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AHMEDABAD

INDIA
GOLD POLICY
CENTRE

2015-2020

ANNUAL REPORT
2019-2020

5th ANNUAL REPORT

April 2019 – March 2020

INDIA GOLD POLICY CENTRE

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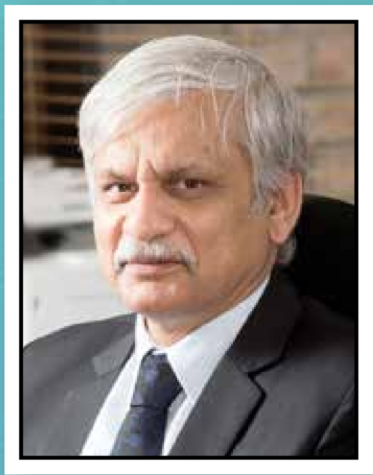
IGPC GOVERNING COMMITTEE



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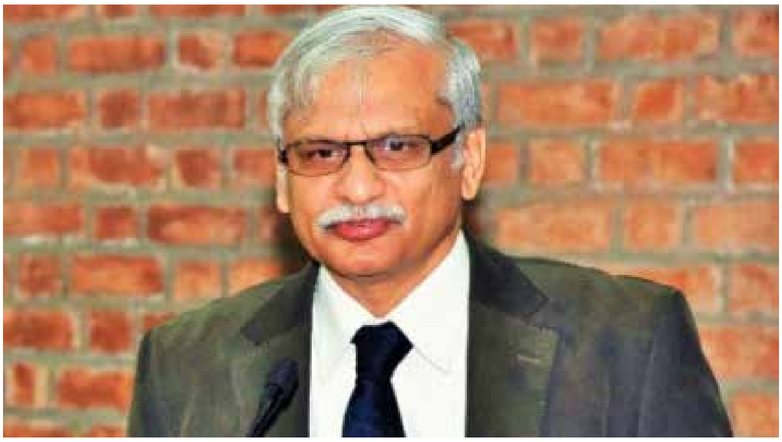
FROM THE DESK OF THE

Director, IIMA



Professor Errol D'Souza
Professor of Economics,
Director, IIMA

I am delighted to present the fifth Annual Report of the India Gold Policy Centre at IIMA. The journey these five years has been marked by contributions by the Centre to policy making, academia, and advancement of the industry. The annual report is not just a reflection of the work we have done in the last one year in academic research, industry white papers, and policy advocacy; it is also a vehicle for us to communicate the vision of the think-tank.

After investing the early years of the Centre on research in understanding an industry which is largely fragmented we came up with a comprehensive policy that identifies the issues and the possible solutions that enhance the productivity of the sector. IGPC's work on these are touched upon in the report.

A policy is as good as its implementation is an adage that the Centre has taken into cognisance while taking the role as an advisor to the government and whilst providing counsel to the industry.

Last year we noticed progress on the regulatory and market development side, such as making hallmarking mandatory effective January 2021, release of guidelines for India Good Delivery Gold, and announcement of International Bullion Exchange in GIFT City. From the advisory side, it gives a sense of satisfaction when recommendations are valued and implemented. These three developments in the last financial year are just the beginning and more such progressive policies are awaited. We are already seeing exchanges looking to commercialise the launch of India Good Delivery which is in line with our larger policy framework. The inclusion of gold in Multi Asset Allocation Funds in India was an important and timely move, keeping the interest of investors who are less diversified.

The Centre's research activity which is a blend of academia and industry relevance is making strides in having our work brought out in international publications. The acceptance of our work in top academic journals reaffirms the importance we give for innovation and original thinking. I look forward to more such publications in the future as we continue to work towards building a sustainable, transparent, and ethical ecosystem, with the increasing relevance of gold in the entire economy.

The role of gold during such an unprecedented economic crisis brings to relevance the writings by renowned late American economist John Exter, who is famous for the 'Inverted Pyramid' with gold at the base representing an asset with least risk and assets at higher levels in the pyramid being more risky. At the time he wrote third world debt was placed by him at the top of the pyramid. Today sovereign debt from high income countries such as Japan would find place in that position. Public debt is necessary when the economy is in a deflationary stage with commodity prices collapsing, and precautionary savings increasing. When the deflationary environment caused by rising Chinese exports and globalization ceases this surge in spending fuelled by the opening of the fiscal and monetary taps could well spill over into inflation that may be welcomed for its ability to erode the real burden of debt. It will be interesting to see how governments repay coronavirus debts – whether via a wealth tax and a crackdown on corporate tax havens or via raised indirect taxes and a reduction in subsidies or redistributive benefits.

If not for the crisis, an event to commend five years of IGPC was something I was looking forward to where various industry stakeholders and government officials could meet in person at IIMA. That said, we will wait for a bigger moment to raise a toast. Until then let me take this opportunity to personally thank all the stakeholders in the industry, the members of the governing council, faculties from IIMA working on various projects at IGPC, World Gold Council, various institutions IGPC has been working with in collaboration and the government for continued support in helping us deliver the best.

THE YEAR IN RETROSPECT...

Chairperson, IGPC

Prof. Arvind Sahay,
Chairperson, India Gold Policy Center at IIMA Professor of Marketing and International Business, International Economics.

IIMA Prof. MN Vora Chair in Marketing and Entrepreneurship | Chair, Marketing Area | Chair, NSE Center for Behavioral Science@ IIMA

Exec Ed Program Chair: 1. Pricing for Profit 2. Neuroscience in Marketing 3. Enhancing Sales Force Performance 4. Fintech

India Gold Policy Centre is now in its sixth year of it journey as the only think-tank in the world working exclusively on gold. Looking back at our five years' journey, the cooperation and support we have received from the industry and World Gold Council has been overwhelming. It was their support that has helped us understand various facets of the industry without which it would have been difficult to develop an approach that is bipartisan, progressive and keeping the nation's interest at the forefront. And now the IGPC also has a team that will, going forward, make it into the premier think tank of its kind that stands an independent research think tank that connects well with industry and government.

The social, economic and political sensitivity that gold carries in India is quite different from other countries making it difficult to just copy a model that is successful in other countries. Taking all of these into consideration we published a comprehensive policy paper in 2018 after about three years of research and consultation with government, industry and experts in India and globally. In 2019 we came with the implementation plan that detailed sequence of implementing the policy. In these years it is encouraging to note announcements related to financialisation of gold, spot exchange, moving gold from 'Free' category to 'Restricted' list, International Bullion Exchange and the most recent being consideration to bring reforms in mining.

As IGPC grows strength to strength our contributions are growing in the areas of academic research publications and white papers on the industry. Last year our theme was centred around how to grow businesses more responsible. In this context we initiated multiple projects; one was studying the working standards of artisans in jewellery manufacturing units, a second was understanding the financial disclosures by jewellery industry by going through nearly 200 firms in the jewellery trade, the third was to collaborate with a technology firm to assess the viability of a Blockchain enabled trading platform for banks, jewellers, bullion dealers and refiners. Additionally, we collaborated with the Organisation for Economic Cooperation and Development for helping create a framework for responsible sourcing program for Indian gold trade. These are but a sample of projects underway or completed which also include a couple of cases.

This year our theme is unleashing the new opportunities in the sector. In this context our research focus areas are creating a risk management framework for Bullion Banking in India, opportunities for refining business in India, implementation challenges in mandatory hallmarking and uncover the potential of digital gold market in India in context to Financialisation and GMS. These are in addition to our ongoing nationwide household survey of gold consumers. This is the first of the kind primary research on gold being conducted by creating a panel of respondents across the country, covering 25 states on a sample frame of two lakh households. To implement the Survey, we have on boarded People Research on India's Consumer Economy (PRICE) an expert in the area of consumer research. We are looking forward to the data published by end of this year should the Pandemic get under control.

The pandemic has reduced the effectiveness of conventional policy tools and with the only major policy choice that limits the increase in debt and increasing the share of fiscal deficit to GDP, gold can potentially be asset class at the forefront to increase the cash flow in the economy. The time ahead is going to be filled with new challenges as these are unchartered territories to operate a business. As we march together, our best wishes to friends and colleagues in industry, academia and government.

ABOUT

India Gold Policy Center (IGPC)

The India Gold Policy Center at the Indian Institute of Management Ahmedabad (IIMA) sponsored by World Gold Council is a center of excellence, conducting cutting edge applied research on the Gold Industry in India that provides insights and suggest ways the findings can be put into execution.

IGPC is sponsored by World Gold Council. It was set up as a result of a collaboration between the World Gold Council and the Indian Institute of Management, Ahmedabad.

Activities of Centre

- Carry out high quality research
- Produce an annual India gold policy report
- Disseminate research through a variety of channels including media outreach, participation in industry conferences, roundtable discussions and/or authored articles
- Engage with government and policy makers about the role of gold in the financial architecture and gem and jewellery industry.
- Develop business case studies on gold's role in the financial system and society
- Build relationships with other leading management institutions and global institutions on gold industry research, including WGC's other global research initiatives.

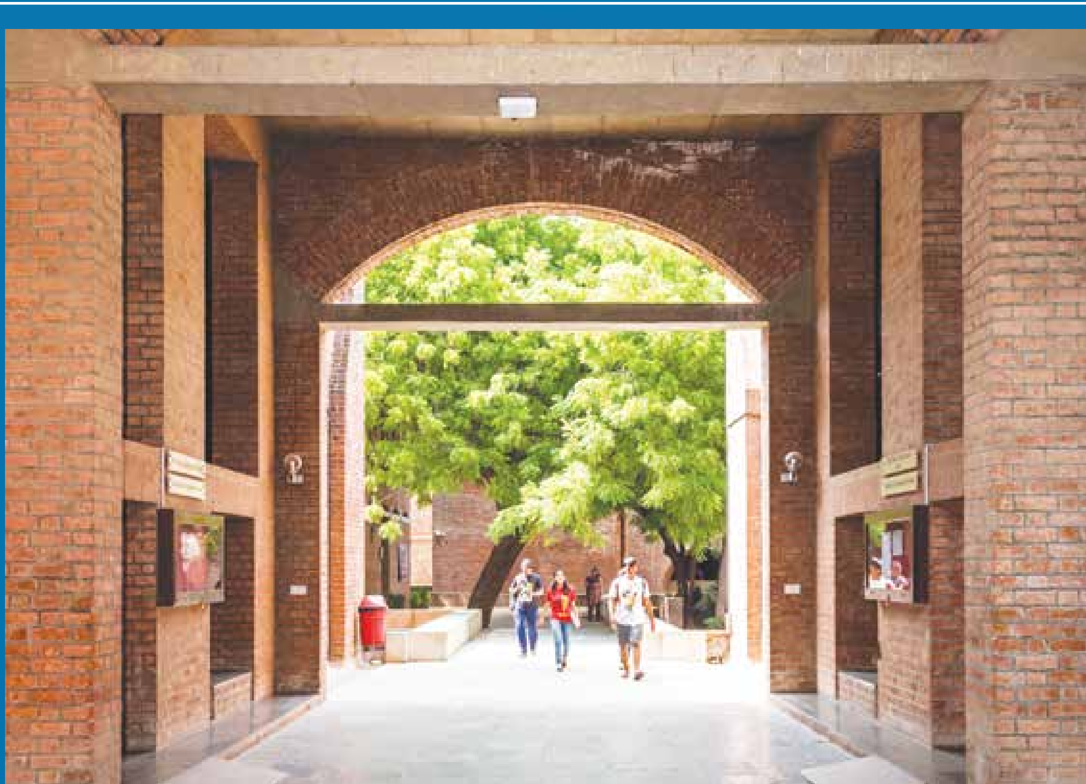
Themes of Research

The Center shall focus on multi-disciplinary, thematic, applied research in several key areas relating to the use of gold as a fungible financial asset in India. The themes of research undertaken by the Center shall be outlined by the Governing Body of the Center and shall illustratively include, but not be limited to, the following topics:

- Policy on gold industry in India and internationally, including policy frameworks and effective implementation of policies.
- Role of gold in the Indian and global economies; India's role in the global and regional gold markets; India's response to China emerging as a major player and price influencer in the gold market; and gold's role as an asset class in relation to the financial system, including households, banks, and financial companies.
- Consumption patterns and consumer behaviour across geographies and commitments and inflexion points based on cultural attachment of households to gold.

- ◊ Putting gold to work for the economy - developing the required framework and incentives to increase domestic supply of gold through recycling and other forms.
- ◊ Setting world class standards and creating a robust gold ecosystem in India.
- ◊ Desensitising the current account deficit from gold.
- ◊ Gold marketing, including demand analysis, branding opportunities, professional marketing, purchase triggers, and other socio-economic aspects.
- ◊ Employment in the gold industry; organized and unorganized parts of the industry; and the industry's evolution overtime.
- ◊ Identifying the institutional infrastructure underlying and needed to strengthen the India Gold industry, including a gold exchange. a gold bank. accredited refineries. vaulting facilities and hallmarking.

Contents



CHAPTER 1:

Gold Market - Demand and Supply

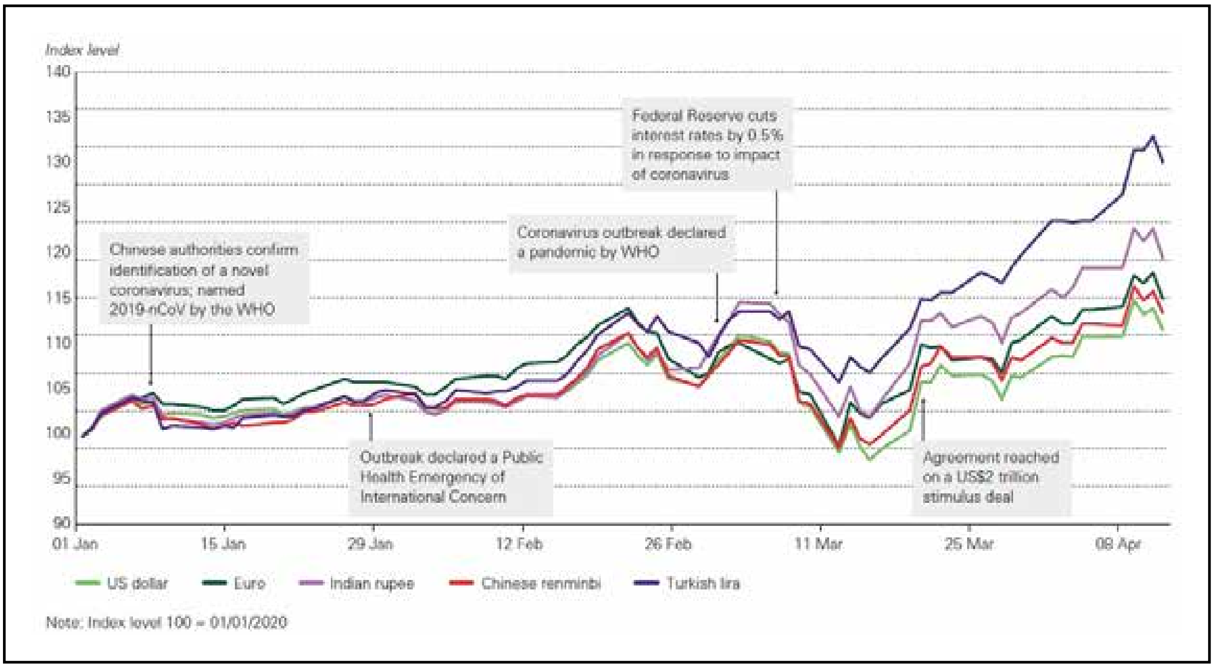
A. Introduction

The financial year 2019-20 may be viewed into two periods to understand the factors impacting gold demand. The pre-Covid 19 (April to November 2019) was dominated by US-China trade tariffs, increasing risk of recession, negative yields, unsustainable corporate and household debts. And as the virus started spreading from December 2019 it turned to be the last straw on otherwise a fragile global economy.

Prices in dollar terms gained by 24% in FY 2019-20 and closed at the highest since February 2013. In India the gains were 36% rising to new record high. Price has been holding firm since December 2019 by closing higher for six consecutive months. In comparison with top 13 major consuming countries price gains in India was the fourth highest, Russia, Turkey and Indonesia leading with 48%, 45% and 42% gains in their local prices.

The spread of virus becoming a pandemic was a turning point, and its economic effects began to unfold, investors scrambled for safe haven investments with Gold-backed ETFs rising to a new record high of 3,185 tonnes, these gains were offset by drop in demand in Asian countries.

Figure 1.1: Fears over global impact of coronavirus helped drive gold prices up



Source: World Gold Council (WGC) Gold Demand Trends Q12020

The relevance of international logistics, and vaulting came to more prominence with the pandemic and a resulting global lockdown. The result was the rise in spread between Comex and London spot to $60 in March 2020.

Table 1.1: Gold Demand Highlights (in tonnes)

	2018-19	2019-20		YoY % change
Gold Demand	4,667.1	4,770.3	▲	2.2
Jewelry[1]	2,291.2	1,934.2	▼	-15.6
Technology	332.9	320.1	▼	-3.9
Investment	1177.3	1514.0	▲	28.6
Total bar and coin	1,088.2	855.2	▼	-21.4
ETFs and similar products[2]	89.1	658.8	▲	639.3
Central Banks & other institutions[3]	728.4	636.2	▼	-12.7

Source: WGC, IGPC

Elsewhere, rising unemployment, drop in income and wages, rise in income uncertainity were all playing heavy on jewellery consumption, although the shops remained shut. Nevertheless, the high networth investors were frantically diversifying their portfolio by adding to gold positions.

Table 1.2: Gold supply Highlights (in tonnes)

Tonnes	2018-19	2019-20		YoY % change
Total Supply	4,667.1	4,770.3	▲	2.2
Mine production	3,524.2	3,458.5	▼	-1.9
Net producer hedging	-51.5	13.1	▲	-125.4
Recycled gold	1,194.4	1,298.7	▲	8.7

Source: WGC, IGPC

In line with government guidelines aimed at addressing the outbreak, several projects around the globe have reduced or halted operations, affecting total mining output in the last quarter and financial year. In FY2020, net hedging of the producer amounted to 13.1 tonnes. It was primarily due to options expiration and closure of existing hedging positions. Given the substantial de-hedging of 24.6 tonnes in the third quarter, the total hedging for the year 2020 was moderate. De-hedging failed to offset 49 tonnes of hedging in Q1 FY20 and in the other three quarters, when miners took advantage of higher gold prices to protect project financing and secure cash prepayments.

[1] For an explanation of jewelry fabrication, please see the Notes and definitions download: https://www.gold.org/goldhub/data/gold-supply-and-demand-statistics.

[2] For a listing of the Exchange Traded Funds and similar products, please see the Notes and definitions download: https://www.gold.org/goldhub/data/gold-supply-and-demand-statistics.

[3] Excluding any delta hedging of central bank options

B. Global Demand Trends

1) Investment Demand

Exchange Traded Fund

Inflows to gold-backed ETFs increased in Q2 and Q4 of FY 2020; coin investment jumped, offsetting weaker bar demand. Holdings of gold-backed ETFs had hit a historic peak of 3,185 tonnes by the end of the FY2020 by adding record whopping 658.8 tonnes of Gold during the year. The twin engines were ultra-low interest rates, a resulting dollar depreciation and ongoing global economic uncertainties weighed by pandemic.

Figure 1.2: Gold-backed ETFs attracted huge inflows, lifting global holdings to a record high

Source: WGC Gold Demand Trends Q1 2020

Monetary policy and geopolitics fueled the bulk of annual inflows, though price increases have contributed to momentum-driven inflows. North American funds saw the highest net growth in FY2020, contributing 307 tonnes as rising global uncertainties and the steepest Fed rate cuts in a decade contributed to the market uncertainty. In the first five months of calendar year 2020 total additions to gold ETFs globally has touched close to 660 tonnes.

Table 1.3: Physically-backed gold ETF AUM by region in tonnes

	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20		YoY change		YoY% change
North America	1,261.8	1,266.1	1,447.4	1,440.5	1,568.9	▲	307	▲	24
Europe	1,155.7	1,232.2	1,288.0	1,322.1	1,472.2	▲	316	▲	27
Asia	74.3	70.1	84.4	79.2	92.8	▲	18	▲	25
Other	34.3	33.8	41.5	45.0	50.9	▲	17	▲	49
Global Total	2,526.1	2,602.2	2,861.4	2,886.8	3,184.8	▲	659	▲	26

Source: WGC Gold Demand Trends Q1 2020

Bars and Coins

Figure 1.4: Western investment in gold coins offset weaker bar demand in Asia

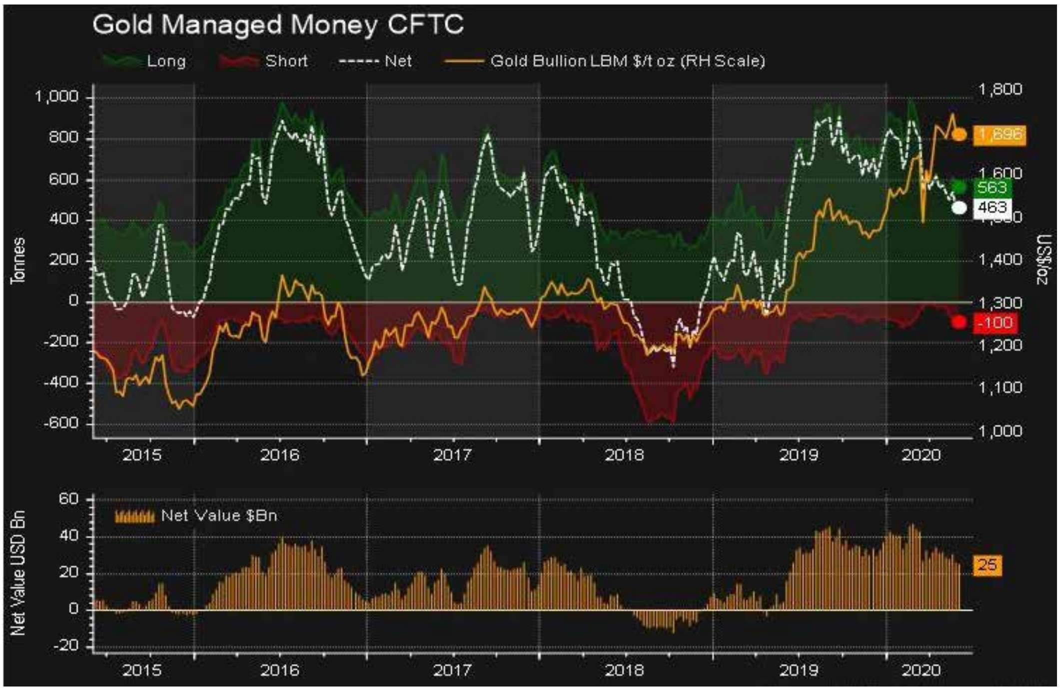
Source: WGC Gold Demand Trends Q1 2020

2) Speculative Demand

Commitment of Traders

The Commodity Futures Trading Commission (CFTC) releases a weekly Commitment of Traders (COT) report offering details on the positioning of speculative investors in the U.S. futures markets. The net long positions touched record high position in Q1-2020 which suggest very bullish sentiment in the Gold Market, the net positions have seen a decline since the peak.

