank. The entities participating in the auction may include the Reserve Bank, MMTC, banks and any other entities notified by the Central Government. Banks may utilise the gold purchased in the auction for purposes indicated above.

Banks are advised by RBI to put in place a suitable risk management mechanism, including appropriate limits, to manage the risk arising from volatile gold price movements in respect of their net exposure to gold. For this purpose, they have been allowed to access the international exchanges, London Bullion Market Association or make use of over-the-counter contracts to hedge exposures to bullion prices subject to the guidelines issued by the Reserve Bank.

Complaints against banks regarding any discrepancy in issuance of receipts and deposit certificates, redemption of deposits, payment of interest etc. will be handled first through the bank's grievance redress process and then by the Reserve Bank's Banking Ombudsman. The risk of gold price changes will be borne by the Gold Reserve Fund that is being created. The difference between the current borrowing cost for the Government and the interest rate paid by the Government under the medium/long term deposit will be credited to the Gold Reserve Fund. The benefit to the Government is in terms of reduction in the cost of borrowing, which will be transferred to the Gold Reserve Fund.

Objectives of the study:

1. To understand the Swarna Bharat scheme and its objectives.
2. To analyse the process of its implementation and its economic impact
3. To suggest measures for effective implementation of the scheme.

Research Methodology:

Type of research: It is a descriptive Research

Data type: The report is prepared on the basis of secondary data. Hence it is a desk report. Information has been assimilated from website, reports published by government departments.

Scope of the study: The report is confined to understand the economic impact of Swarna Bharata Scheme launched by Government of India during 2016 and suggesting measures to effectively implement the programme, making it a special purpose report.

Economic Impact of Gold Monetisation Scheme:

India imports on average about 900 tons of gold valued around Rs.4.0 trillion each year, resulting in a trade deficit of 2.1% of nominal GDP. Out of the imported 900 tons of gold, about 300 tons cater to investment needs, which are viewed as non-productive. The balance 600 tons is consumed in jewellery form for domestic needs and exports. While gold is an asset that promotes household savings, generates employment for artisans and above all, competes against consumption imports, it remains a static asset in the portfolio of households, thus limiting its potential economic contribution. It is necessary to explore ways to increase domestic supply and drive export contribution of this segment. Private gold stock in India is estimated to be 25,000 tons which is increasing every year due to continuous import. Its current value is about Rs.110 trillion ($1.47 trillion), equivalent to 57.5% of nominal GDP. Out of this, usable jewellery might be much lower than 40% leaving surplus gold as 60% or more. It must be gainfully used for boosting the economy (GDP) through a financially viable scheme. India imported 661.4 tonnes gold worth $33 billion in 2013-14 and it is the biggest imported item after Crude Oil in our imported bill. Around 967 tonnes of gold was imported in 2014-15 and the import bill was $34.4 billion. As a result, due to increase in demand of gold during past two subsequent years, government invested more money to import gold to fulfill the requirement of Indians which will further affect the investment, growth and development of various sectors in Indian economy. In this context government always try to reduce the import bill and gold's smuggling. According to Directorate Revenue Intelligence (DRI) sources approximately 886 kg gold worth Rs. 234 crore was grab in first quarter of 2015-16 alone. Cutting down on imports of gold substantially can be a game changer for the economy.

Suggestions for effective implementation:

- The biggest tension that an individuals face in bringing their gold to a bank under gold monetisation scheme is the fear of investigation by tax authorities after subscription to the scheme. In many families in the country gold has been part of the family inheritance for generations. Therefore, awareness to be created amongst general public about the scheme.
- Also, in many instances gold is purchased from unorganised goldsmiths who do not provide ownership documents or a purchase trail.

- Under the current situation banks are not required to report any deposits in cash by their customers that are less than Rs 1 million. The same limit could be applied for any deposit of gold made into a gold monetisation scheme.
- The current minimum cap on gold deposits at 500 gm excludes many middle income households. The minimum cap on gold deposits can be reduced to 50 gm. For any deposit of gold below say 500 gm or Rs 1 million worth of gold, only identity and address proof should be required. After that know your customer (KYC) requirements could be enhanced to include permanent account number (PAN).
- It is important to stress that KYC requirements should be implemented so as to improve confidence in the system and to introduce transparency. Such requirements have the advantage that they make it difficult to trade in smuggled gold. The fact that any customer must already have a savings account with the bank and the metal account is an add-on facility will simplify KYC documentation.
- The taxation system is currently conducive for gold monetisation schemes and requires no change.
- Nomination facilities for such deposits in individual or joint names as per depository rules should be available. Deposits of gold should also be transferable as per depository rules.
- The returns being offered on gold deposit schemes have hitherto not been attractive. Banks are offering 0.75% per annum for three years, and 1% for four to five years with the interest calculated in gold currency and payable in equivalent rupees. It is possible to pay 2% to 3% annual grammage return that will make the scheme attractive.
- The period of deposits that banks currently offers, which is three to five years should be changed to one to seven years. The bank may also offer a loan facility to the gold metal depositor higher than the current 60% loan-to-value ratio, since the collateral is gold of verified purity.

Conclusion:

The mobilized gold will also supplement RBI's gold reserves and will help in reducing the government's borrowing cost. Domestic procurement and mobilization of Gold will cut down the cost of import, due to this, the trade deficit will be rectified automatically. Supplying of Gold to Jewellers will significantly contributes to the export trade as Indian gems and jewellery sector is a major contributor to India's exports. During the fiscal year of 2014-15, gems and jewellery constituted 12 per cent of India's total exports and the value of gold items alone was more than $13 billion. The scheme will help in mobilizing the large amount of gold lying as an idle asset with households, trusts and various institutions in India and will provide a fillip to the gems and jewellery sector. Over the course of time this is also expected to reduce the country's dependence on the import of gold.

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