Figure 1.5: Gold US CFTC Holdings

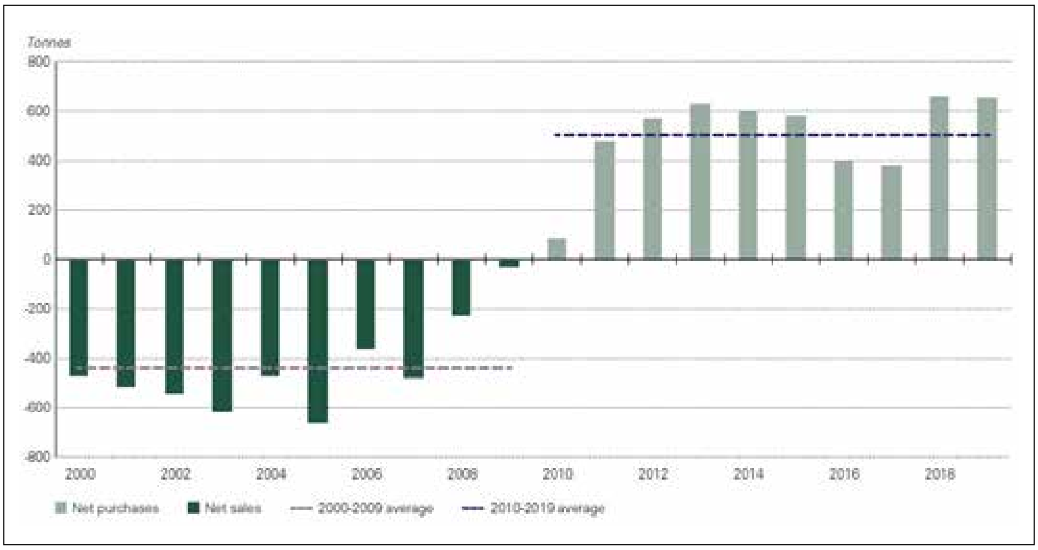


Source: US CFTC, Refinitiv, GFMS

3) Central Bank Demand

Financial Year 2019-20, Central Banks brought around 564.6 tonnes as demand was limited to emerging market central banks looking to improve and diversify their overall reserves. The second consecutive year of strong demand underline the importance of gold reserves in their reserve portfolio. To add is the repatriation of gold by central banks in last seven years to their home country.

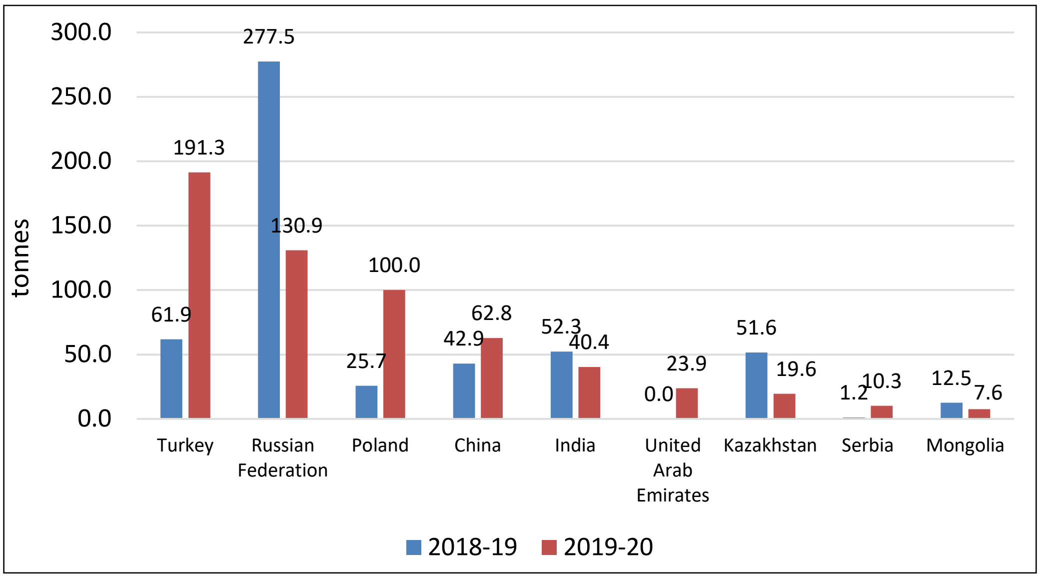
Figure 1.6: Central Bank net purchasers for tenth consecutive years



Source: World Gold Council

Turkey emerged as the biggest buyer in FY2019-20, with gold reserves rising by 191.3 tonnes. Russian gold reserves increased by a respectable 130.9 tonnes, although 53% lower than a year ago, partially because the central bank started providing discounted buying rates in May to allow domestic miners to sell more gold. Turkey, Poland, China and UAE added more than 2018-19 to their reserves.

Figure 1.7: Top 10 Central Bank Gold Buying in FY20



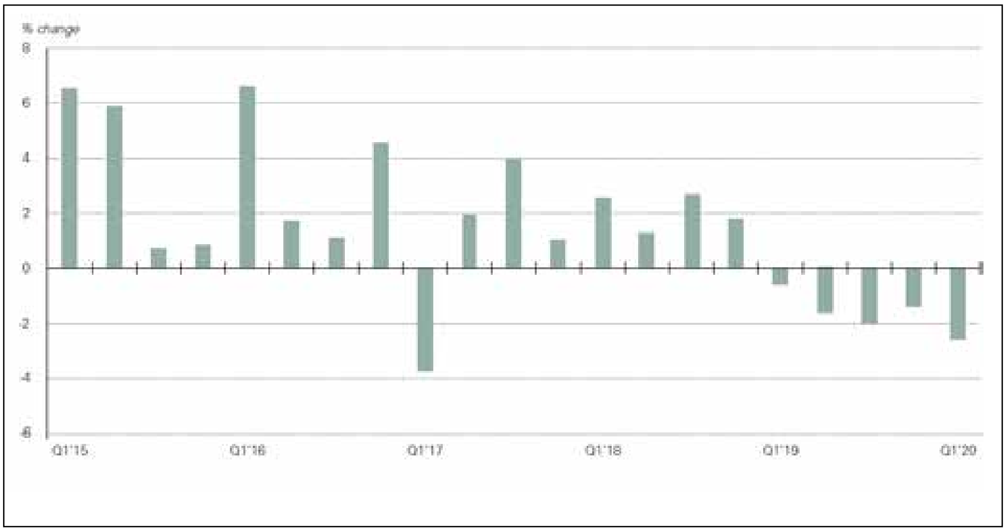
Source: WGC, IGPC

C. Global Supply Trends

Mine Production

Gold mine production totaled 3,463.7 tonnes in 2019, 1% lower than in 2018. This is the first annual decline in production since 2008. We have seen a sustained decline since 4Q 2018, furthering with the pandemic. For instance, in India the Hutti Gold Mines operation was halted almost the first time in 100 years following lockdown.

Figure 1.8: COVID-19 disrupted mine production, First YoY decline in mine production since 2008



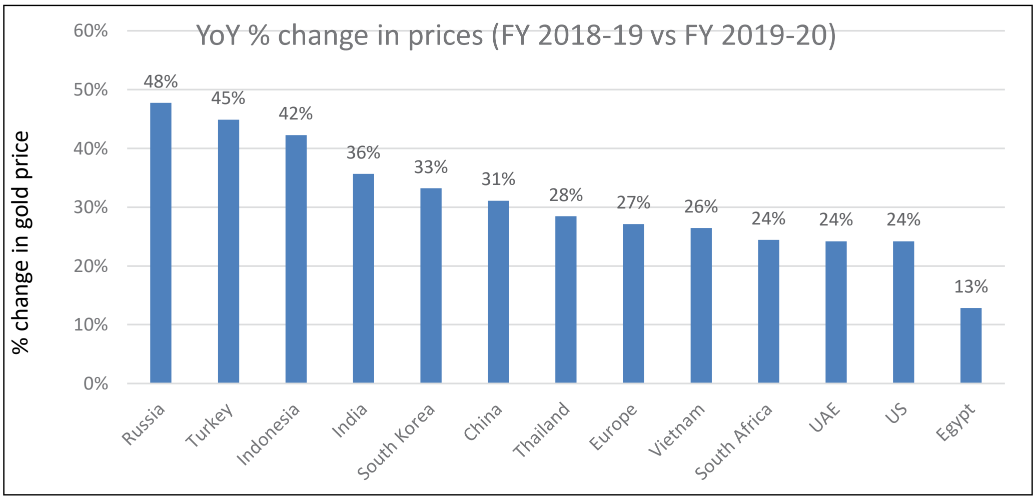
Source: World Gold Council

Environmental regulations slowed mining in China, South Africa had to deal with intense labour union strikes and Latin America witnessed conflicts between local governments and contractors. Although there is a healthy pipeline of projects, securing a social license to operate has proved challenging in South American countries given the efforts by governments to stop money laundering and drug trafficking related to gold mining.

Recycled Gold

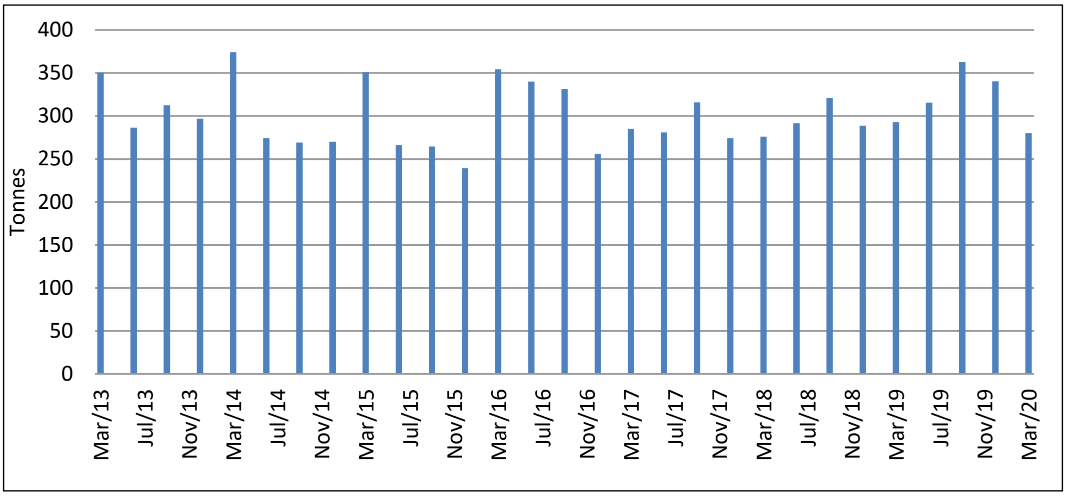
While demand for gold struggled in 2019, supply for recycled gold soared in response to price increase. Recycled supply of gold has seen significant rise in both Asia and the Middle East market with increase in prices in local currency terms.

Figure 1.9: Year on year % change in gold price in domestic currency terms



Source: World Gold Council; IGPC

Figure 1.10: World Quarterly Scrap supply of gold



Source: WGC, IGPC

D. Indian Demand and Supply

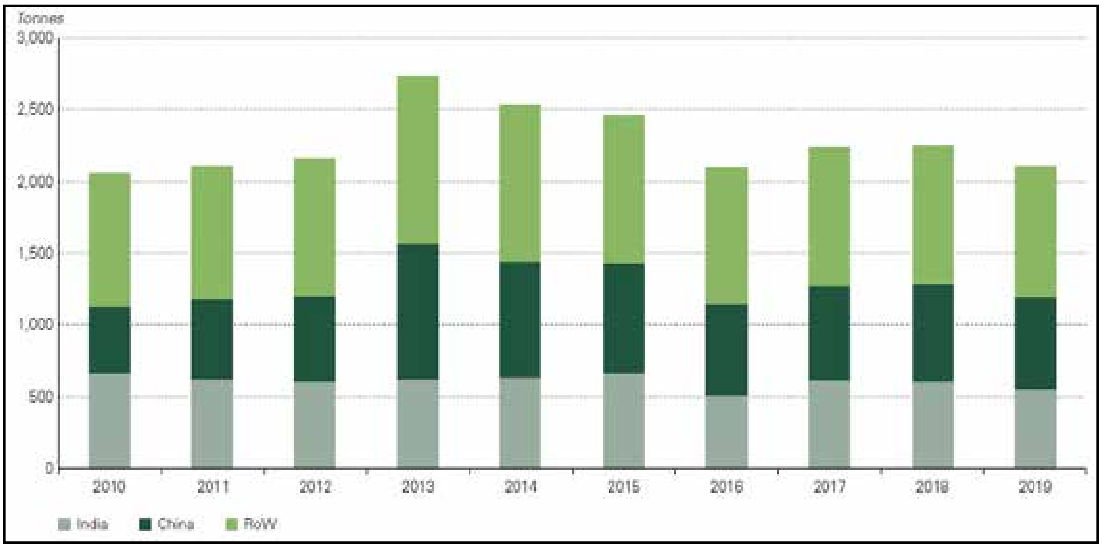
1) Demand Trends

India's demand for jewellery and investment declined by 17.5% to 633 tonnes in FY 2019-20. Sharp drop in consumer spending across sectors, slowdown in economic activity, liquidity crisis and employment uncertainty were largely the reasons attributed to sharp drop in demand. As a result, spot markets were at discount to landed price through a major part of the year, increasing to $70/oz by end of the FY.

a. Jewelry Demand

Jewellery demand decline by 18% YoY fall due to domestic economic slowdown, and muted rural demand. Q4 FY20 demand for jewelry plummeted 41 per cent to eleven-year low of 73.9 tonnes as COVID-19 exacerbated the influence of higher domestic prices of gold in the face of a depreciating currency and a weaker economic outlook. While the wedding season raised demand early in the year, a dramatic rise in local gold prices from mid-February led to a decline in demand as consumers stopped purchasing. Later in the year, the market struggled when the lockdown took effect.

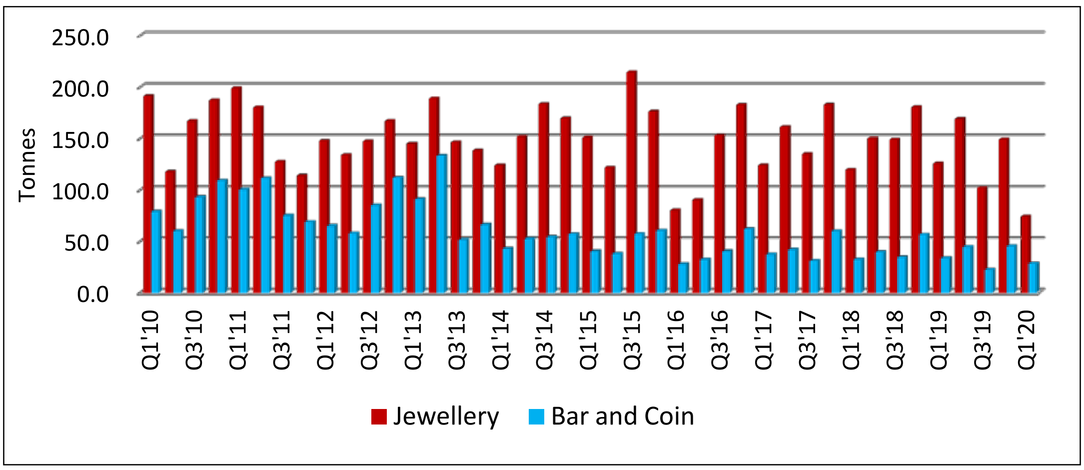
Figure 1.11: Higher gold prices and slowing economies caused weakness in India



Source: World Gold Council

Bar and coin investment in India decreased by 9 percent to 140 tons in 2019-20, with the lowest demand in decades. Gold bar and coin demand were overshadowed as a whole by the runaway performance of the stock market in 2019. BSE Sensex had hit consecutive record highs over the year, catching the interest of urban investors who may have flooded the market. High prices were a headwind to the market for investment in Dhanteras. While the festival improved sales of gold coins, they ended up about 10-15 percent lower than last year. **Digital gold platforms**, however, have seen a major increase in customers and total volumes last FY; low entry points for digital gold investments (as low as Re 1) have helped to overcome the affordability barrier created by higher gold prices.

Figure 1.12: Gold Consumer Demand in India



Source: WGC, IGPC

b. Investment Demand through ETF

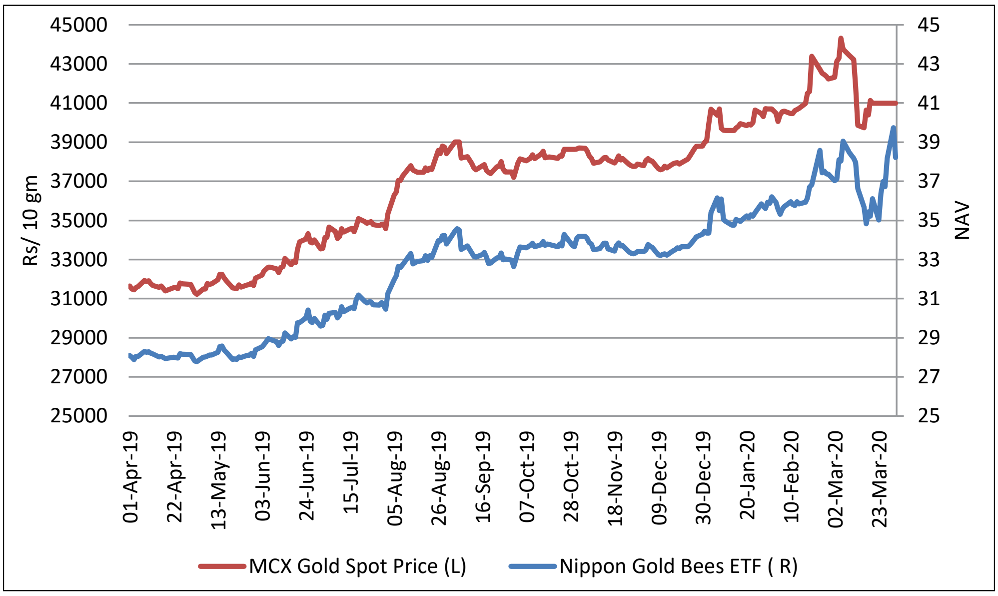
Indian Investors invested over 3,500 crore in gold exchange-traded funds (ETFs) in 2019-20, after withdrawing money over the last six financial years, as the coronavirus epidemic fuelled the purchasing of safe havens. As per AMFI data, inflows of assets under management (AUM) of gold funds increased by 79 percent to 7,949 crore at the end of March 2020 from 4,447 crore at the end of March 2019. Investors put a net sum of 3,502 crore in 14 gold-linked ETFs in 2019-20, compared to 412 crore in 2018-19. With the coronavirus pandemic hanging as a specter of the global economy and markets around the world, gold, with its safe haven status, has emerged as a favorite investment destination for investors.

Table 1.4: Gold ETF asset under management in India

Year	Total AUM (Rs. Crores)	Net Inflow or (outflow) Rs. Crores
2019-20	7,949	3,502
2018-19	4,447	-412
2017-18	4,806	-835
2016-17	5,480	-775
2015-16	6,346	-903
2014-15	6,655	-1,475
2013-14	8,676	-2,293
2012-13	11,648	1,414
2011-12	9,886	3,646
2010-11	4,400	2,250

Source: AMFI, IGPC

Figure 1.13: Gold ETF nav vs Gold spot price



Source: AMFI, IGPC

c. Investment Demand through SGB

The Sovereign Gold Bond (SGB) scheme was first unveiled by the Government of India (GOI) on 30 October 2015. So far, 40 tranches of the Sovereign Gold Bond Scheme have been issued until May 2020. Gold has become one of the top performing asset groups, with domestic investors earning 45 per cent in the last year and three-year gains accounting for 16.62 percent. They have a tenor of eight years, with investors having the option to exit after the fifth year on interest payment dates.

The biggest advantage of investing in SGBs over any physical form of gold is that the former is free of any purity and storage concerns. SGBs generate 2.5 per cent interest over the holding duration, which investors gain over and above the appreciated price of Gold, rendering their returns higher than the real yield on Gold. Unlike physical gold, even SGBs could act as collateral for a bank, FI, or NBFC loan, as compared to a Gold ETF fund. Physical gold or gold ETFs attract a Long Term Capital Gain Tax (LTCG) of 20.8 per cent (including cessation) with indexation advantages when the ownership duration becomes more than 3 years, whereas Short-term Capital Gain Tax (STCG) becomes applied to the taxable profit and paid at the relevant slab limit. Currently interest on SGBs is paid in compliance with the terms of the I-T Act, but the return on capital gains on redemption is tax-free.

Financial planners believe that one of the best ways for investors to capture this asset class is through sovereign gold bonds, and investors looking to build up the allocation could add small amounts to each tranche offered by the government. Long-term investors looking to accumulate yellow metal could do this by buying sovereign gold bonds (SGBs).

There were ten series of SGB that were open for subscription in 2019-20. All tranches saw muted responses in terms of Number of Units subscribed, except the third tranche. However, in the wake of rising demand for Gold, the first and second tranche of sovereign gold bond for this FY2021, issued in April and May noticed a total offtake crossing 4 tonnes. That being said, the average issue price since launch of SGB is Rs. 3,272/gram while the latest issue price being 40%, indicating the price risk that the central bank has exposed itself to.

The Sovereign Gold Bonds has as of date mobilized just 12,760 crores in five years whereas the projected was 75,000 crores. This has made the secondary market listing very illiquid and added to difficulty for investors to exit. Mutual fund participation will be a key here and allowing addition of SGB as part of multi asset allocation fund could drive up the volumes. Clearly, like the GMS, the SGB is also not a scheme that has obtained the scale that it intended to have.

Table 1.5: Data on Outstanding of Sovereign Gold Bonds (Tranche wise) as on 20.05.2020

S No	Series	Issue price/ unit	Number of units (in grams)	In Rupees (crores)
1	2015-I	2,684	9,13,571	245
2	2016-I	2,600	28,69,973	746
3	2016-II	2,916	11,19,741	327
4	2016-17 Series I	3,119	29,53,025	921
5	2016-17 Series II	3,150	26,15,800	824
6	2016-17 Series III	3,007	35,98,055	1,082
7	2016-17 Series IV	2,943	22,20,885	654
8	2017-18 Series I	2,951	20,27,695	598
9	2017-18 Series II	2,830	23,49,953	665
10	2017-18 Series III	2,956	2,64,815	78
11	2017-18 Series IV	2,987	3,78,945	113
12	2017-18 Series V	2,971	1,74,024	52
13	2017-18 Series VI	2,945	1,53,356	45
14	2017-18 Series VII	2,934	1,75,121	51
15	2017-18 Series VIII	2,961	1,35,666	40
16	2017-18 Series IX	2,964	1,05,512	31
17	2017-18 Series X	2,961	1,07,380	32
18	2017-18 Series XI	2,952	81,614	24
19	2017-18 Series XII	2,890	1,11,218	32
20	2017-18 Series XIII	2,866	1,31,958	38
21	2017-18 Series XIV	2,881	3,27,434	94
22	2018-19 Series I	3,114	6,50,337	203
23	2018-19 Series II	3,146	3,12,258	98
24	2018-19 Series III	3,183	4,09,398	130
25	2018-19 Series IV	3,119	2,07,886	65
26	2018-19 Series V	3,214	2,43,606	78
27	2018-19 Series VI	3,326	2,07,388	69
28	2019-20 Series I	3,196	4,59,789	147
29	2019-20 Series II	3,443	5,35,947	185
30	2019-20 Series III	3,499	10,24,837	359
31	2019-20 Series IV	3,890	6,27,892	244
32	2019-20 Series V	3,788	4,55,776	173
33	2019-20 Series VI	3,835	6,93,210	266
34	2019-20 Series VII	3,795	6,48,304	246
35	2019-20 Series VIII	4,016	5,22,119	210
36	2019-20 Series IX	4,070	4,05,957	165
37	2019-20 Series X	4,260	7,57,338	323
38	2020-21, Series I	4,639	17,72,874	822
39	2020-21, Series II	4,590	25,44,294	1,168
40	2020-21, Series III	4,677	23,88,328	1,117
	TOTAL		**376,83,279**	**12,760**

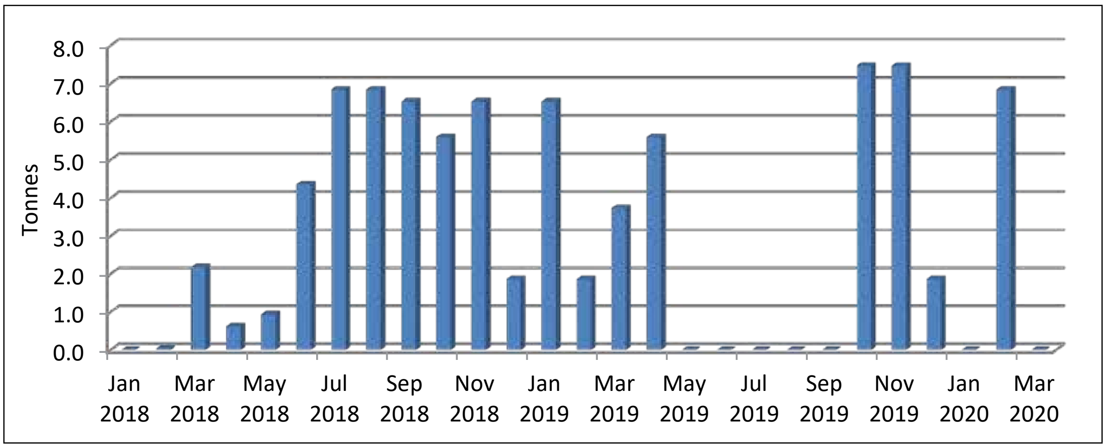
Source: RBI[4], IGPC

[4] https://www.rbi.org.in/Scripts/BS_SwarnaBharat.aspx

d. Central Bank Demand

The Reserve Bank of India (RBI) purchased 40.45 tonnes of gold in the financial year 2019-20, bringing its total holdings of gold to 653 tonnes. The total gold reserves of the RBI amounted to 612.56 tonnes in 2018-19. With the addition of more stocks, the value of gold reserves rose to $30.57 billion (about Rs 2,32,000 crore) by March 2020 from $23.07 billion in March 2019.

Figure 1.14: Indian Central Bank Gold purchases



Source: IMF, IGPC

As per *RBI Report on Management of Foreign Exchange Reserves*[5], as many as 360.71 tonnes of gold is kept in safe storage overseas with the Bank of England and the Bank for International Settlements, while the remaining gold is retained domestically. In value terms (USD), the share of gold in total foreign exchange reserves increased from about 5.59 per cent in March 2019 to about 6.40 per cent in March 2020.

2) Supply Trends

a. Gold imports

India is the largest importer of gold, which mainly caters to the demand of the jewelry industry. According to Ministry of Commerce data[6], Gold imports, which have an impact on the country's current account deficit (CAD), dropped by 14.23 per cent to $28.2 billion in 2019-20. Imports of yellow metal amounted to $32.91 in 2018-19. The fall in gold imports has helped to reduce the country's trade deficit to $152.88 billion in the last fiscal year, relative to $184 billion a year earlier.

[5] https://m.rbi.org.in/Scripts/PublicationsView.aspx?id=19442#I6

[6] https://economictimes.indiatimes.com/news/economy/foreign-trade/gold-imports-dip-14-23-to-28-2-billion-during-2019-20/articleshow/75167104.cms?from=mdr

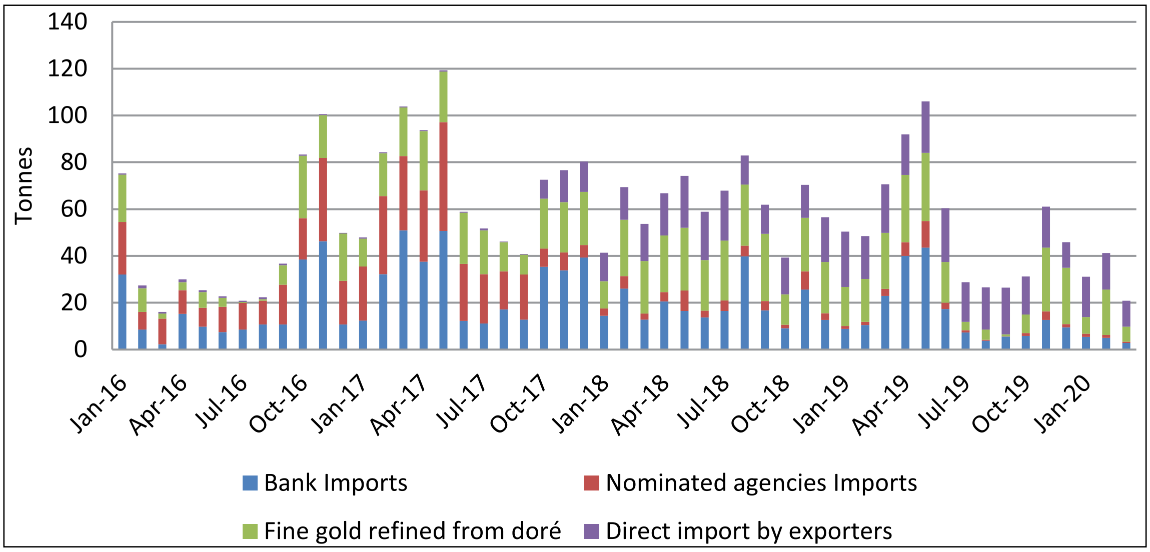
Table 1.6: Indian Bullion Supply Estimates (in tonnes)

Units in tonnes	2016-17	2017-18	2018-19	2019-20	Y/Y % change
Banks					
--Duty paid	212.9	261.4	172.2	132.2	-23%
--Duty free	40.9	41.9	41.4	26.5	-36%
Nominated agencies					
--Duty paid	91	95.2	37.0	24.3	-34%
--Duty free	136.1	94.6	9.2	6.7	-27%
Fine gold refined from doré	139.9	232.1	269.9	176.1	-35%
Direct import by exporters	7	79.5	218.6	205.9	-6%
Total i.e Gross Imports	627.8	804.6	748.3	571.6	-24%
Net Imports i.e, import for domestic consumption	443.8	588.7	479.1	332.5	-31%
Imported for re-exporting	184	215.9	269.2	239.0	-11%

Source: Refinitiv GFMS; India Gold Policy Centre

India meets nearly all its gold demand through imports, which amounted to 572 tonnes imported in 2019-20, down from 748 tonnes a year ago. India's gold imports in 2019-20 dropped by 24 per cent from a year earlier to the lowest point in a decade, as retail sales plunged in the second half as local rates soared to a record high and also due to outbreak of Coronavirus, which lead to lockdown in entire world.

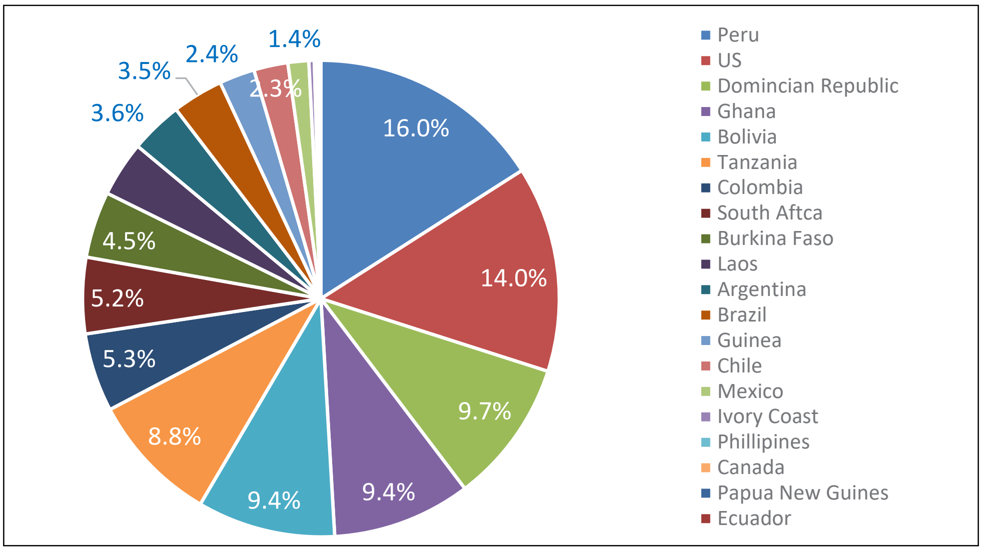
Figure 1.15: Monthly gold imports (in tonnes)



Source: Refinitiv GFMS; India Gold Policy Centre

There were 19 refiners who were active in importing dore' gold and silver. Share of the largest refiner to total dore imports was 50% to 55% of the total. Adding to it the total supplies by rest of top six refiners makes their combined share of 86%. Interesting to note in 2019-20 was that the total volumes supplied by refiners are now near the total supply by banks for domestic demand.

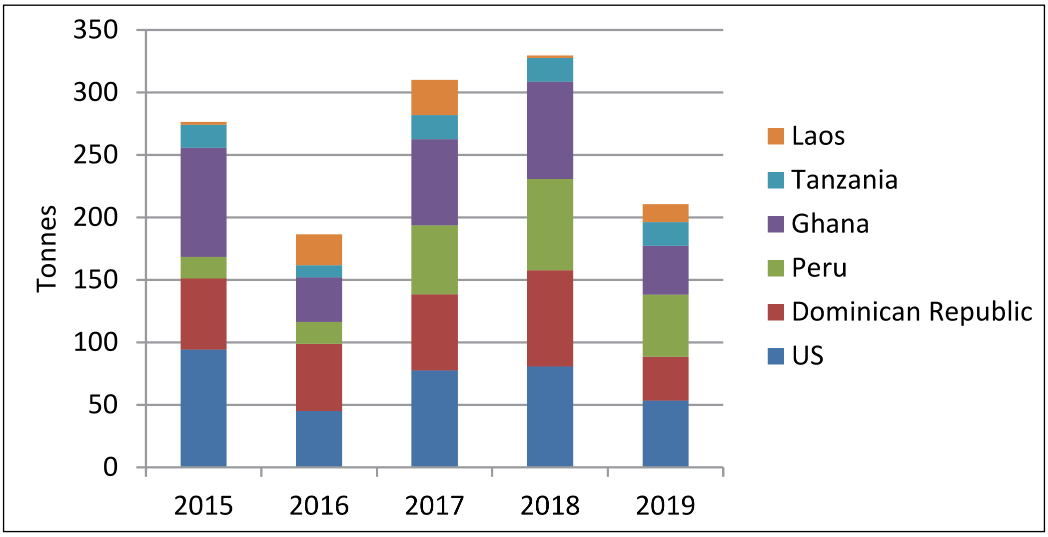
Figure 1.16: Dore supplying Countries (Gross Weight Content)



Source: DGCIS, CEIC and India Gold Policy Centre

This is linked to discounts in domestic markets thereby banks supplying majorly (70% to 85%) for Gold Metal Loan customers. The outright business has now largely shifted to supplies from domestic refiners. Also the share of the only LBMA accredited refiner in India has remained in the range of 50% to 55% for last few years, suggesting that the number of end users that are indifferent whether the gold is from a LBMA accredited refinery or not, is still the same. From a policy angle this would mean that there is an immense potential for BIS with launch of the India Good Delivery standard.

Figure 1.17: Indian Annual dore imports by country (top suppliers)



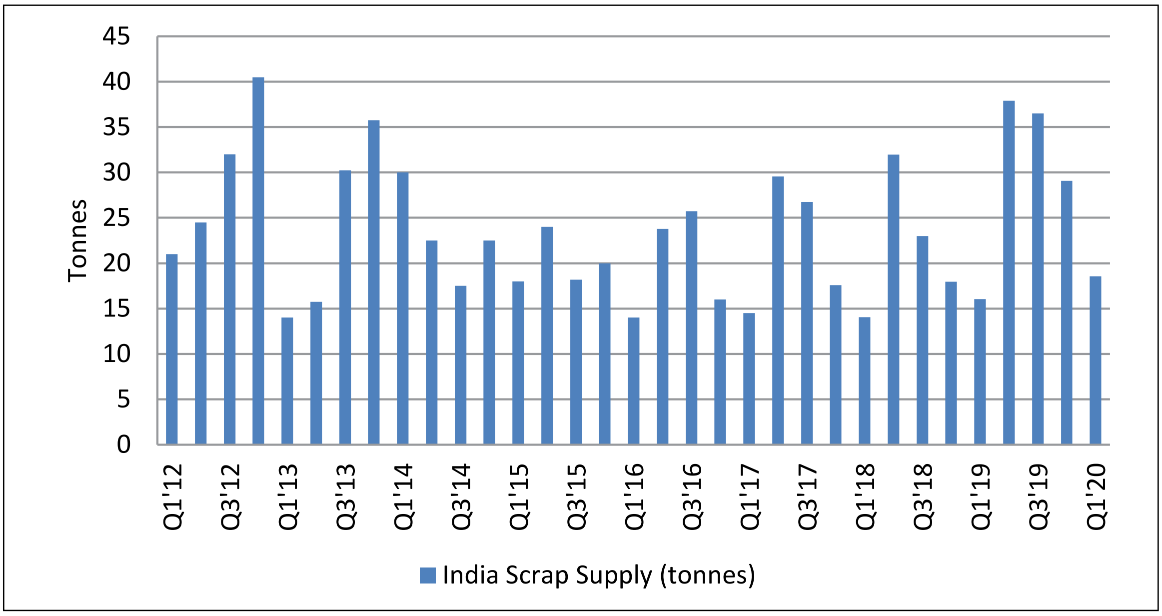
Source: Refinitiv, IGPC

b. Scrap supply

India saw the greatest increase in recycling in first two quarters of FY2019-20 across Asia as the gold price rose past the previous record high and remained high. The local gold price ended the year FY2019-20 just above Rs 41000/10 gm, more than 33% higher than previous year. But although this price performance would typically elicit higher levels of recycling, there was a greater shift towards using gold as a collateral for loan.

With expectations of price increase only distress selling could push the scrap sales as most would prefer to take loan against gold with rates on personal gold loans falling to 7% to 7.5%, similar to G-Secs as collateral.

Figure 1.18: Indian Scrap Gold Supply



Source: WGC GDT Q1 2020, IGPC

3. Gold Monetisation Scheme

With a view to mobilize the idle gold held by households and institutions in the country; and put this gold to productive use, e.g., by making available gold for the gems and jewellery sector; and, over time to reduce the country's dependence on the import of gold, Government launched the Gold Monetization Scheme on 5th November, 2015.

The Gold Monetization Scheme (GMS) comprise of the 'Revamped Gold Deposit Scheme' and the 'Revamped Gold Metal Loan' scheme, linked together. The minimum deposit at any one time shall be 30 grams of raw gold (bars, coins, jewellery excluding stones and other metals). There is no maximum limit for deposit under the Scheme. Depositors may avail two options for deposit:

- Short term bank deposit (1-3 years) and
- Medium and Long Term deposit (5-15 year)

Schemes under GMS are running in India for a while. Till January 2020, approximately 20,547 kilograms of gold have been mobilized under GMS. The details are as under:

Table 1.7 : Details of Gold Mobilized under GMS (5th Nov, 2015 to 31st January, 2020)

Types of Deposit	Deposited gold (in grams)
Cumulative Quantity of Gold (in grams)	205,46,628.93
-- Short Term Gold Deposit	69,38,141.45
-- Medium Term Gold Deposit	49,41,944.22
-- Long Term Gold Deposit	86,66,543.26
Number of participating Banks	11
Number of depositors	2,952

Source: DEA, Ministry of Finance, Annual Report 2019-20

The Indian Gold Coin (IGC) promotes both Gold Monetization Scheme & Make in India. It is manufactured out of domestic gold (received under GMS) and it is domestically manufactured (Make in India) standard gold coins/bars in different denominations which may eventually replace the imported coins. Till January, 2020, 779.050 Kgs of Indian Gold Coin has been sold out as per summary placed below:

Table 1.8: IGC SALES Details (5th Nov 2015 to 31st January 2020)

	Turnover (In Crores)	Weight Sold (In Kgs)	Qty. Sold (in Nos.)	Denomination-wise details (in Number)		
				5 GM	10 GM	20 GM
Grand Total	257.569	779.05	85,679	36,542	38,640	10,497

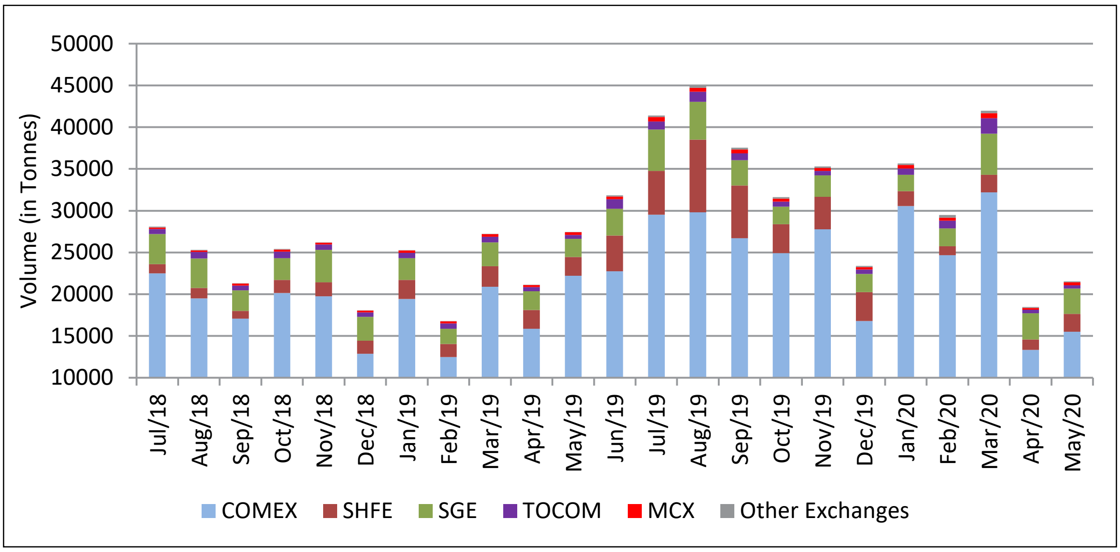
Source:DEA, Ministry of Finance, Annual Report 2019-20

E. COMMODITY DERIVATIVE TRADING

1) Exchange Activity

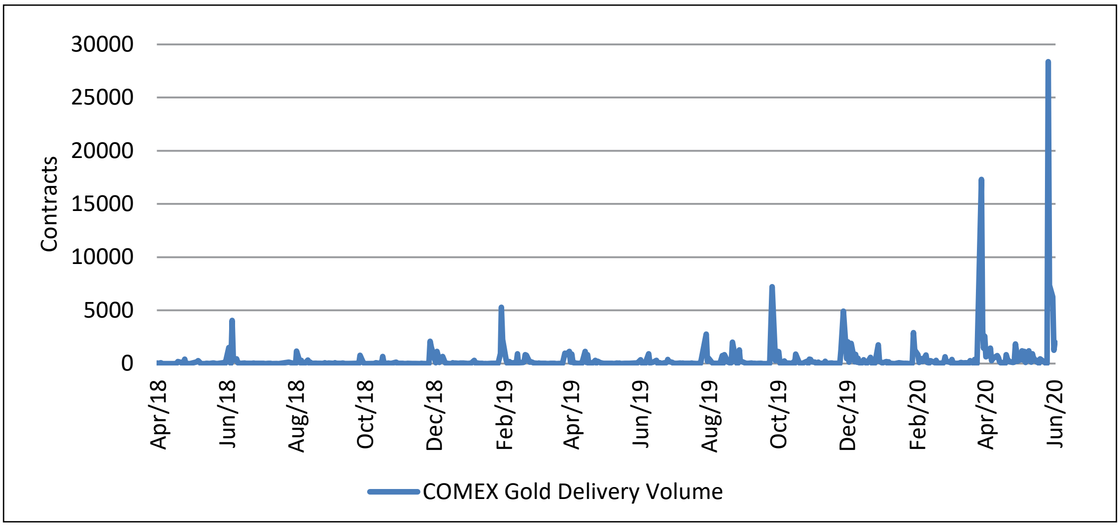
COMEX was responsible for 75% of total Gold exchange activity and that was the driving force behind the total volumes. Both Chinese exchanges, SGE and SHFE, followed on second and third spot with market share of 10% each. While MCX Gold Volumes were very low and it contributed only around 1% in total Volumes in FY 2019-20. August 2019 registered the highest Gold Volume, close to 45,000 tonnes, while volumes have been on decreasing side with start of FY 2020-21.

Figure 1.19: Total Gold Monthly Exchange Activity



Source: Refinitiv, IGPC

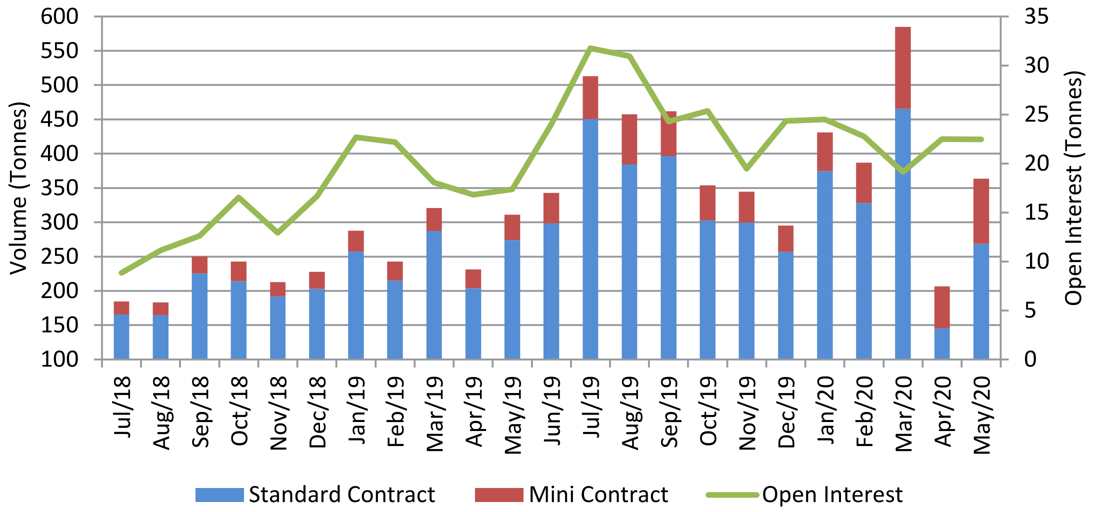
Figure 1.20: COMEX Gold Delivery volumes



Source: Exchange, IGPC

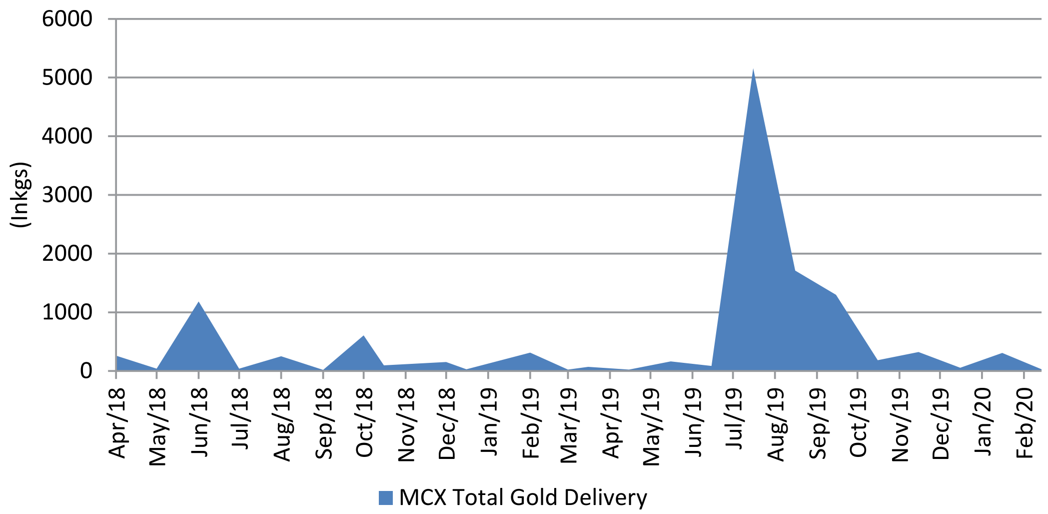
MCX Gold registered multi-month high trading volume of over 570 tonnes in month of March, as prices hit record high levels past Rs 47000/10 gm due to safe-haven demand in COVID-19. Stepping into FY21, the initial trend towards ADTV (average daily trading volume) was soft due to the limited exchange time due to COVID-19. MCX traded value decreased in April and May, with the drop in exchange timings. Structural growth levers - options trading, institutional participation, and introduction of intangibles - were still in the slow lane.

Figure 1.21: MCX Gold Volumes and Open Interest



Source: Refinitiv, IGPC

Figure 1.22: MCX Gold Delivery volumes



Source: MCX, IGPC

Table 1.9: MCX Gold Delivery in 2019-20

Year	Months	GOLD (In Kg)	GOLDGUINEA (In Kg)	GOLDM (In Kg)	GOLDPETAL (In Kg)	Grand Total (In Kg)
2019	Apr		0.6	71.9	0.0	72.5
2019	May		0.4	22.6		23.0
2019	Jun	114.0	1.5	47.1	0.0	162.6
2019	Jul		0.2	83.9	1.0	85.1
2019	Aug	4,598.0	1.9	560.8	0.0	5,160.7
2019	Sep		1.6	1,710.4	1.0	1,712.9
2019	Oct	917.0	1.0	378.6		1,296.6

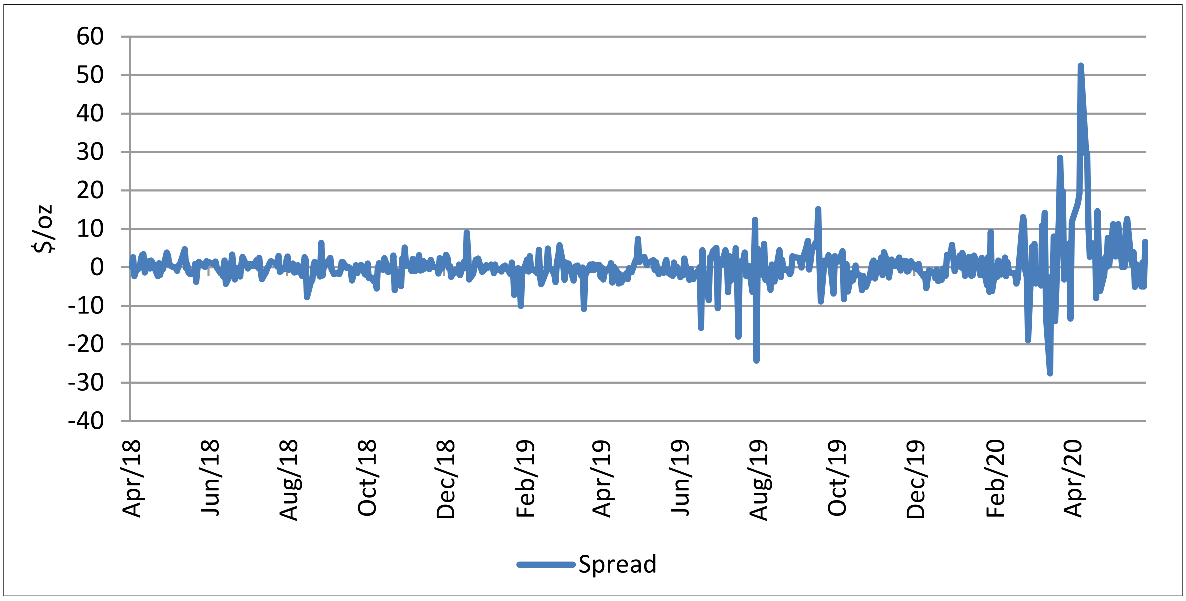
Year	Months	GOLD (In Kg)	GOLDGUINEA (In Kg)	GOLDM (In Kg)	GOLDPETAL (In Kg)	Grand Total (In Kg)
2019	Nov	44.0	0.0	135.3	2.0	181.3
2019	Dec	88.0	0.3	229.6	3.1	321.0
2020	Jan		0.1	55.7	1.2	57.0
2020	Feb	215.0	0.3	93.3	0.2	308.9
2020	Mar	10.0		17.0	1.8	28.8
Gold All Variant Total						**9,410.4**

Source: MCX India

2) Spot and Future Spread

London spot gold prices dropped far below U.S. Gold futures in March and April in a sign that market concerns about air travel restrictions and precious metal refinery closures hampered bullion shipments to the U.S. to meet contractual requirements. At certain trading platforms operated by banks and brokers, the gap between bid buy and sell rates for spot gold-normally below 50 cents-also grew to as much as $50. Only imported or LBMA gold can be delivered on the exchange platform, and imports stopped after non-landing international flights. There were possibilities of sellers facing financial problems in case they are forced to give delivery.

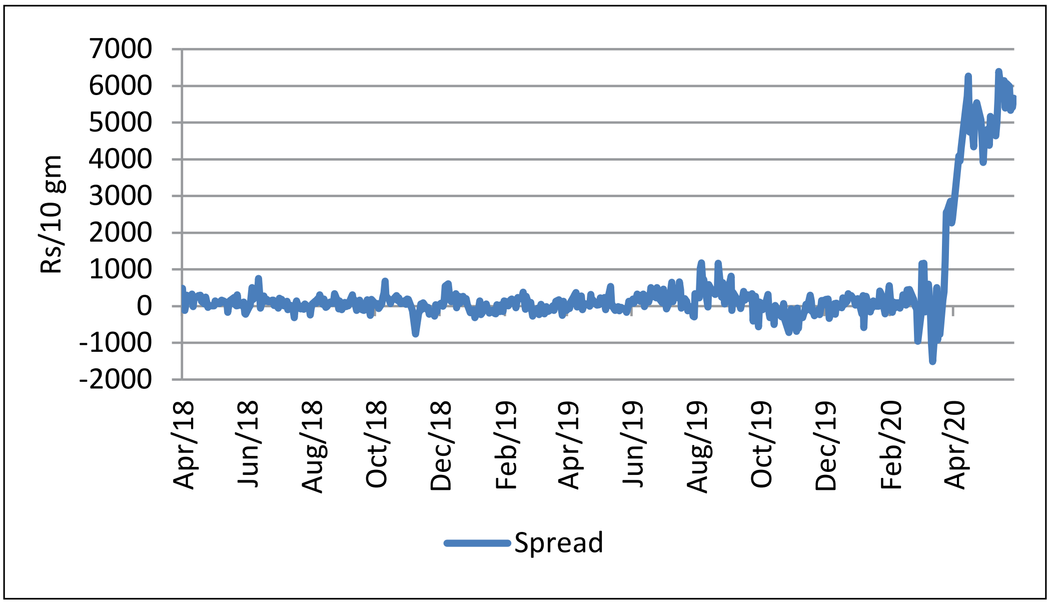
Figure 1.23: COMEX Gold Future and Spot price spread



Source: Exchange, LBMA, IGPC

Huge premiums were also witnessed in Canadian gold and silver markets and many traders were seen taking the opportunity to arbitrate between MCX and COMEX where the traders were selling on the COMEX (in US) and buying on the MCX, at a disparity of 1000 rupees. But due to liquidity problems, a lot of them had to square off their positions because of which we also saw disparity growing to as high as Rs.2,000-2,200 per 10 gram. Lately, as there was lockdown in India from 25th March to 7th June 2020, all Gold businesses were shut and Spot Gold prices were not decided. So last Spot Gold price decided on 22nd March was Rs 40,989/10gm, which remained unchanged for two and half months. While Indian Gold Future prices kept on following COMEX Gold parity and gradually rose past Rs 47,000/ 10 gm mark. Therefore, in month of April and May, there was huge spread of Rs 6,000/ 10 gm seen between Indian Gold Future and Spot prices.

Figure 1.24: MCX Gold Future and Spot price spread



Source: MCX, IGPC

Outlook:

The gold prices are generally driven by demand from Asian consumers and investors, or central bank purchase or the western ETF demand. We could say that over the years the demand from each of these segments has happened in the same sequence as above with Asian consumers buying the most at the bottom. Price increase driven by western world ETF demand has helped sustain rallies for a longer period relatively in the past. Although the demand from central banks has tapered this year, Fed hinting that rates will be maintained at zero till 2022 can actually build a strong case for a depreciating dollar.

The OECD in its latest release said that the economic recovery is going to be slow with large economic scars. The same day US equity indices are trading positive for the year, showing a clear divergence between broader economy and liquidity driven capital markets. Interestingly at the same time gold has been holding firm over $1700 while dollar index is down by near 6% from this year high. Our sense is professional money managers and private investors are treading the recovery very cautiously by holding to a more risk diversified portfolio with gold carrying higher weightage. We discuss more about the macros and impact on gold in the next chapter.

CHAPTER 2:

Global macros shaping the gold market

Macro-Economics and Gold Outlook

The COVID-19 spread which started in China in December 2019 spread to the world in few weeks and countries around the world started introducing emergency measures similar to wartime to counter Coronavirus. As investors have been looking for protection in safe haven assets in the midst of recent market turmoil, the US dollar has been the king of the global foreign exchange market. But in fact, Gold outperformed the greenback. This pandemic and the global reaction to it had a far reaching effect on the investment in gold in Q1-2020. Investment demand increased by 80 percent to a 4-year high of 540 tonnes and ETFs attracted 298 tonnes of inflows, boosting global holdings to new highs.

Gold finished the year FY2020 above US$ 1700/oz – a closing rate not seen since 2012. Although gold still stands at 10% below its all-time highs in US dollars, it has managed to reach all-time highs in every other major currency, namely: Australian and Canadian dollars, Euros, Pounds, Yen, Rupee and Yuan, and has briefly made a new peak in Swiss francs too.

On the one hand, concerns about the economic and social effects of the epidemichave pushed safe-havenflowsinto many investment goods, especially Gol ETFs and official gold coins. Moreover huge monetary infusion by the Fed and other central banks and global recession fears have added fuelling to rising price of gold. But, on the other hand, worries about the bleak economic outlook combined with higher gold prices have prompted many to sell their current holdings in an attempt to overcome the financial distress caused by the outbreak.

OECD projections say that steps to curtail the spread of the virus would result in a decline in economic output by 20 to 25 per cent. While as per latest World Economic Outlook report, IMF says that the world economy is expected to suffer the worst recession since the Great Depression this year, surpassing that was witnessed during the global financial crisis a decade earlier.

Going forward in FY2020-21, COVID-19 pandemic could result in a lack of consumer trust and liquidity, disruption and volatility in global supply chains, capital and financial markets, commodity markets, foreign exchange markets and precious metal markets, all of which could negatively impact interest rates, credit ratings, credit risk, availability of financing and inflation.

The long-term impact of the pandemic on the environment and any future social changes has yet to be determined. In the last week of April, the US reported annual adjusted GDP losses of 4.8% in the first three months of 2020, the highest quarterly drop since the fourth quarter of

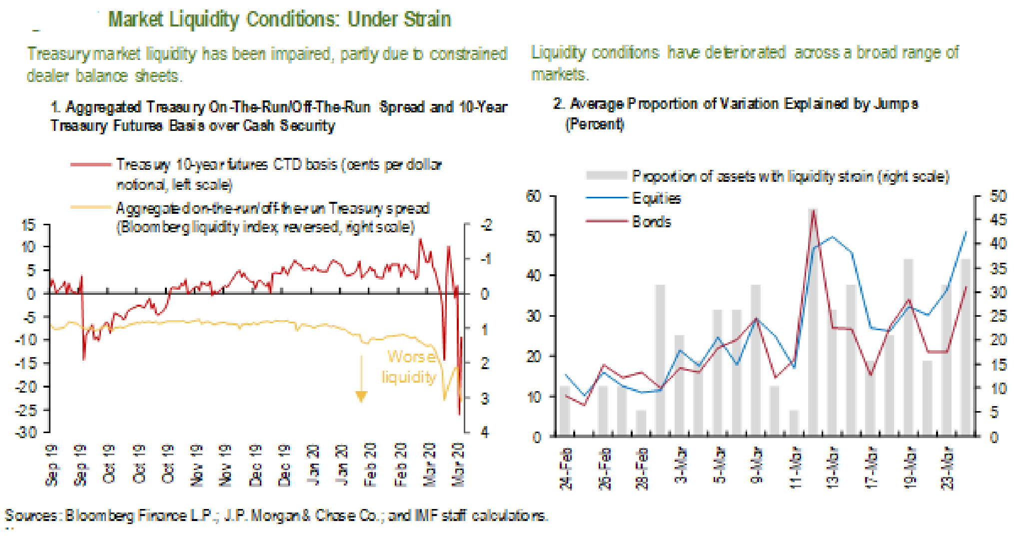
2008. Eurozone as a whole was worse – the area contracted by 3.8% on an annualized basis in the first quarter, the lowest quarterly ever. This volatility, along with the unpredictable willingness of central banks to help markets, could continue to fuel investor demand for gold. Global recession predictions, along with the rapid pace of government money printing, are expected to raise activity in gold and push prices to uncharted territories in FY 2020-21.

We think the global situation is shaping to an extent where the role of gold is going to be much more significant. In this section we discuss our view on how pandemic and subsequent macroeconomic changes is creating a new World Order.

It is not usual for a Central Banker to say, *U.S. government has a technology, called a printing press, it can produce as many U.S. dollars as it wishes at essentially no cost.* That was Dr. Ben Bernanke in 2002 much before he took charge as Chairman of the Fed and the Quantitative Easing was kicked off in 2008. This technology which only US has been successful at manoeuvring through the last financial crisis of 2008-09, and is an antidote to deflation. A prescription that is being used again by the Federal Reserve now. Will it work this time as well? Or are we kicking the can down the road?

Irving Fisher in his Debt-Deflation theory in 1933, theorized how all the remaining factors carried less weightage compared to debt and deflation in the triggering a crisis of greater severity. So when the asset prices fall sharply Fed prints money enough to lift the asset prices, eventually the deflation keeps the real yields positive while the interest rates are still at zero percent. This means the debt will keep ballooning and as it keeps financing the purchase of assets and its price shall keep increasing beyond normal levels driven by leveraging. To understand what does that mean for stock market, let's examine how it works.

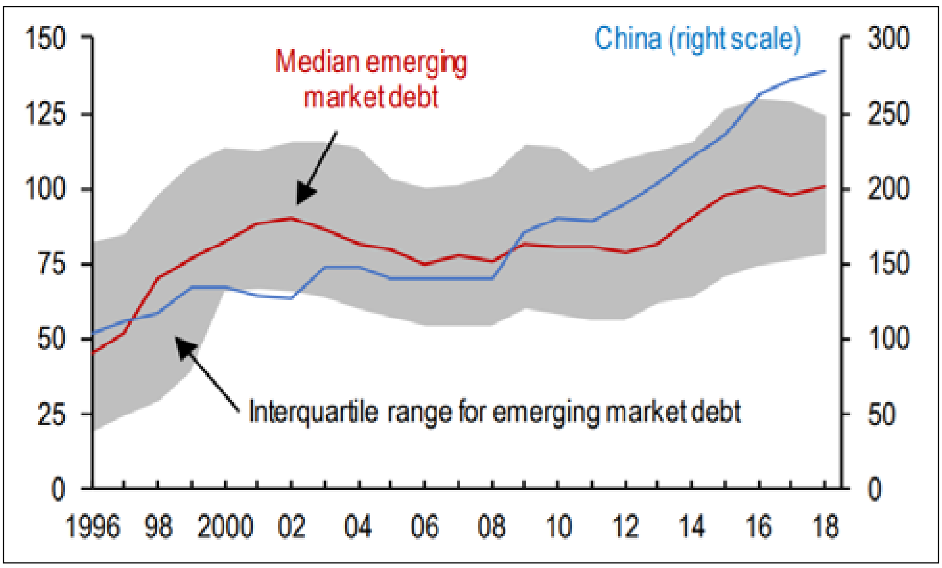
Financial markets are premised on the fact that there are some underlying cash flows in the companies, there are some earnings and these earnings then gets translated into a share price in the stock markets. This means price is not just a function of the earnings but also the money that is available to buy those shares in the market. In earlier times we were limited in the amount of money that can buy the shares as we were running on Gold Standard, thus Price Earnings multiple had some sanctity and some limits so what levels they could reach. However, with the ability to print dollars as explained earlier the P/E that we see in the financial markets causes a disconnect between the fundamentals and price of the financial instruments. The market is then held higher (or goes lower) driven by the sentiments of the people operating in this market. The sentiments determine a larger and longer term trend as well as short term trends and these remain consistent in market cycles until a major event hits the market. Such an event, like the combination of Covid 19 and a deep cut in oil prices, quickly triggers revaluation of the corporate debt and country's debt and the cost of capital that is available to buy these debts. That is the ability to pay out the debt obligation.



Source: IMF's Global Financial Stability Report, April 2020

Policy intervention by expanding central bank's balance sheet have so far worked well for the US till about 2015 and to an extent China because it is not only just about the economy but also about the geo-political architecture where the primacy of the US, and to a certain extent, China, limits what Japan, UK, ECB and other countries can do.

The US and China are for the moment joined at the hip, whether, they, or the rest of the world, likes it or not. On a GDP of $14 trillion, China exports $ 450 billion to the US. If the US does not consume, China is also in trouble. US consumption is, of course, fuelled by debt. Referring the IMF's GFSR we understand that in the U.S the speculative grade debt now constitutes 48% of the total corporate debt which is approximately $13 trillion, and is higher than the 2009 levels, and in China it is 50% of the total. Relatively Europe has been able to control following the previous debt crisis. However, two countries that haven't done much in reducing the share of debt at risk are the U.S and the UK, with share of over 30% of total debt. All of this can weigh down the performance of financial institutions.



Source: IMF's Global Financial Stability Report, April 2020

Fisher rightly said, "*Debt and Deflation are two diseases that act and react on each other in other words just as a bad cold leads to pneumonia, so over-indebtedness leads to deflation*". Needless to say US has been walking the path of over-indebtedness for a while now. The question is whether it will pay the price that countries that do not have the advantages of a reserve currency or a large foreign exchange war chest.

Covid-19 is just the trigger for a market that was overvalued and the risks of a pandemic was not priced into such portfolios. The chain of economic consequences of a global pandemic has never been easy to measure; however, we can predict some events that will happen in the financial markets given the current lockdowns that are taking place. The first thing that happens here is deleveraging, that is reducing the debt. That takes us back to the Fisher's theory. So to prevent the precipitation of the crisis that starts with deleveraging and can extend into a deflation, the Central Bank reduces the rates, this time it set the rates at zero and starts printing more money. By doing so while they reduce the cost of debt, they also provide fire power to firms by infusing cash through financial markets.

The early signs of economic downturn actually came in when the Fed started participating in the Repo market after the rates shot up in September 2019; this was followed by announcement to buy $60 billion each month in October. And although Fed said it is not aiming for a QE but as the epidemic turned to a pandemic Fed had to cut the rates to zero and step on the accelerator to pump $1.5 trillion followed by a $500 billion and then an unlimited QE. European Central Bank has followed suite with an unlimited bond purchase programme.

Amidst this rising debt and the pandemic came the oil price crash the biggest since 1991, which fundamentally shifted the oil market dynamics. For the capital intensive industry biggest hit were deep sea oil explorers in Europe and Shale oil producers in US and Canada. If real estate was the starting point of crisis of last decade, then this decade would be that of crude oil and it starts from the US again, not to mention the WTI contract settling at negative rates. While the major oil consuming countries may see this as an opportunity to stock their reserves.

In short the recession we are seeing could be longer if not the similar time frame; and this one is once in a hundred year event.

The fallout of US-China trade war, increasing wealth disparity post last recession, mis-management of debt since 2015, the oil fundamentals and managing the pandemic are all indicating that the America's leadership in domestic and international diplomacy is failing. This failure has been clouded by populism. Historically these are the times when power shifts or when there is a greater battle to retain the power.

As we look at a new world order, a question that arises is whether gold will play a central role in defining the sovereign risks in the competition to become a global currency. The failure of Euro and the Brexit is making the path easier for the new reserve currency Chinese Renminbi to be on higher demand, it's yields has declined from 4% in Jan 2018 to 2.7% in March 2020. And its share as part of global forex reserves has been rising steadily since 2016 and has now crossed 2% although still far call from 62% for dollar. China has been accumulating gold steadily from start of last decade. If the research by BullionStar is to be believed, the official gold reserves of China are not 1800 tons but closer to 4000 tons. Working with gold backed yuan and speculation of gold backed cryptocurrency are all adding credence to its future position. And ironically, because China and the US are joined at the hip, the transition, while bumpy may still be peaceful. Of course, if the rest of the world blames China for this pandemic, China will have to wait some more time for the "sentiments" to turn in its favour.

JOHN EXTER'S INVERTED PYRAMID

John Exter's 'Inverted Pyramid' shows gold at the base representing an asset with least risk and assets at higher levels in the pyramid being more risky. At the time he wrote third world debt was placed by him at the top of the pyramid. Today sovereign debt from high income countries such as Japan and the United States would find place in that position.

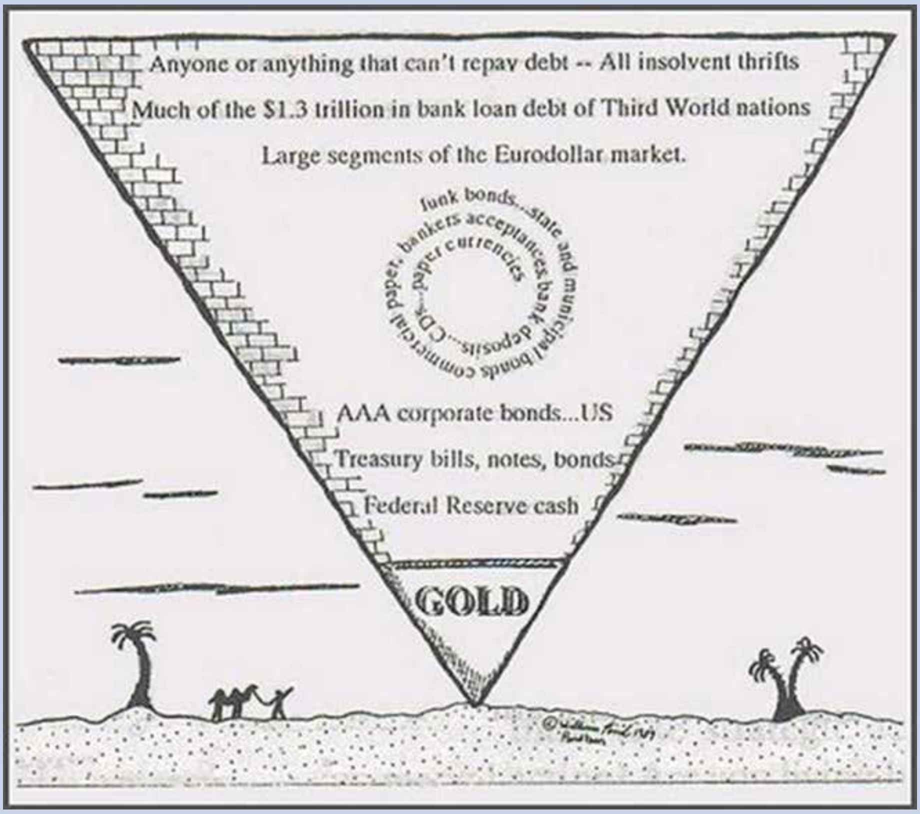


Image source: https://sdbullion.com/blog/financial-crisis-protection

Making India Super-Dependable as an Economic Power in the time of global economic crisis

Getting realistic on India's growth projections

Covid 19 has hit the economies of most nations for a six. While the IMF and Moody's are still saying that the Chinese and Indian economy will grow in 2020-21, we estimate that the most likely case for the Indian economy is a contraction by between 3-5%. How so? The lockdown means that for one full month the economy was functioning at about 40%. One month's GDP output is 8.33% of the output for the year. And 60% of this was not present. So, that is, straightaway, a 5% decrease in the GDP from where it would have been. Let's assume that the economy was to have grown at 6%. So we are now down to 1% growth.

Since the economy was shut, supply chains have been disrupted. Workers have moved back to their villages. It will take time to crank up the economy to 100% again. If we assume that it will take two months for the economy to go back up to 100% from 40%. In May we will function at 70% and in June at 90% and we will be back at 100% in July (all optimistic assumptions, incidentally). So, there will be a loss of 30% of GDP in May and 10% for June adding up to a loss of 2.5% and 0.8%. ***So by the time we get to July we are already at a decrease of 8.3% from where we would have been (a growth of 6%). That is, the economy will contract by 3.3%.***

And this is, if everything comes back to full capacity by July. We know, that travel, tourism, restaurants, multiplexes, events, etc. will not get back to normal for another 6 months at least. Of course, we will add some economic activity, but these will not be enough to compensate. More importantly, there are massive job losses likely and a dislocation in economic activity and tax revenues. Clearly, the combination of supply and demand shock needs to be addressed at a policy level. A base case scenario of India's GDP contraction by about 6% or more is quite plausible; and a worse case scenario could go upto a 20% contraction.

India's response

The Fed, the ECB, the Japanese Central Bank have all employed large monetary stimuli (between $1 and $2 trillion) and the respective government's have also provide fiscal stimuli (between $500 billion and $800 billion). The total amount as a proportion of the respective GDP's varies between 10% and 15% of the GDP. The question, therefore, is what are the RBI and the Central Government doing in India. The Indian stimuli is less than 2% of the GDP in actual money terms so far. How much more does India need? And what can India do to bridge the gap, seeing that India has some fiscal constraints and the apprehension of a rating downgrade that can make accessing capital from international financial markets more difficult.

So what should be the nature of India's economic bazooka?

We think and the Indian bazooka should be structured around gold for reasons that flow from behavioral science. While the bazookas from the Fed, ECB and the Japanese Central Bank and the respective governments have stabilized the financial markets and prevented panic in those countries, India does not have the luxury of printing money on the same scale that does not have some backing. Therefore***, to create money (as the Fed has done), India needs to have something in place that is accepted by the rest of the world, behaviourally and emotionally. That something is either foreign exchange or gold.***

India's total foreign securities holdings since 2008 has increased by 80% as of March 2020 whereas the value of gold holdings has increased by 219%. That said, India's rank in holding US Securities has increased from 19th to 13th in the same period. While India may claim a record high forex reserve, what does it constitute, it holds bonds whose value is depreciating, it holds currencies whose value is depreciating against gold. India's external debt to Nominal GDP as of Dec 2019 was 20.1%, at $563.9 bn it was more than the total forex reserves. However, the comforting factor the reserves are more than four time the short-term debt, which is the standard measure to qualify a Sovereign's position in meeting obligations. Whereas, China with $3.06

trillion reserves, its external debt is only 67% of total reserves and its short-term debt is 30% of the total reserves. And still it is 21% of the nominal GDP. Is this usable to aid India in the current crisis? We think FX needs to stay where it is to take care of external obligations. Bringing the FX into the local money circulation process would be an aberration. Also, a substantial proportion of it is a liability to repay NRI deposits and commercial borrowings.

Building a safety net

With the current playbook, India would only get trapped in a vicious cycle of debt that it creates in the process of stimulating growth by printing money, letting the currency depreciate, and increasing the risk of a downgrade (Moody's already downgraded). While forex reserve management has a limited role here, however, India does have large reserves of private gold. And some of it is going to come back into circulation as people dip into their savings to tide over the present crisis. In addition, some well off people can also be persuaded to sell gold. With the growing significance of gold in the international monetary system makes it very important to think through the following:

With 102 of 189 member countries seeking grant from IMF, every nation is going through a financial crisis of similar severity at this point, and India should add a new dimension approaching the economic crisis. We need to consider building a safety net. ***The safety net that protects the country from ratings downgrades and, possibly inflation, – that can be a problem - amidst an increased flow of cheap funds (inflation in times of pay cuts will spiral down the growth), protect from a sharp currency volatility, increases the international investor confidence, reduces the risk of not having a good collateral. The safety net should go on to build an asset that stands as a collateral and not use the liability (government bonds) as collateral, this should happen without tightening the monetary policy.*** It could be done by mobilising gold from the Indian market as discussed above, thereby not creating a capital account transaction on the exchequer. Instead such mobilisation should lead to fuelling domestic investments. Also efforts to be taken for repatriating at least part of the gold held at Bank of England for postponing the burden on current account emerging from gold imports. In short India should explore ways that makes us the most dependable borrowers and make us the super-dependable Sovereign.

CHAPTER 3:

Understanding The Indian Gold Consumer

Beginning this year India Gold Policy Centre has undertaken a nationwide household survey to understand Indian gold consumption. It is a bi-annual survey with 40,000 households covering 25 states. The survey is being executed by People Research on India's Consumer Economy (PRICE).

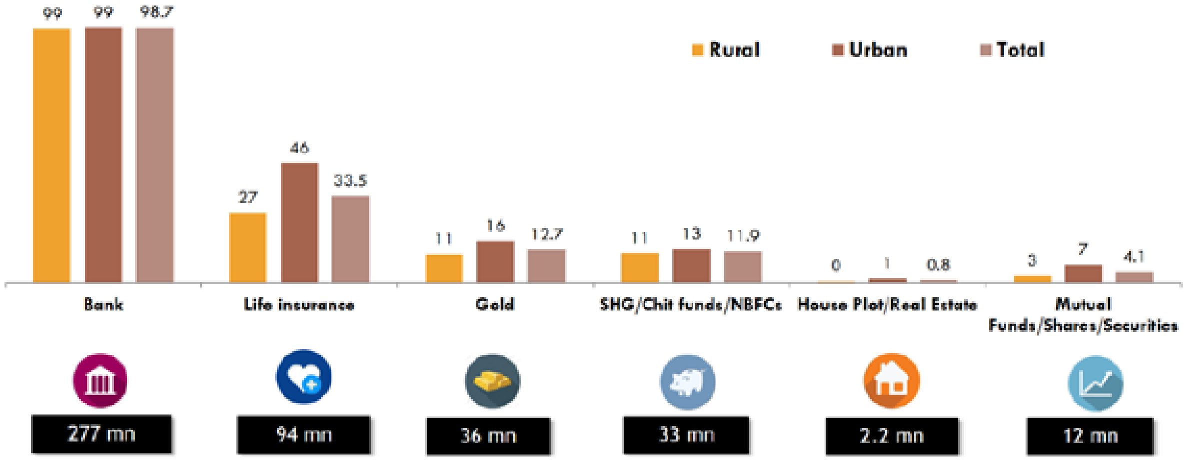
With permission from PRICE we here publish their ICE 360 Survey results, these are some of the past findings about who are the Indian gold consumers and how much they spend. The data and charts below are from ICE 360s study done during 2015-16, the results are still relevant as one would observe.

To start with let us understand the Distribution of Income, Expenditure and Savings (2015-16)

Population QUINTILE based on PCI	Population (Million)	Share of each quintile to total (%)			Rural-urban household split (%)
		Income	Expenditure	Savings	
Q1 (Bottom 20%)	**266**	**7.0**	**9.5**	**2.0**	**89:11**
Q2	266	10.8	13.5	5.7	82:18
Q3	266	15.2	17.7	10.4	70:30
Q4	266	22.1	23.0	20.4	58:42
Q5 (Top 20%)	**266**	**44.9**	**36.3**	**61.5**	**44:56**
Al India	**1330**	**100.0**	**100.0**	**100.0**	**66:34**

Source: ICE 360° Survey, 2016 (PRICE)

How Indians Saves and Invests (Penetration of financial instruments, in %, 2015-16)



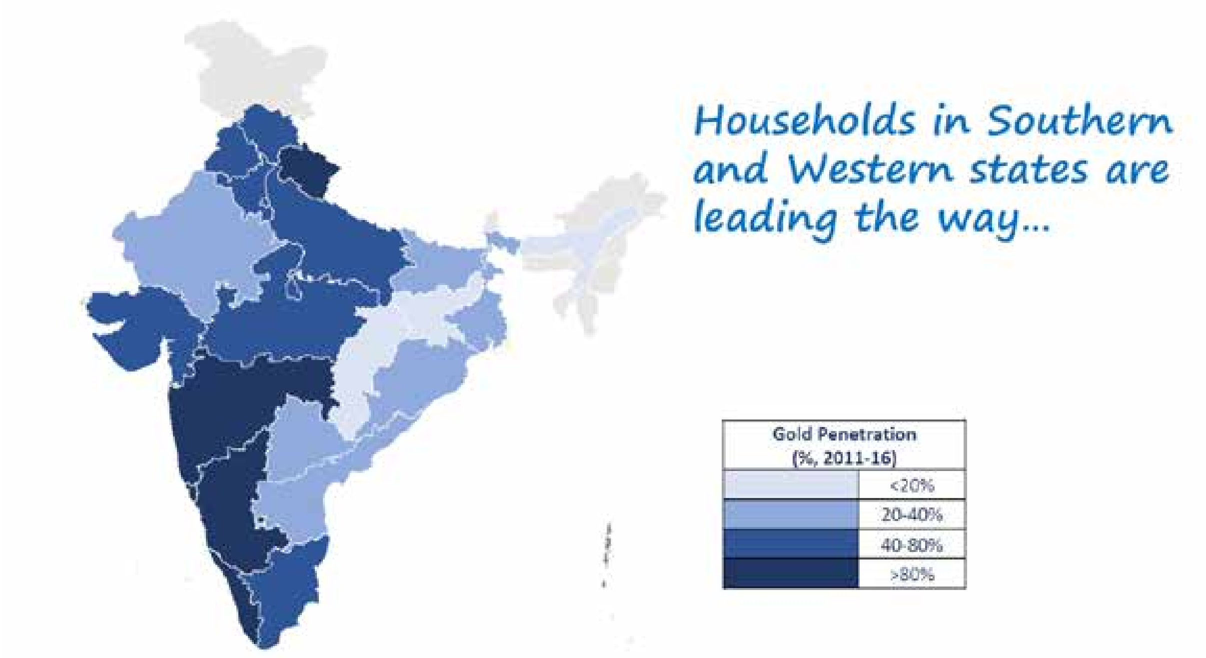
Source: ICE 360° Survey, 2016 (PRICE)

Distribution of total saving & investment (%) basis classification of area

Sl. no.	Saving Modes	Metro	Niche cities	Developed rural	Under-developed rural
1	Banking instruments	43.9	62.6	60.4	62.8
2	Life insurance	16.7	13.0	10.9	10.0
3	Gold	13.3	9.3	9.4	7.7
4	Keep cash at home	5.1	4.6	7.4	7.9
5	Informal savings	5.8	2.2	2.4	4.9
6	Business expansion (inc. real estate)	6.9	3.2	5.3	1.8
7	Capital market	5.8	3.2	2.2	0.8
8	Provident fund/Gratuity	2.1	0.9	0.6	0.6
9	Agricultural land/livestock	0.1	0.2	1.2	2.7
10	Other precious gems/Art	0.2	0.9	0.3	0.9
	Total household saving/investment	**100.0**	**100.0**	**100.0**	**100.0**

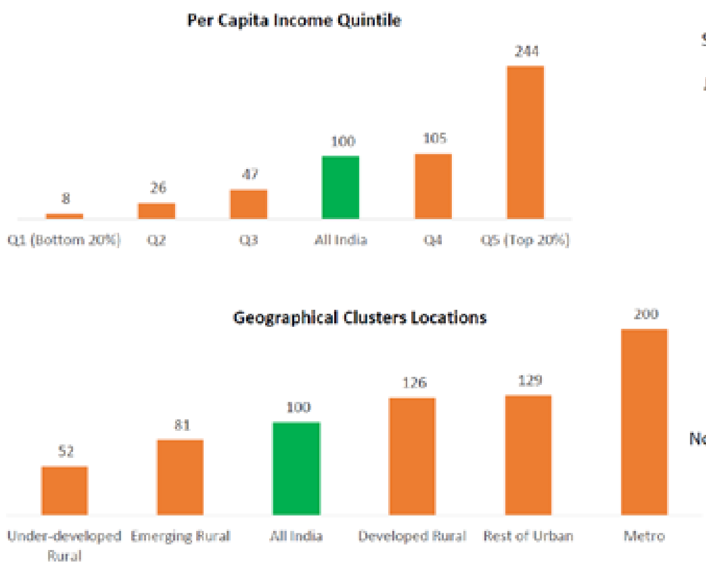
Source: ICE 360° Survey, 2016 (PRICE)

Gold penetration in the country (2011-16)



Who consumes the largest volume of gold: It is India's top 30% in the income pyramid
70% of the gold is consumed by top 30% of the population.

Source: ICE 360° Survey, 2016 (PRICE)



Source: ICE 360° Survey, 2016 (PRICE)

Reason for Purchase of Gold Jewellery: Rich vs. Poor

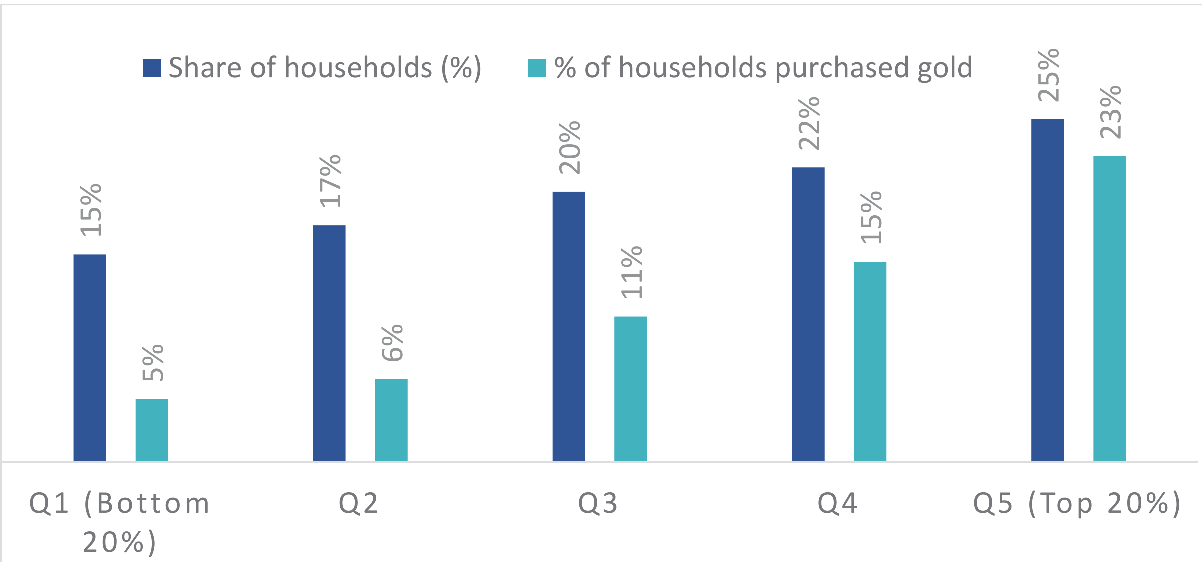
Across rich and poor, around half of the buyers purchased gold for purely for adornment purpose

A much higher share of rich households buy gold jewellery for gifting (Poor: 10%, rich: 17%) as well as purely as an investment (Poor: 0.2%, rich: 4%)

Reason for purchase	Bottom 20%	Middle 60%	Top 20%
Gift to someone	9.9	11.0	16.7
Wear myself	45.8	52.1	49.2
Wedding purpose	42.2	30.7	22.9
Purely as an investment	0.2	2.0	3.9
It is auspicious to buy gold during festival time	0.9	1.6	2.7
Other reasons	1.0	2.6	4.6
Total	**100**	**100**	**100**

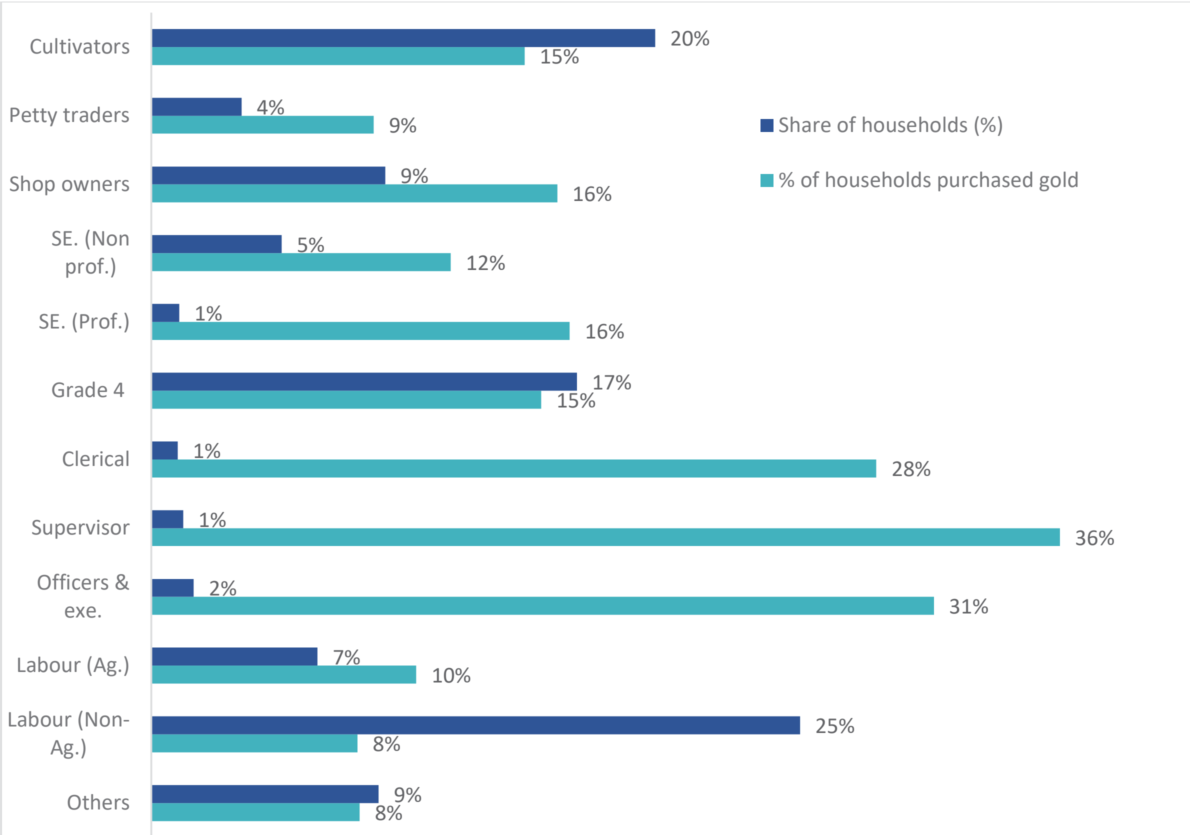
Source: ICE 360° Survey, 2016 (PRICE)

Penetration of gold by Quintile



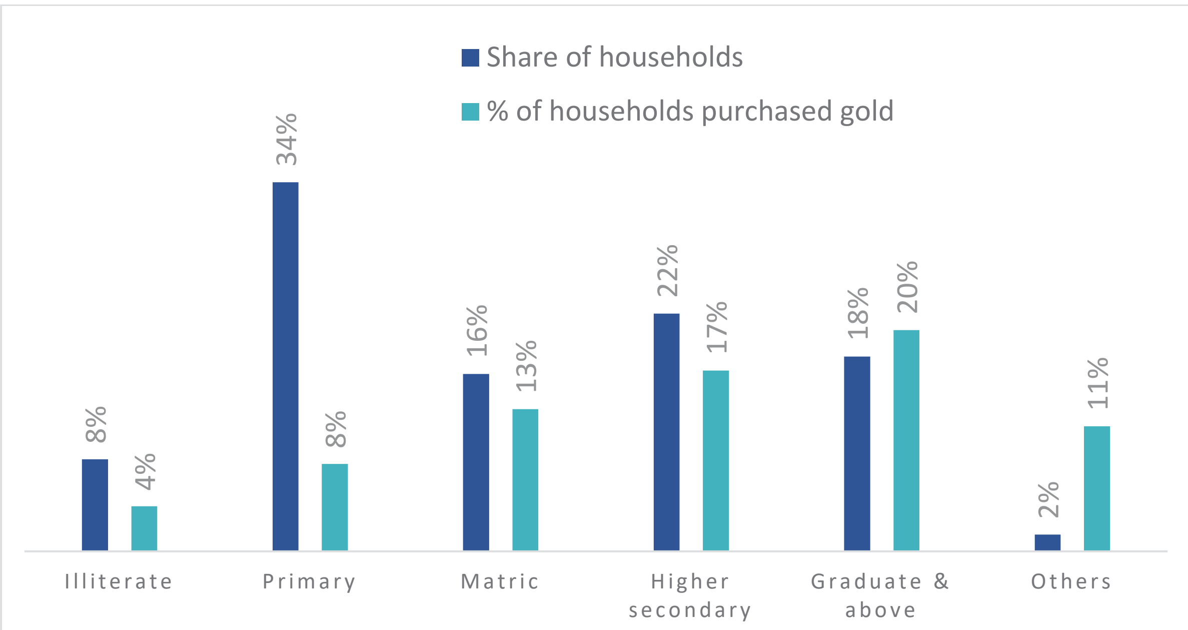
Source: ICE 360° Survey, 2016 (PRICE)

Penetration of gold by occupation (42% are self-employed, 20% are salaried, 32% are labourers)



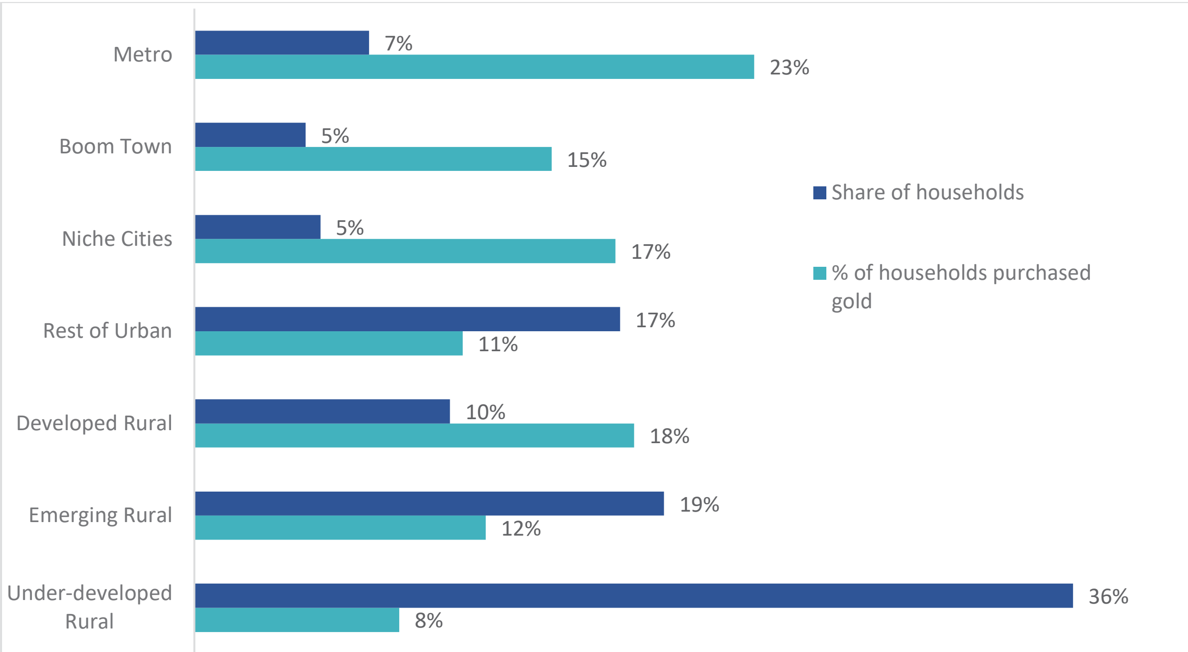
Source: ICE 360° Survey, 2016 (PRICE)

Penetration of gold by education



Source: ICE 360° Survey, 2016 (PRICE)

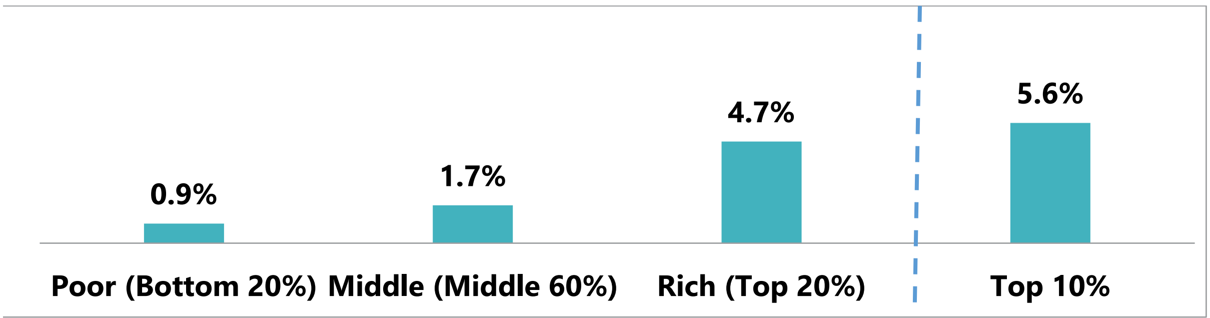
Penetration of gold by geography



Source: ICE 360° Survey, 2016 (PRICE)

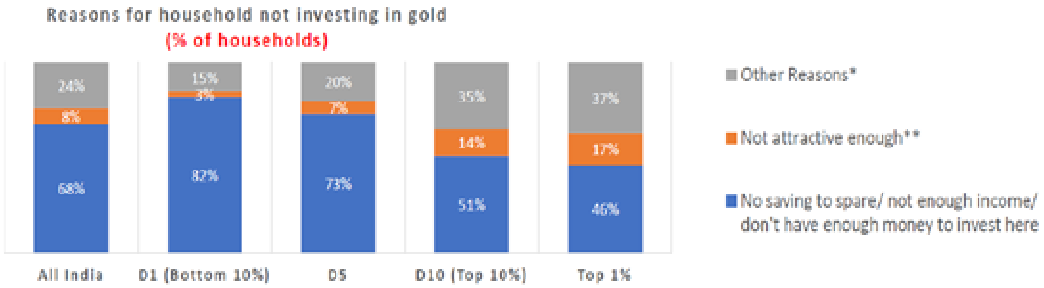
Households who purchased gold coin/bar/bonds/securities during 2011-2016 period

Half of India's total households (50%) purchased gold at least once between 2011 and 2016. Out of those who purchased, 98% bought jewellery; 2.5% coin/bar and 0.7% securities/-bonds/ETFs. To note here is this doesn't reflect the volumes but only what form of gold they purchased.



Source: ICE 360° Survey, 2016 (PRICE)

Some didn't buy gold and what were the reasons



*Other reasons

I. Not wanting money to be locked in
II. Prefer to have cash in hand
III. Capital markets being down
IV. Lack of trust on finance companies
V. Dependent on pension after retirement
VI. Already made a one time investment
VII. Lack of knowledge

**Not attractive enough

I. The returns are too less
II. Interest given is too less
III. Feel that it is risky and will eventually lose money
IV. Have lost money investing in this instrument

Source: ICE 360° Survey, 2016 (PRICE)

How Indians are monetising their gold: growth of gold loan in India

In FY2019-20, NBFCs, engaged in taking gold as collateral against loans, noticed a warm welcome from the international investors. Muthoot Finance raised $550 million via dollar bonds at coupon of 4.4%, following a successful $450 million raised in 2019. More interestingly the bond was launched at 4.75%, however with the overwhelming interest from international investors they could get at a lower yield. Mannapuram Finance in the same time raised $300 million at 5.9% as against the initial offer at 6.25%. As per new reports in total all the NBFC's together aim to raise about $2.5 billion from overseas bond issuance[1]. In the meantime, Rupeek an online lending platform has raised in total near $60 million since its inception in 2015.

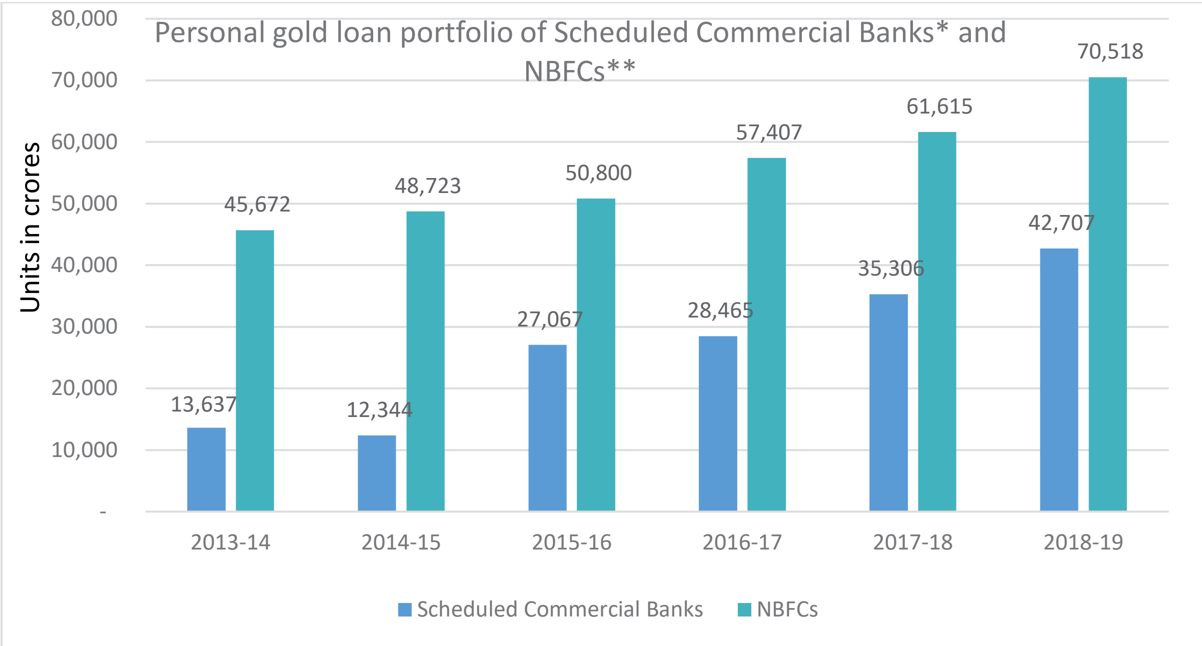
So what is common about these companies that is getting the attraction of global investors? It is the portfolio of their retail loans which is largely backed by gold as the collateral. According to CARE Ratings the three year CAGR of top seven gold loan NBFCs (with AUM of over Rs. 1000 crores) was 11.5% as of FY 2019[2]. These seven NBFCs' total advances were Rs. 70,500 crores, which is 15.8% of approximately Rs. 455,000 crores of Retail Credit given by NBFCs. This would imply an enormous potential in developing a secured credit portfolio by NBFCs, where gold is the collateral. Their revenues and profits are growing at a CAGR that is in excess of 10%. And the pandemic has led to a situation where they are likely to see a much higher level of business as people use their gold to generate cash in the post Covid days where liquidity for many people is a challenge.

Most of the Scheduled Commercial Banks have also built a sizeable portfolio in personal gold loan segment. Due to limited availability of data which were taken from the annual reports, we learn

[1] https://economictimes.indiatimes.com/markets/stocks/news/5-nbfcs-plan-to-tap-overseas-market-for-raising-up-to-2-5-billion/articleshow/68714912.cms?from=mdr

[2] CARE Ratings

that nine banks together provided Rs. 50,979 crores credit for the year 2018-19. Out of these nine only six banks have the data in public for atleast six years. Interesting to note that while the five-year CAGR of NBFCs was 9%, the banks grew more impressively at 25%. The growth for SCBs, one could attribute it to increase in bank account opening following demonetisation.



*SCBs data as provided in annual reports of six banks

** CARE Ratings covering 7 NBFCs

Source: ICE 360° Survey, 2016 (PRICE)

So where does the idea of a circular economy and gold come into this entire scenario? Circular economy is taken to mean an economic system where resources are reutilised without creating the need to produce it again. Globally it is estimated to create a $4.5 trillion opportunity by 2030 according to a report presented at the World Economic Forum. In this context gold holds a much greater significance if one is to look beyond the conventional definition of circular economy. In India loan against gold is on top of the recall in relation to monetisation and global investors are now eyeing this market. Betweeen Muthoot Finance, Muthoot Fincorp and Mannapuram, there is an estimated 200 tons of gold sitting as collateral on an annual outstanding basis. The entire organised lending where gold is a collateral may have an estimated 1280 tons. And a reasonably large proportion of this circulates and is not getting "monetized."

In addition to NBFCs, there are Scheduled Commercial Banks, Co-operative Banks, Small Finance Banks and Nidhi Companies providing credit against loan. To give a perspective, a large private sector bank gave Rs. 5,900 crores as loan against gold. Another nationalised bank is estimated to have given approximately Rs. 45,000 crores in FY 2019. Until recently the Schedule Commercial Banks provided loan against gold under the priority sector lending as part of its larger strategy to increase share of the risk-mitigated credit. Some of the banks even provide overdraft on gold holdings. As per the data published in the annual report of nine scheduled commercial banks, they together in the 2018-19 provided Rs. 50, 979 crores as personal loan with gold as collateral.

Thus, it would be fair to say that at least Rs. 300,000 crores are being provided as credit from organised lending route including both the retail credit and agri credit which is directly or indirectly related to gold as collateral. And those are short-term credits with the lowest default rate. Assuming average loan to value ratio at 70%, the total value of gold stored as collateral will be of value equivalent to rupees four lakh crores. This loan goes for a value added activity which could be installing a pump set for farming to starting a new business. And the institutions have more willingness to provide credit against a collateral that is liquid. Naturally it makes a business sense for investors to be part of this growth story by giving them access to low cost funds in international market with a three-year maturity.

We are here discussing only about organised market, the non-institutional sources of secured credit is just as big. They are all popular because of the intra- community lending. According to All India Investment and Debt Survey 2012 only following states had more than 10% of the debt in gold loans, Manipur (14.2%), Kerala (17.2%), Tamil Nadu (41.3%), Andaman & Nicobar (13.1%), and Puducherry (50%). Despite the high gold holdings, the non-institutional and unsecured debt is very high. The RBI Household Finance report has clearly shown the gains in income following shift from non-institutional credit to institutional. And if these are going to be backed by gold the gains could be higher.

Policy thought: Looking at the size of the market and the current need to infuse liquidity in the hands of the public due to crisis driven by Covid-19, gold lying with the Indian households provides a way to maintain credit flow and liquidity in consumption markets. If the gold in the hands of top 30% households can be mobilised it can be on one side be used for dollar swap and on the other, the depositor could be provided a low cost credit for a longer period. This is a privilege that only the Indian economy can consider.

CHAPTER 4:

Policies, Regulations and Market Innovations

Amongst the first personal digital assistants was the Palm Pilot in the 1990s. It was ahead of its time. Today, the mobile phone and email platforms performing all the functions that that the PDA was supposed to. A 100 years ago, in the early 20th century, electric cars and steam cars were competing with the internal combustion car. The electric cars could not get the ecosystem in place quickly enough and lost out to the IC cars. After a 100 years, electric cars are coming back for other reasons. If one is late with critical decisions or putting in place elements of an eco-system, then there is a good chance that one will lose out to competitors.

Recent research by Malmendier and Nagel[1] showed that the experience of large macro-economic shock affected the long-term risk attitude of investors at large, and thus coined the phrase 'Depression Babies', relating to people from era of Great Depression. The study found that individuals who have experienced low returns on an asset class throughout their lives report lower willingness to take financial risk, and invest a lower fraction on such assets.[2] It was largely in this context that RBI's Household Finance Committee Report was able to allude to inflation volatility among other various reasons that influence long-term risk attitude to, and the Indian's affinity to, gold. ***The report published in 2017 concluded with some policy recommendations on how to address the households' demand-side problems.***

Why financialisation of gold is important:

Despite its unrecognised role, gold is not in the list of assets that RBI measures to evaluate household investment and debt. With an estimated 12% of household savings in the form of gold, the rest of the savings, investment and debt stats are of lesser significance to have a policy outcome that is effective, unless that 12% gets accounted. This means financialisation of the gold is the key to this and developing infrastructure like bullion banking, standardisation and spot exchange. The more government delays recognising its invisible role in the households, more the investors would seek privacy when investing in gold. A behaviour change amongst the population holding gold is required anyway; the longer the government holds off on the changed gold policy, the more difficult it will be to change behaviour through nudges and force is not something that a democratic government would want to use.

Nudging households and bring gold back into circulation

Given the state of the fiscal deficit, where the Central government is already at 115% of the budgeted deficit in the first 8 months of FY, 2020-21, it is necessary to highlight the importance

[1] Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking? Ulrike Malmendier, Stefan Nagel

[2] https://econpapers.repec.org/paper/nbrnberwo/14813.htm

of policy towards ***nudging households invest in and circulate gold responsibly as an alternative that can help bridge some of the negative effects of the deficit.*** It is a kind of preventive care to ensure nation's fiscal balance, as it helps manage the household debt at time of economic downturn. And it is these savings that helps the economy stay afloat with minimum government intervention. For instance, if not for the gold that were being used as a collateral under priority sector lending for agriculture related activities, the NPA could have been much bigger, yet the interest rate subvention for such loan is being removed. If not for the gold the consumption and investment, spending could have dropped much faster, it is gold that is helping the households, many small and micro enterprises wade through the liquidity crisis, yet, bars and coins are not accepted as collateral. A large share of such credit is still from the informal and non-institution sector, and thus it doesn't get directly accounted in the measurement of economic activity.

To put this in perspective, at the start of the decade, gold demand was firm despite price hitting new record highs, the expectations for a sustained price increase was similar to the current sentiment. However, a large amount of cash[3] has gone into the rise in land prices till about 2017-18, as people sought privacy for investment, as a large source of land transaction was unaccounted.

Policy choices

In the trade-off between the choices of bringing an end to privacy in investment and increasing tax collection, the loss has been to the exchequer. That being said, the investor traceability is not just an issue with India, according to various reports Germany was considering slash the cash purchase limit from 10,000 Euros to 2,000 Euros effective 10th January, and investors are queued up to buy gold ahead of the new regulations. A key question for the policy maker is that of the level of traceability that the regulation should insist on; the greater the level of regulatory oversight, the more will be attempts to circumvent without an appropriate mechanism design. An appropriate level will lead to more traceability and greater collections by the exchequer.

These behaviour aspects can't be dealt efficiently by regulating the consumer but requires better design and delivery from an eco-system that provides the right set of incentives to all the players in the system.

Policies are just as good as its implementation and timing is critical

Why is the time for getting in place a robust gold policy running out? The context for gold is changing, gold imports are now increasingly dore based; credible refinery accreditation and monitoring is limited; and customer behaviour with respect to gold is also changing. In India the year of 2019 was also the period when the informal refining and scrap collection centres has had best of the business in recent years while the formal tax paying businesses suffered as people took advantage of the rise in gold prices to exchange old gold for new. The loss of GST revenues and dollar earnings from potential exports of bullion are something that cannot be reversed. As parallel centres for gold trade and exchange become more powerful (Shanghai,

[3] https://economictimes.indiatimes.com/news/economy/agriculture/great-rural-land-rush-3-to-100-fold-rise-in-farm-land-prices-may-not-bode-well/articleshow/25607513.cms

Singapore, Dubai), the space for the Indian system to create its own heft in the world gold markets decreases. In this context announcement of an International Bullion Exchange[4] was important, but how fast it gets implemented is all the more important.

The recent circular from the Directorate General of Foreign Trade moving gold from 'Free' list to the 'Restricted' list is a long overdue measure for the reason that it otherwise was not possible to stop any individual or firm from importing gold unless with a license. It has given more room for RBI and DGFT to control the gold imports when it is seen necessary, for example by setting quota limits as in China. But so much more remains to be done.

Recently Bureau of Indian Standards notified the good delivery standards for both gold and silver in addition to the mandatory hallmarking for jewellery.

We are hopeful of more such phased implementati on at start of this decade and let open a new chapter for the Indian gold trade.

IGPC has outlined an ideal execution plan:

Phase 1: Revamping the GMS starts with setting the ground ready for service providers

Nudging needs to happen at two levels one at the household level and other with banks who play an important role convincing their customers to deposit their gold. For depositors it is foremost important that tax authorities don't question them following the deposit and this deposit should be just as fungible as holding gold at their home/lockers. For banks it has to be a commercially viable business.

Sequence No.	Steps	Action required and Nudge wherever applicable
1	Allow banks to do inter-bank dealing on gold and source from LBMA accredited refiners. Use a Blockchain based traceable platform where RBI is on the admin node.	Necessary modifications to RBI Act and Banking Regulation Act
2.	Banks to be allowed to hedge even for non-GMS gold	Set limits to gold based liabilities that limits the exposure of banks; gives comfort to RBI
3.	Allow banks to sell GMS gold on outright as well and not only lease Allowing banks to sell investment coins and bars of less than 100 grammes, but not limiting to India Gold Coin. It helps them make good the cost incurred by paying depositors an interest.	Necessary modifications in RBI Act and Banking Regulation Act.

[4] Viability of a gold exchange in India by Prof. Jayant Varma and Prof. Joshy Jacob, https://web.iima.ac.in/users/webrequest/files/IGPC/Viability-of-gold-exchange-report-final-edited.pdf

Sequence No.	Steps	Action required and Nudge wherever applicable
4.	Mandate operation of only BIS accredited Collection Purity and Testing Centres (CPTCs) and refiners in country.	All the other independent gold melting and refining units to be made illegal. There will be a time period of 180 days. Introduce E-way bill that would automatically have track of all nuggets, bullion and jewellery. As jewellers would melt it in house and transfer the nuggets to artisans for making jewellery. Scraps will move to CPTCs and Refineries directly from jewellers and scrap dealers. Role of CPTC expands beyond GMS for which it was started, with increased turnover and profits, banks would get comfortable taking exposure on CPTCs by providing credit lines which doesn't happen currently.
5.	Allow banks to source gold locally as there will be supplies from accredited refiners.	Stop consignment imports and provide financing for bullion dealers Benefit of stopping consignment imports is it would stop speculation on customs tariffs. **However it is a step to be taken after local sourcing picks speed**.
6.	Only Banks to export bullion (only that of LBMA accredited refiners or refiners that take up responsible sourcing programme accredited by OECD). Only banks so as to reduce the leeway for round tripping activity.	Full duty drawback to be given. It creates incentive for more LBMA accredited refiners to start refining in India.
7.	Have a common trading platform to monitor and create traceability of all the gold traded as banks will take on a important position in the supply chain.	Establish the spot exchange (covered in another table)
8.	Develop a domestic gold lease market.	This helps to make gold sourced through GMS be leased at a competitive rate compared to imported gold.

Phase 2: Once the ground is ready, work on the financialisation of gold: getting the customers on board for GMS – on a prospective and retrospective basis can start in more earnest.

Sequence No.	Steps	Nudge
1.	Banks to be ready to open gold grammes account for retail customers	For customers no custody cost or management fees; can be used as collateral. For Banks, a clear regulatory change that makes it profitable for them to seek gold deposits. Requires a notification from RBI clarifying whether banks can allow open these accounts.
2.	Product 1: Short- term product (can be a gold savings account; gold metal account; other financialized product) Product 2: ETF in GIFT-IFSC by a PSU bank and backed by government. Reason to back by govt is this gold can be leased by the fund to domestic market. It will be a capital account transaction for investors.	Investors get to buy gold without duty and GST, still making good of its fungible status.
3.	Revamped GMS pilot launch	Nationally communicated circular from MoF / CBDT to reassure consumers, Define an upper limit Why people should deposit gold (they can get it back, gives them return; higher return option)
4.	Following the learning from pilot launch, reach to tier 2 and tier 3 towns in first phase Interest rate at 3% for customers. Cost of refining which is currently at 0.6% would reduce because they would have achieved efficiency with increase in feeds due to formal flow through scrap. Total refining and logistics cost can drop to 1% from 1.2% currently.	Rules / Criteria on which kind of branches of banks in Tier 2 and Tier 3 towns can accept gold deposits.
5.	Products for sustained GMS flow: Interest rate subvention for collateralising the gold. This unlike loan for gold products, here the jewellery will be melted down and credit provided at LTV of 80% of gold value. With a repayment period of upto five years. And one can redeem deposit only after five years. On timely repayment of loan one could start receiving interest on the deposit from the bank till the redemption of deposit.	Banks have to mandated that a certain percentage of total lending should be through this mode, ideally be clubbed with retail credit. Benefit: This would be a bigger success than providing interest to depositors. A proper KYC and creating disbursal of credit from specified branches which will be a part of central network can ensure people don't misuse the scheme. For instance an individual may be allowed only once in five years. The loss from melting jewellery may prevent one to exploit it.

GMS products for various age groups:

Baby Boomers and Gen X:

1. Individuals, households and institutions eligible under GMS may be allowed to deposit gold in any form and take loan against it at an interest rate lower (for instance 7%) than market rate subject to condition that it will be held under the Medium or Long term deposit. In this process depositors are able to reduce the household debt by switching from high cost debt to lower, this would have a positive outcome on their financial surplus. Also there is no cost to government as interest pay out for GMS depositors in MLTGD.
2. Gen X continue to be one of the large investors in gold as they plan for their retirement, look at ways to protect their wealth, and plan for big spend that would come up at later stage for the education and wedding related expenses for their children. Shifting the savings to gold savings products (as described in serial number 2 of financialisation of gold) will reduce their cost of purchase (as it excludes duty and GST), secondly it can be redeemed only at the time of converting to jewellery or encashing and the effective duty and GST would apply.

Millennials:

1. E-gold: Various organisations facilitate investors to hold gold in demat form instead of holding it in their own lockers. It would be prudent to consider moving this gold into circulation as part of the GMS, whereby investor earns interest from bank on agreeing to deposit it under GMS.
2. Product 1 and 2 as described earlier in serial number 2 in Financialisation of gold

Phase 3: Starting a spot exchange

By the time a spot exchange is started bullion banking, standardisation and transparency would have started taking shape with introduction of least amount of regulations. And GMS would have led to an increase in the level of gold available that can then flow through the spot exchange. (It is also possible that the spot exchange allows the GMS to work more effectively).

Sequence No.	Steps	Action required
1.	Government could consider launching a SPV with partnership from derivative exchanges and financial institutions. The derivative exchanges will ensure success of the spot exchange; with just a single exchange volume will not be split.	New spot exchange regulation to be regulated by Precious Metals Board Initial membership by open invitation and the top twenty volume providers could be offered membership at 50% concession one year after starting the exchange.
2.	Precious Metals Board	Definition of key clauses; membership guidelines; standards / denomination of gold that can be traded.
2.	Launch of physical delivery centres across India with various vaulting agencies mutually agreeing to accept each other	Changes to regulations like WDRA
3.	Launch of T+0, T+1 , T+2 and deferred contracts	Detailing the Spot Exchange Act.
4.	Defining relationships between banks and the spot exchange. Banks that are in GMS should ideally get preference to become members of the spot exchange	Spot exchange regulation to be in place. Make necessary modifications related to risk management and trading for banks through notification by RBI.

A solution driven policy approach we understand can be a better sell

India Gold Policy Centre has been working with Chainflux Technologies to explore the possibility of creating a platform. It was grateful of Abhinav Ramesh to volunteer and invest his time and resource to conduct the exploratory work by talking to stake holders across the value chain and coming up with white paper on how Blockchain technology can be used as a strong traceability backbone for the gold industry in India, right from refiner to jeweller. It was a 18-month long effort. Using Blockchain technology, a tamper-proof and auditable ledger can be created which would enable the the promotion of "Indian Good Delivery Standard", as well as potentially streamline the data flow for the Gold Monetization Scheme (GMS).

To-be scenario with the Blockchain platform

From the point of Dore import to the creation of the finished Bullion bar, data on source verification and Good Delivery are added by the refiner, shipping company, transport provider, vault, and the assay lab. This data is audited in real time by the regulator. This platform becomes the backbone for the India Good Delivery Standard. Sale of the bullion bar to hallmarking of jewellery is the second half of the traceability process, and similarly data on hallmarking, usage of the gold, sale of the gold is recorded on the platform. When customers deposit gold as part of the GMS, the data sharing and access permissions between vaults, refiners, CPTCs, banks are made instant and secure; the customer experience is made optimal through digitization and potential process modifications to encourage greater deposits.

Benefits

The SHINE[5] Blockchain platform creates closed network for gold movement which would reduce gold smuggling, terror financing. Through Traceability, SHINE creates the foundation and platform enabler for Indian Good Delivery Standard; further to the India Good Delivery Standard, SHINE creates the basis for enabling banks to source locally, hence propping up the Indian gold market which till now relies on gold imports; This can further lead to the creation of bullion banks, followed by the gold spot exchange. The upcoming gold spot exchange can use the data from the traceability platform to authenticate all gold settled on the exchange. This platform enables banks to see real time authentic data on gold movements between various parties, hence enabling banks to provide the much needed credit lines to the Gems and Jewellery industry. In addition to the above benefits, SHINE provides the platform to streamline the data coordination in GMS, and provides customers with a good user experience to participate in the GMS.

Regulatory changes that came into effect in FY 2019-20

1. Customs duty on gold and gold dore was increased to 12.5% and 11.85% respectively at the Federal Budget in July
2. On 26th September 2019, the Directorate General of Foreign Trade issued a notification that banned export of gold medallion, coins and jewellery that were fully machine made. The purpose was to stop interest arbitrage trade and for taking interest rate subvention benefit being a MSME exporter. The notification although wasn't rescinded but a PIL file by an Exporter against DGFT and a subsequent order on the same made this notification not valid.

[5] SHINE is name of the platform named by Chainflux Techno

3. On 18th December 2019, the Directorate General of Foreign Trade amended the import policy conditions for gold and silver by classifying it under "Restricted" list from "Free" list. It was seen as a radical move to keep check on imports from countries with which India has Free Trade Agreement.
4. On 18th December 2019, a self- attested copy from exporter was considered accepted instead of proof of export copy issued by customs.
5. On 15th January 2020, Ministry of Consumer Affairs issued a gazette mandating that effective 15th January 2021 all jewellery sold in the country have to be hallmarked.
6. On 12th February 2020, a revised version of Banning of Unregulated Deposit Schemes Act, 2019 was released which was focussed on punitive measures.
7. At the Federal Budget 2020, Finance Minister announced setting up of International Bullion Exchange.
8. All the Scheduled Commercial Banks were advised by RBI to give agriculture loans against gold as collateral only with Kisan Credit Card account holders (which as per March 2019 data was 66.2 million[6]). That move was very important to stop misusing the interest rate subvention that came with it.
9. The Bureau of India Standards notified the India Good Delivery norms for bullion.

Indian responsible gold sourcing workshop

At self regulation level, National Stock Exchange of India took the initiative to launch gold contract deliverable by BIS accredited refiners subject to following the responsible guidelines as stipulated by the OECD. We are seeing other exchanges Multi-Commodity Exchange and Bombay Stock Exchange also trying to walk similar path. In this context important to bring the relevance of **Indian responsible gold sourcing workshop** which IGPC organised in coordination with the OECD on 6th December 2019 with support from India Bullion and Jewellers Association.

Outcomes, commitments, & milestones set at the conference:

1. The meeting aimed to progress conversations about the implementation of international standards on responsible sourcing of gold in India, particularly on the completion of the India Responsible Sourcing Guidelines (IRSG), training and capacity building needs, and implementing responsible sourcing audits of gold refiners in India.
2. Participants to this multi-stakeholder workshop included representatives from the Indian government, OECD governments, and Indian and international gold supply chain representatives from banks, refiners, bullion dealers, jewellers, manufacturers, consumers, industry groups and responsible sourcing programmes.
3. Participants in the workshop convey broad support and agreement on the following points
   a. To promote Responsible sourcing of gold and ensure implementation of international best practices on responsible sourcing in India.

[6] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=942#CP23

b. In order to promote global coherence and acceptance, responsible sourcing standards and systems in India should be aligned with the OECD Due Diligence Guidance for Responsible Mineral Supply Chains (the OECD Guidance), while taking into account the distinct characteristics of the Indian market. As stipulated in the OECD Guidance, while all actors in the supply chain have their own role for due diligence, third party audits should focus on refiners of gold. Refer to the OECD and RMI for the definition of 'refiner.'

c. The IRSG should provide broad recommendations for all actors in the supply chain, with a specific focus on refiners, bullion traders & wholesalers, jewellery manufacturers and retailers.

d. India has a large domestic market for recycled jewellery that is generally considered to be low risk material for refiners' due diligence purposes.

e. At the same time, specific IRSG would be beneficial to cultivate more local ownership and support, in particular from other segments of the supply chain (Indian bullion traders, wholesalers, jewellers and retailers), and completing the IRSG is an urgent priority.

Participants in the workshop commit to the below follow-up actions:

a. Complete the IRSG, drawing from work already carried out by members of the Indian Responsible Mineral Sourcing Working committee, the derivatives exchanges and domestic banks (India Bank Association / India Bullion Bank Association.

b. Implement responsible sourcing audits of refiners in India as soon as possible.

c. Raise awareness and promote the OECD Guidance and IRSG, and ensure appropriate implementation, training and education in India.

d. Provide critical analysis of the Indian gold supply chain and work closely with the stakeholders of the supply chain to support meaningful monitoring and oversight. One example could include setting up a common due diligence assistance programme, to support common risk assessments of countries and mines. This can include research on gold flows and risk, as well as surveys into company uptake and implementation of the OECD Guidance and IRSG.

e. Industry organisations will inform the Government of India on progress of the above. The Government of India is encouraged to consider, as appropriate, including the standards on responsible sourcing of gold, as aligned with the IRSG and the OECD Guidance, in its relevant policies and approaches, in particular as it relates to licensing or regulating refiners, the nominated agencies, and creating a gold spot exchange as part of an India Good Delivery standard.

f. The OECD will support help in development of the IRSG and will facilitate consultation with international markets, industry associations, in order to help ensure alignment with the OECD Guidance. Depending on the outcome, the OECD will also engage to support cross-recognition of IRSG with existing industry programs like RJC, LBMA, RMI, and DMCC.

For more information on the discussion points and IRSG please contact India Gold Policy Centre, contact details on cover page.

CHAPTER 5:

IGPC's Gold & Gold Markets Conference February 2020

India Gold Policy Centre at IIM Ahmedabad organised its 3rd annual conference on gold & gold markets at the India Habitat Centre, New Delhi on 7th and 8th February. The conference was a mix of presentations and discussions from industry practitioners and academia, making it a platform for deliberating on core policy issues, generating new ideas for research and bringing together thought leaders to create a playbook for Indian gold trade.

The event was inaugurated by Shri K. Rajaraman, Additional Secretary at the Department of Economic Affairs, Ministry of Finance. At the inaugural address he asserted the need for trade to act responsibly and work towards removing the black spot that has mired the industry. Urged to explore how technology can be leveraged to streamline the industry, explore the incentive mechanism to get on board more organised players and promoting ethical business. In relation to the research areas, he asked for directed research so as to answer very specific questions. For instance, try get answers as to why jewellers oppose hallmarking, how value addition is to be created for economy, how exports can be increased. Urged IGPC to institutionalise the interactions with the industry, trade bodies and jewellers and get them on board to our policy thought process. Widen the policy work and bring in the interest of other departments in the ministry as well.

The conference was started with an introduction to the IGPC's Household Gold Consumption Survey that is being administered by People Research on India's Consumer Economy (PRICE). They presented some of the findings of their 2014 and 2016 study which went on to show that 70% of the consumption is driven by 30% of the population.

In aggregate there were 27 presentations, this included academic papers and topics related to developing export market, usage of Blockchain technology for bringing transparency in the value chain, and on how technology is being leveraged for personal gold loans.

Papers with academic interest were on spot and derivatives market and analysis of factors influencing the prices, the presentations had a greater focus on relating theories of consumer behaviour and decision making models to the consumers of gold, relevance of gold in the GATT, bullion banking, mining potential in India and regulatory challenges, scope of gold refining in India, credit model of jewellery retailers, statistical analysis of trump tweets and its impact on asset classes, sustainable skill development, studies about artisans and migration, and a case study on how gold holdings has helped a silk weaving community.

Four panel discussions were organised with speakers from the trade which included refiner, bullion dealer, jeweller, and banker. In addition, there were generalists with interest in gold markets that includes wealth advisor, lawyers and auditors engaged with gold and jewellery industry and other new age business service providers. The discussion on derivatives and international bullion exchange involved introspection of volume stagnation in Options and lack of consistent growth in futures volumes, the discussions highlighted on the relevance of the contract size. Greater emphasis of the discussion was on taking forward the India Good Delivery standards and exploring opportunities with start of an international bullion exchange at the IFSC in GIFT City. Second panel discussion deep dived into understanding about consumer choices, their decision making and how the two new age business on the panel were coping with the challenges. Third panel focussed on increasing the bar on compliance, with discussion focussing on the urgency of India comply with FATF guidelines at a time when precious metal sector is seen to increase risk to the membership status. This brought back the topic on Prevention of Money Laundering Act and the failure in pushing through minimum transaction limits. The deliberations also extended to subject on environmental aspects and labour policies followed by jewellery manufacturers. The final discussion was on developing a vibrant gold lease market, on the panel were bankers, refiner and a jeweller. This subject was discussed in an open forum for the first time. With just 10% of total gold imports constituting the Gold Metal Loan market it was intriguing how that was being used against the development of Gold Monetisation Scheme. The discussion went on to answer how to develop a lease market by letting banks source locally, eventually incentivising managing gold received under Gold Monetisation Scheme. One of the banker left a food for thought before concluding this session by asking how is it that a jeweller's cost of borrowing is less than that of government's borrowing cost.

The two-day conference concluded with encouraging academia to exchange ideas and asking IGPC to post top ideas that needs to be presented at the conference next year.

In the section later we have provided a brief about the twenty papers of the twenty seven that were presented at the conference.

1. Is gold a luxury product? An empirical study Dr. Rajesh Shukla, PRICE

The results of this study was based on surveying 60,332 households. The survey was done during 2014 and 2016 covering 165 rural districts and 487 urban cities/towns. It was interesting to observe that 87% of the households owned some amount of the gold. Wedding is apparently not the main motive, it is rather other social purposes that has outweighed the reasons to purchase. Considering that the bottom 40% of the population used gold as a collateral at time of financial crisis or medical emergencies, was clearly an indication that it is the absence of adequate social security or financial savings, that has encouraged people to buy gold. That being said, it helped conclude that in value terms the top 30% of the population bought 70% of the gold sold in the country.

The research helped identify the target audience to whom the Gold Monetisation Scheme is to be marketed. For that matter it was reasserting when one looks at the retail customer profile of the Gold Deposit Scheme, which was largely the wealthy households.

2. Financial market evidence of gold's special role in India, Prof. Dirk Baur, University of Western Australia

This paper analyzes the economic and cultural role of gold in India from a financial perspective and finds that some Indian firms and their exposure to the price of gold is unique. In India if the price of gold increases consumer sentiment becomes more positive due to a wealth effect and has positively affected the business of firms in the retail sector. It also established the link between share prices and gold prices, which went on to prove scientifically that the link is stronger if share prices go up than if they go down implying a positively skewed asymmetry in the link. Gold's economic role was reasserted by the wealth effect it has created more specifically when prices go up, also its relevance as a collateral goes up with higher prices.

This work holds greater significance when one has to consider portfolio allocation. The finding that gold jewellery demand is price inelastic when share prices are higher, suggests the influence of liquidity in hand to gold demand. We could also see this confirming to the empirical study by PRICE according to which large part of the demand is occasion driven and that the big spend is driven top 30% of the population.

3. Forecasting short run gold spot prices in India using mixed frequency models. By Varun Yadav, IIMA

The objective of this research paper is to increase the accuracy in gold price forecast (in Indian rupees) by using predictor variables (i.e, various macro factors) which are released at different frequencies. To achieve this, Mixed Data Sampling Regression model was used. The margin of error identified with such forecasts was found to be less than a percentage.

The forecast model has the scope for suggesting ideal date for listing a tranche of the Sovereign Gold Bond or even if RBI wants to plan adding gold to its reserves.

4. Price Discovery in Indian Gold Markets, Himanshu Sharma, Bank of America and Abhishek Haider, IIMA

This study explored if efficient market hypothesis allows for price discovery of gold spot prices from gold futures and volume traded in market using monthly data from 2009-2019. Results show that the lagged volumes of traded gold stocks do not affect the futures or spot prices of gold. Rather, the lagged futures prices cause change in spot prices of domestic gold prices.

The findings here help establish that the Indian market is primarily a price taker due to lagged price reaction. That being said it also shows the scope in arbitrage trading between MCX and Comex.

5. Round the clock International Price discovery of gold. Neharika Sobti, Department of Financial Studies, University of Delhi

The research paper studies an attempt to understand who sets the international price of gold across 24 hours by examining intraday dynamics of price discovery among major gold markets and instruments– gold futures of New York, Shanghai, Tokyo, Mumbai, Dubai, Istanbul, London along with two main gold spot platforms, largest gold ETF and US Dollar during six non-overlapping time zones in a trading day.

The study was able to prove that the transaction cost, trading volumes, and volatility are the key drivers of be considered a price maker. The New York COMEX was found to take the lead in international price discovery across all six time zones. This was despite the fact that India and China contributes to more than 50% of the global gold consumption. On a policy perspective this study reasserts that creating the right market infrastructure, a rationalised tax structure and capital flow with limited restrictions are the only way gold traded in Indian exchanges can have an impact on international prices.

6. A study of behavioral pattern of physical stocks and deliveries in Indian gold futures market By Dr. V Shunmugam and Tulsi Lingareddy, MCX

In August 2019 contract MCX recorded the highest deliveries of gold at 5.16 tonnes, this was following a customs duty increase in July and at the same time price had increased with demand collapsing. The deliveries generally increase with increased price spread of futures and spot market volatility though at a relatively slower pace. The exchange platform is used by the hedgers to deliver gold increasingly during the periods of higher spot market volatility and under contango market condition. That said, the extent of aggregate gold deliveries on MCX are markedly high at about 0.3% of total volume compared to about 0.01% on SHFE and other international exchanges.

The study helped conclude that when there is a rise in spot price volatility more than that of futures, gold stocks with the exchange warehouses also increase at a lower magnitude thereby suggesting increased use of futures by the hedgers intended to give delivery on the exchange.

On a policy perspective the study helped to impress upon the view that opening up the export market would have helped bring in higher dollar revenue as the traders could have been better of exporting than deliver to the exchange.

7. Gold traceability, GMS, bullion banking and trusted SIP's using block chain technology. By Abhinav Ramesh, Chainflux Technologies

This paper proposes the use of a first-of-its-kind platform - SHINE - which relies on innovative protocols built on a consortium Blockchain network that brings transparency to India's gold industry. This is in an effort to solve this sector's traceability shortcomings, blockchain technology can be made use of to guarantee the provenance of gold as it makes its way into a market and enters circulation. The advantage of blockchain is its ability to safely and transparently transmit data downstream as gold transforms during its movement across a supply chain.

SHINE is being designed to put India's gold industry on the world stage and at par with international bodies on the back of technology that ensures transactional efficiency and enhanced trust in an otherwise unorganised industry.

With regulators on the admin node of the chain they get to view the complete transaction with least interference. Also it helps reduce tax pilferages, thereby increasing government's revenue from the industry.

8. Preferences, use and impact of gold savings product in migrant corridors. By Shashank Sreedharan and Jithin Jose, LEAD AT Krea University

Kerala's state economy is heavily reliant on international remittances from migrants in Gulf Cooperation Council (GCC) countries. And Kerala is one of the largest consumers of gold in the country with highest per capita consumption. This study was focussed on understanding the short-comings that dissuade consumers from using Gold Link Deposit Products, their willingness to invest in non-ornamental gold investments, and what are the type of gold products they would be interested in future.

Taking into consideration how digital gold can be utilised for GMS, the survey results was in a way validation that the gold in digital form should also be considered as a collateral. To do this first some broad contours for operation of digital gold needs to be defined, which doesn't exist currently. Which can help further the reach of this product. It re-emphasised the role of banks in implementation of Gold Linked Financial Products and Gold Accumulation Plans.

9. Enhancing global presence of jewelry products – Key international marketing development models, India's penetration in world market for gold and silver jewelry, available government benefits w.r.t. marketing, promotion and branding. By Sabyasachi Ray, GJEPC India

This presentation by GJEPC detailed about the penetration of Indian gold jewellery in global markets while also explaining the untapped opportunities and the potential for increasing the share of exports. Also it touched upon the various government incentives to promote the trade. For researchers it was an opportunity to dwell more into this subject and exploring research scope in area of marketing and structuring trade finance.

10. Should gold continue to hold relevance in GATT? By Arjun Raghavendra, Legal Counsel and former IRS officer

This paper looked into the outcomes of including gold in the various Free Trade Agreements and Comprehensive Economic Partnership that India has signed with various regions and nations respectively. Gold unlike any other commodity is fungible, a characteristic which makes it prone to be misused on inclusion in the trade agreements, more so when there is a customs duty applicable on gold in India. The conclusion was country of origin and value addition clause of 35% is mandatory when it comes to adding gold and its products in the bi-lateral and multi-lateral trade agreements.

11. The role of family members in gold buying decision – an empirical study using correspondence analysis. Girish S Pathy and Hareesh N Ramanathan

This research was first of the type in our knowledge which has tried to identify the definite roles of family members in gold purchase decision. This study was done for a specific district in Kerala, the results shows the research has scope for a wider coverage. The outcome of the survey was insightful and can help design communication strategies for various gold products and for promoting Gold Monetisation Scheme.

12. Analysis of consumer behavior: a special reference to gold jewelry purchase by Dr. Aanchal Amitabh

The research using factor analysis was able to list down eight factors that influenced decision making of consumers in purchase of unbranded jewellery. The survey for the research was limited to a small region however there is a scope and need to expand this work across major consumption centres in India. The findings from the research is of greater significance for the industry specifically for the small and medium size retailers, a large section of who have traditionally commoditised their offering to the customers. The weightage that was derived for each factor indicates that if the retailers are able to think on similar lines and position their offering to customers it can add significant value to their offerings.

13. Whether President Trump Tweets are noise or not - a study of the impact of President Trump tweets on financial markets using NLP & machine learning". By Ms. Anuradha Poddar and Ms. Renisha Chainani, India Gold Policy Center at IIM Ahmedabad

Twitter has been becoming a key source for accessing freaking information and events, and this medium of Alternative Data as a New Normal is used by global investors to beat market returns. This Empirical and Conceptual Research paper looks at the impact of Tweets of US President Donald Trump on the Hourly Closing price data of various financial assets. Twitter Sentiment analysis was done on 500 sample tweets about US Economy, US Financial Markets, and American foreign policy, selected through Natural Language Processing from the population of more than 7080 tweets posted by him in the year 2019.

On differentiating the tweets into negative and positive tweets, the impact on various asset classes including gold were calculated. The conclusion of this work was while a positional trader could ignore the tweets however scalpers and tactitcal traders stand to gain significantly from the short-term volatility from these tweets.

14. Impact of Financial Knowledge in Ascertaining Risk Appetite and Risk Tolerance of Gold Investors- A Test of Expected Utility Theory. By Dr. Vandana Panwar, Prin. L. N. Welingkar Institute of Management Development & Research

This survey based research was helpful in validating the importance of financial literacy in assessing the risk tolerance of individuals. The study was basis the choices between physical gold, jewellery, gold coins, gold certificates, ETFs, Gold Mutual Fund, Digital gold, and derivative products.

The findings were that with the risk tolerance was different with various age groups and there was significant difference between the risk tolerance of male and female. The study however had its limitations thus isn't concrete to be generalised. The attempt however was helpful in factoring in this element while designing the products and also while positioning the same for Gold Monetisation Scheme.

15. Understanding working capital requirement of Indian jewellers. By: Pooja Thakker, India Gold Policy Centre at IIM Ahemdabad

This case study investigates the challenges faced by small & medium-sized Indian retail jewellery firms in working capital financing as well as challenges faced by bankers in giving credit facilities to the jewellery industry. The study was undertaken using primary data by interviewing various stakeholders of the industry as well as secondary data like analysing the financial statements. Financing has been cited as one of the most common problems faced by the gems & jewellery sector and is often viewed as one of the main barriers to growth and expansion.

Jewellers reported various challenges like high-interest cost, collateral requirements, cumbersome documentation process, delay in loan disbursements, availing the bank credit. On the other hand, banks primarily showed trust deficit existing in the trade with evidences supporting their claim understatement/overstatement of financial records and past financial performance, insufficient information disclosure, difficulty in recovery of bad debts, and inventory frauds. The analysis of the financial statements taken from MCA filing helped us validate the bank's view point.

For the jewellery industry to move ahead and access bank finance at ease they need to bring more transparency in their business and disclosures in the financial statements. Given that the business holds inventory that is very liquid, mechanisms to track the movement like Unique Identification number for each piece of jewellery in inventory or insurance were seen as the possible way forward.

16. Creating a market for Indian refined gold: a survey. By Prof. Paramita Mukherjee, IMI Kolkata and Prof. Vivekananda Mukherjee, Jadavpur University, Kolkata.

This research work comprehends about the gold refining market in India by explaining the complete value chain. The study was based on direct interviews of refiners, bullion dealers, jewellers, dore suppliers, and market experts across various regions in India. It tried to answer the questions related to the need for a differential duty structure, policies related to import of dore, the margins in the business, employment, responsible sourcing, quality standards. Additionally, this work helped understand the areas of government intervention and the prospects of gold refining in the country.

17. Gold exploration and mining in India: current status and the prospect. By Dr.Prabhakar Sangurmath, Former Executive Director, Hutti Gold Mines Co Ltd.

Kapil Shukla, IIMA; Minal Marathe, IIMA

This paper on gold mining in India provided insights on the potential of gold mining in India. An estimated 585 tonnes of recoverable gold has been identified, however the exploratory mining and mining feasibility studies to reach a mineable reserves have not been done yet. This paper documented in detail the identified reserves, challenges in getting license to explore and mine, reasons why FDI is difficult with current policy, the Effective Tax Rate. The research paper also compared with international mining norms and the gross value addition of gold mining in various countries and the potential value add for Indian economy.

18. A sociological study of goldsmiths of Bengal: migration, artisanal entrepreneurship and social mobility. By Prof. Anandita Chakrabarti, IIT Kanpur and Ms. Sruit Kanungo, Symbiosis Law School, Pune

This was a first of the kind research which documents what has made the Bengal the hub for supply of skilled artisans for all over India. The study further explores the impact of migration, and entrepreneurship drive of their artisans, and how they move up the value chain from an Apprentice to a Master Craftsman while passing the skills to their juniors. The research was undertaken through fieldwork by interviewing the artisans and their families in various districts of West Bengal. It explained the guild-like system and went on to explain how mechanisation is taking away part of the jobs. That being said, it also exposed their work environment reducing the average life span of goldsmiths.

The skilled craftsmen and their next generations are gradually losing their interest to continue work in the same field due to policy hurdles and lack of growth since 2016. Thus it has left a very pertinent question on who will be the next artisan

19. Our ears have been bare since then: gold ownership in a raw silk producing town through the economic reform period. By Ms. Nithya Joseph, French Institute Pondicherry

This field based study covering gold ownership in a raw silk producing town Ramanagaram in Karantaka looked into the gold ownership characteristics and how the local businesses were using the household gold to fund their working capital requirements. The study showed the increased reliance on informal banking for loans and higher interest rates that they have to pay for raising funds. This was a re-emphasis on the importance of spreading the reach of retail gold loans through banks and financial institutions. Interestingly, although some of those the researcher discussed with were not availing the priority sector loans.

On a policy perspective this provides evidence for the need to introduce gold based savings products and its penetration is more required in smaller towns to support small businesses.

20. State Policies in India and the Gold Industry: Exploring the Labour Process in the Gold Jewellery Making Industry in Kerala, India. By Dr Sumeetha.M, Christ University, Bangalore

This research gets deeper into understanding the labour standards and process in the jewellery manufacturing in one of the country's largest jewellery manufacturing hubs in India. It explained the reliance on migrant workers and the pigeon-hole workshops in which the artisans operate. This work has helped document the process which indirectly makes one appreciate the reason for pilferages in the system.

Panel 1: Stepping up the product offerings in gold derivatives, and importance of International Bullion Exchange at IFSC in GIFT City

On the panel were:

- ◊ Viral Shah, India Infoline Wealth & moderator for the panel
- ◊ Shivanshu Mehta, MCX
- ◊ Nagendra Kumar, NSE
- ◊ Amit Suman, MMTC-PAMP
- ◊ Chirag Mehta, Quantum Mutual Fund

The highlights of the discussion

i. New product offerings likely to come in the next 2-5 years that would propel the growth of the derivatives market in India

ii. Setting up of International bullion exchange at IFSC in GIFT city

iii. Initialization of Responsible gold sourcing in India by NSE and its implications for India

Key takeaways from the discussion:

a. Introduction of products from various Multi Asset Allocation funds to pave way for higher volumes and open interest in the far month contracts

b. Options to be seen as a high leveraged product and not to hedge, unless it is physical settlement

c. Increasing delivery centres would be the next in the plan of exchanges with launch of India Good Delivery standard

d. Participation can increase only from those with unhedged inventories, for instance in case of refineries most price it after refining due to the arrangement with supplier

e. Gold ETF can only be physically backed, future backed ETFs are failure due to the roll over cost. A dollar denominated ETF in IFSC might click among high net worth retail investors.

f. International Bullion Exchange, it was too early for panelists to comment on how it is to function. As long there aren't too many regulatory hassles it can become an easy start was the consensus.

g. National Stock Exchange took the opportunity to explain their initiative related to launch of their Indian refined gold product, which not only covered the quality parameters specified by BIS but also takes into account the responsible sourcing. This as highlighted was the first time where a refiner was getting into a contractual agreement with the exchange, whereby refiner is held responsible.

Panel 2: How new generation players are shaping gold and jewelry trade as consumers move from a collectivist to an individualistic culture

Members of the above panel were:

◊ Prof Arvind Sahay, Chairperson-IGPC, IIMA and moderator of the panel

◊ Rhea Chaterjee, Safe Gold

◊ Prasad Sahane, Rupeek

The key points discussed were

i. How safegold functions

ii. Role of Rupeek

iii. Methodology used by safegold to test the percentage of gold in the jewelry

iv. Does Rupeek continue with the traditional method of appraisal

v. How does the functional purchase take place at Safegold

vi. Safegold and Rupeek's customer profile

SafeGold: Safegold is a platform that makes it easy for people to buy fractional digital quantities of gold, even with as low as one rupee. One can buy a 24K gold of an amount as low as a rupee. One can liquidate it anytime without even taking delivery and the window is open 24/7. Physical delivery is provided only when volumes are at a minimum quantity. The transactions can be done through mobile wallets or online banking. It is 100 percent physically backed. The owner of gold can exchange the units with any of the Safegold partners with physical jewelry. Non requirement of demat makes it lot more convenient for many customers.

Backend operations at Safegold: Custodian, Trustee model has helped build integrity within the system, ensuring customer's gold is always secured.

SIP on gold: The key benefit of holding gold digitally is that the customer can purchase can accumulate and as per their requirement, they can redeem it in the form of coin, jewelry or funds as and when they want it subject to terms and conditions . In short, it is a structured asset, has a secured trustee and an independent custodian. As of now, safegold has been partnering the kirana stores, mobile wallets, financial savings platform etc. Thus their customers are across rural and urban sectors across the country.

Customer profile: Digital gold started getting popular through mobile wallet service providers and cashing on the payback rewards that wallet users got. The usage overtime has grown beyond that and there are more serious and investors who see using this platform for their portfolio allocation.

Rupeek: Rupeek enables the customers to take loan against their gold. It typically operates in an urban market where there is basic understanding of how the apps or technology works.

Functioning of Rupeek: Rupeek is a fin-tech lending platform where gold is a collateral and provides service at door step. The loan manager's entire details are given to the customer ahead of his arrival. The customer can ensure the identity of the Rupeek representative by checking their Govt ID and photograph. The transaction begins with an authorization code that the customer shares with Rupeek's loan manager.

Rupeek serves as a credit card to habitual gold loan pledgers and small businesses. The main reason of preferring Rupeek over other alternatives is that, small businessmen need working capital. They prefer Rupeek who come to their doorstep, pick up the gold and give the money then and there without any hassles. For retail customers, they do not have any avenue to go anywhere. Due to low number of NBFCs, the elite customers do not have any option then to pledge their gold and hence they approach Rupeek which provides them the opportunity to pledge their gold. Banks too are trying to partner with Rupeek, reason being 40% market captured by PSUs, 49% by NBFCs and remaining 20% by cooperatives and private sector banks. Private sector banks are not able to make big on the gold loan side because it requires a very typically special expertise, which the banks may not have for gold appraisal such as huge logistics issues, fraud risk, and final credit decisions based on customer's cash flows. Hence they prefer Rupeek to execute the gold loans.

The most significant benefit of Rupeek is that the default rate is low compared to the other market players. Secondly, even if there is a default, there is no credit cost, because of the way the LTV norms are mandated by RBI which covers Rupeek more as a lender.

Customer profile : In case of Rupeek, as far as retail customers are concerned, 30% of the Rupeek customers are women, and women essentially prefer Rupeek for the simple reason that they get the benefit of not carrying gold outside the home and face theft.

Also, there is a lot of inherited gold and unlike the old people, younger generations do not have that attachment for old gold. They have a pragmatic attitude. Whenever money is needed, they prefer hedging the gold.

Second are the gold loan borrowers that is salaried class people. Generally the salaried person use their salary to make down payments towards house purchase; medical emergency, consumer durables and some leisure activities like travelling. Hence they pledge gold for other requirements.

Whereas when small businessman need money for their day to day working capital requirement, they do not care of keeping their gold idle as they are more interested in doing maximum business. Hence they love the way Rupeek approaches them at their doorstep and pick their gold and give them the money at their doorstep.

Panel 3: Setting a benchmark on compliance, who takes the lead

The above panel, moderated by Arjun Raghavendra, an Independent Consultant consisted of the below members:

- Surendra Mehta, IBJA

- DD Karel, NM Karel & Sons
- Mr. Anil Kansara, Aurometal Refinery
- Mr. Prem Nath, Karur Vysya Bank

The discussion focused on three areas:

- Whether compliance and enforcement are two sides of a coin.
- If yes, where does it begin and where does it end.
- Does ending compliance directly impact on enforcement of legislative provisions.

Need for compliance:

Compliance can be for after sales service and for processes also. It may relate to any activity which do not lead to any tax evasion or duty cut or anything related to regulations. It also covers taxation.

In 1991, after the removal of gold control, there was an excise implication on gold manufacturing. This duty was applicable on bullion or jewelry, making gold enter the market only through official channel. But within 2-3 years, the excise duty was removed and thus non-compliance started. From 2000 till 2013, Government tried to introduce excise so as to bring all gold manufacturers under the compliance bracket which was somehow not implemented.

Introduction of PAN in transactions and very importantly notifications issued for prevention of money laundering with respect to jewelers to report with certain limits were made in the year 2017. However, the same were not implemented and subsequently withdrawn. Reason for this as given by one of the panel members was while onboarding any client, a risk assessment is made taking into consideration the below factors:

- Company's business model
- Major suppliers
- Geographical locations
- Creditors
- Audited balance sheet
- Market feedback
- Bankers of the company
- Promoters
- Income tax

All these are checked as a part of domestic compliance procedure. For international compliances, the exporters list too is checked.

Compliance enhancement in remittance towards dore imports sees a need.

Incentivisation of Tax Payers:

Indian Govt plans to start digital mechanism shortly, whereby companies whose turnover is above 500 crores and have B2B transactions, shall be given a cash price from 10 lacs to 1 cr.

According to panel Member Mr. Surendra Mehta of IBJA, Government is digitally advanced due to GST. There are hardly 85k jewelers who file regular returns as per the I.T. website. Once hallmarking is made mandatory, actual number of retail jewelers can be derived. And this is what is the ultimate objective of the Govt for making hallmarking mandatory. With the help of e-invoicing most of the bullion transactions would get recorded. He opined that the consumer is the king and deserves what he pays. Compliance should be ranked first and business on the second place.

How can perception towards compliance be improved:

The trade should works towards: self-regulation, end consumer focused business model, integration of interest among various industry trade bodies across India, and last but the least compliance should be made integral to the brand.

How perception affects compliance and in turn the incentivisation:

"If compliance is expensive, then one must try non-compliance which is even more expensive", a popular quote which states that compliance must be thought as an investment instead of a cost. This would lead to a better business.

Proper investments must be done to do proper manufacturing which will pay for all the grammage losses.

There should be clear policies laid down for imports, trading, manufacturing, logistics, KYC, recycling and exports to create a level playing ground in the industry.

The cost competitiveness of a jewelery manufacturer largely is achieved by the sub-par working standards provided to the artisans. They were seen flouting every law that protects the workers interest and well being.

Panel 4: Creating a vibrant domestic gold lease rate for Indian Gold Trade

The panel comprised of:

- Manish Goel, ICICI Bank – Panel Moderator
- Mehul Thakkar, FirstRand Bank
- Vipin Raina, MMTC-PAMP
- Dileep Narayanan, Malabar Gold Pvt ltd
- Gambhir Singh, HDFC Bank

Key discussions in the panel were:

◊ Reasons of GML not being a popular product, despite large number of jewelers and consumption being very high

◊ Functioning of international markets

◊ Evolution of gold lease market

Ways of making GMS work:

a. Increase participation from jewelers with which banks already have exposure

b. Banks need to work with CPTCs and Refiners, their risk aversion should not be basis the size of CPTC or Refiner instead a rigid fool-proof process is to be developed to mitigate risks.

c. Banks be given free hand in utilization of gold sourced through GMS subject to they have in place effective risk management principles

d. Banks be allowed to source from accredited refiners

Increase the scope of domestic sourcing:

a. With BIS's India Good Delivery and Responsible Sourcing guidelines for India slowly coming to materialize banks should be allowed to source locally within the closed loop.

b. Gold Metal Loans be allowed to settle in physical gold sourced locally.

c. Have a mechanism or process to have traceability to the trades and source of metal

International market and gold lease rate

a. Developing a domestic gold lease rate is important to make the GMS successful as international lease rates which are the current benchmarks make its less lucrative to source locally.

b. All domestic transactions from banks has to be in lease catering to jewelers and bullion dealers

c. Banks must be permitted to develop an interbank market where they can freely buy/sell as well as lend/borrow. This way a lease curve can be initialized for the gold market.

d. Credit for not just jewelers but also for refiners and bullion dealers

e. Banks can also provide local India accounts to competent authorities and jewelers by opening gold savings accounts.

f. The borrowing rate of government is higher than that of a jeweler or for that any other business, thus it is important to think through the importance of developing a domestic lease market.

CHAPTER 6

IGPC Events and Engagements

India International Gold Convention, August 2019

Mr Sudheesh Nambiath, Head-IGPC at IIMA - panelist at India International Gold Convention 2019

Russian Bullion Forum, November 2019

Mr Sudheesh Nambiath, Head-IGPC at IIMA - speaker at Russian Bullion Forum 2019

OECD IGPC Workshop 2019

The OECD workshop was organized on Dec 6 at India Habitat Centre, New Delhi in collaboration with IGPC @ IIMA and IBJA.

Welcome address by Mr.Tyler Gillard, the head of Sector Projects, OECD Centre for Responsible Business Conduct.

Economic Advisor to Ministry of Commerce and in-charge of Gem & Jewellery of Export Promotion Ms. Rupa Datta, chief guest at the conference, being welcomed by Prof. Arvind Sahay, Chairperson, IGPC @ IIMA

Ms Marianna Smirnova, Director, Responsible Minerals Initiative, making a presentation on RMI and its objectives and assessment process

Mr. Tyler Gillard, head of Sector Projects, OECD Centre for Responsible Business Conduct, moderating a session on - Aligning industry initiatives with the OECD guidance and lessons learnt in other international gold markets

Panel members discussing the road map for 2020 alongwith Indian trade associations and government officials

Closing Remarks by Mr. Tyler Gillard, head of Sector Projects, OECD Centre for Responsible Business Conduct.

IGPC IIMA 3rd ANNUAL GOLD AND GOLD MARKETS CONFERENCE

The IGPC IIMA third annual Gold and Gold Markets conference was organized at India Habitat Centre, New Delhi on Feb 7-8, 2020

Day 1: Feb 7, 2020

Welcome address by Prof. Arvind Sahay, Chairperson IGPC at IIMA and Mr. PR Somasundaram, Managing Director, India, World Gold Council

Lighting of lamp by - Prof. Arvind Sahay, Chairperson IGPC IIMA; Mr. PR Somasundaram, Managing Director, India, WGC alongwith Chief Guest and Additional Secretary, Department of Economic Affairs, Shri K Rajaraman

Prof Arvind Sahay, Chairperson IGPC IIMA, welcoming Shri K Rajaraman, Chief Guest of the conference & Additional Secretary, Department of Economic Affairs

Keynote address by Shri K Rajaraman, Additional Secretary, Department of Economic Affairs

A presentation of an empirical study on 'Is gold a luxury product' by Dr Rajesh Shukla, MD & CEO of PRICE Research

A session chaired by Prof Sanket Mohapatra, Professor of Economics at IIMA

First to begin the session, Prof Dirk Baur, University of Western Australia presenting a paper on Financial Market Evidence of Gold's Special Role in India

Mr Varun Yadav, a doctoral student of Economics at IIMA presenting a paper on Forecasting short run gold spot prices in India using mixed frequency models

Mr. Himanshu Sharma, fixed income analyst at Bank of America, presenting a paper on Price Discovery in Indian Gold Markets

Ms. Neharika Sobti, Department of Financial Studies, University of Delhi presenting a paper on Round the clock International Price Discovery of Gold

Ms. Tulsi Lingareddy, MCX India Ltd presenting a paper on - a study of behavioral pattern of physical stocks and deliveries in Indian Gold Futures Market

Mr. Viral Shah, India Infoline Wealth moderating a panel discussion on - Stepping up the product offerings in gold derivatives, and importance of International Bullion Exchange at IFSC in GIFT City

From Left to right - Mr Shivanshu Mehta, MCX India Ltd, Mr Nagendra Kumar, NSE India Ltd., Mr. Viral Shah, India Infoline Wealth; Mr Amit Suman, MMTC-PAMP India Ltd and Mr. Chirag Mehta, Quantum Mutual Fund

Mr Sumit Maniyar, CEO, Rupeek presenting a paper on How Rupeek is helping Indian Banks double the personal gold loan market

Prof. Arvind Sahay moderating a session on How new generation players are shaping gold and jewelry trade as consumers move from a collectivist to an individualistic culture.

From left to right - Mr Prasad Sahane, Head of Lender Partnerships, Rupeek and Ms. Rhea Chaterjee, Safe Gold

Paper presentation by Mr. Abhinav Ramesh, CEO, Chainflux Technologies on Gold Traceability, GMS, Bullion Banking and trusted SIP's using Blockchain Technology

Paper on Preferences, Use and Impact of Gold Savings product in Migrant Corridors, presented by Mr Jithin Jose and Mr Shashant Sreedharan, IFMR LEAD (Krea University)

A paper presented by Ms Pranita Waghmare, doctoral student and Dr Smita Shukla, University of Mumbai on 'Behavioural factors implementing the investment decisions in Gold - Exploratory Study'

Ms. Sruthy Madhavan, Research Scholar, Cochin presenting a paper on Gold purchase preferences and consumption values of women teachers in Kerala

Ms. Sukriti Sekhri, doctoral student, IIMA presenting a paper on ‘Online consumer behaviour and consumer perception of wishlist vs cart, in context to jewelry retailing

Mr. Sabyasachi Ray, GJEPC presenting on World market for gold and silver jewelry, available government benefits w.r.t. marketing, promotion and branding

Paper presentation on - The opportunities for the Indian Jewelry industry to improve margins by Mr. Jayant Raniga, Pure Jewels, UK

Mr. Arjun Raghavendra presenting a paper on - Should gold continue to hold relevance in GATT

Paper presentation on - The role of family members in gold buying decision, an empirical study using correspondence analysis by Mr Girish S Pathy, Bhavan's Royal Institute of Managment, Kochi

Ms. Navjot Kaur, Research Scholar, GNDU, Amritsar presenting a paper on - an empirical analysis of perceptions of investors towards gold

Ms. Aanchal Amitabh, Associate Professor, SRM IST, Delhi presenting a paper on - Analysis of consumer behavior: A special reference to gold jewelry purchase

Ms. Renisha Chainani and Ms. Anuradha Poddar, IIMA presenting a paper on 'Sentimental impact of US President Trump tweets on Financial Markets in 2019 and the prediction of the percentage change in gold price using machine learning model and natural language processing

Day 2 - Feb 8, 2020

The second day of conference started with a paper presentation by Ms. Vandana Panwar, Prin. L.N.Welingkar Institute of Management on - Impact of financial knowledge in ascertaining risk appetite and risk tolerance of gold investors, a test of expected utility theory

Paper presented on - A golden death of dogma to invest in gold: a new investment approach to transform the sector with respect to consumer behaviour by Ms Sudhi Ranjan Dash, strategy consultant and Ms. Jita Rani Udgata, GJEPC

Ms. Pooja Thakker, Research Assistant, IGPC @ IIMA presenting a paper on 'Understanding working capital requirements of Indian Jewelers'

Paper on - New paradigm of bullion banking in India: an empirical investigation, presented by Ms. P Hemavathy and Mr. S Gurusamy, University of Madras

Mr. Arjun Raghavendra, independent legal consultant and former IRS officer, moderating a panel discussion: Setting a benchmark on compliance, who takes the lead?

From Left to right - Mr. Arjun Raghavendra, Independent Consultant; Mr. Premnath, Karur Vyasya Bank; Mr. Surendra Gupta, IBJA; Mr DD Karel, NM Karel & Sons; Mr Bhavin Mehta, CA

Ms. Paramita Mukherjee, IMI Kolkata and Mr. Vivekanada Mukerjee, Jadavpur University presenting a paper on: Creating a market for Indian refined gold

Mr. Prabhakar Sangurmath, former executive director, Hutti Gold Mines presenting a paper on - Gold exploration and mining in India: current status and the prospect

Mr. Gambhir Singh, HDFC Bank Ltd, moderating a panel discussion on Creating a vibrant domestic gold lease rate for Indian Gold Trade

From left to right - Mr. Manish Goel, ICICI Bank Ltd.; Ms. Mehul Thakker, FirstRand Bank; Mr. Gambhir Singh, HDFC Bank; Mr. Vipin Raina, MMTC-PAMP; Mr. Dileep Narayanan, Malabar Gold Pvt Ltd.

Ms. Anindita Chakrabarti, IIT Kanpur presenting a paper on - A sociological study of goldsmiths of Bengal: migration, artisanal entrepreneurship and social mobility

Mr. Nithya Joseph, French Institute, Pondicherry presenting a paper on 'Our ears have been bare since then': gold ownership in a raw silk producing town through the economic reform period

Ms. Sumeetha M, Christ University presenting a paper on - State policies in India and the gold industry: exploring the labour process in the gold jewelry making industry in Kerala

Closing remarks by Prof. Arvind Sahay, Chair IGPC IIMA

Ms. Taruna Doliya, IES, Deputy Director (left) Department of Economic Affairs at the GGM Conference

Prof. Arvind Sahay Chairperson IGPC IIMA alongwith IGPC team

Media Coverage

Discounts trigger brisk jewellery sales on Akshaya Tritiya

DILIP KUMAR JHA
Mumbai, 7 May

Jewellers across the country witnessed a brisk flow of ... discount on making charges.

"We are witnessing impulsive buying since morning as gold prices came off a high in the last three months. ... son. Sudheesh Nambiath, head, India Gold Policy Centre at IIM-Ahmedabad, said: "Gold and jewellery retailers may be in for a surprise with more-than-expected increase in sales this Akshaya Tritiya. Past reports indicate that total volume of sales on this occasion is estimated around 40-50 tonnes" ... all-time high in the third week of February is reviving sentiment towards the yellow metal when other markets are facing uncertainties.

Apart from physical buying, digital gold has also witnessed a strong demand. While National Stock Exchange and the BSE, extended trading hours on Tuesday are set to improve gold sales in these segments, too.

A spokesperson of MMTC-PAMP, the largest bullion refinery, said: "The number of customers has gone up significantly from the last year on our platform we are present till evening, sales have risen five times."

Augmont, a platform selling gold digitally, said in a statement that this Akshaya Tritiya, it witnessed a five-time jump in sales and a lot of young individuals opted for gold coins and bars over jewellery for investment ... favourable price, various trade offers and promotions point ... rise in demand ... bars. While yet a nascent trend, digital gold buying platforms are quite upbeat. Despite the elec-

Business Standard

IGPC begins first survey to map gold pattern

IGPC announced the survey on Friday as part of ...

To map the gold consumption

Business Standard

Banks forced to import gold when available locally

Allowing banks to do local sourcing of gold that meets the standards will help solve many issues

ALSO READ

Gold price rise poses a systemic long-term risk of jewellers' default

Outbreak of 'yellow fever'

India may stop refined gold imports in next five years, say experts

IGPC wants banks to be allowed to buy gold, become bullion bankers

Investors should stick to gold-linked instruments for transparent pricing

सोने में रिकॉर्ड तेजी के बाद तेज गिरावट

सोना-चांदी में क्या करें?

Gold price breaches ₹45,000-mark in city

Niyati.Parikh@timesgroup.com

Ahmedabad: Continuing its up... riding on global factors, breached the Rs 45,000- ... Ahmedabad market on ... ouching a new record. Pure gold price settled ... per 10 gram in Ahmedabad ... onday, including 3% goods and services tax (GST), increase ... 900 against Thursday's ...

... ts said that the increase can be attributed to the rise in international price of gold, spike in cases of coronavirus in China and other nations and consequent concern over its impact on the global ...

... prices rose to \$1,689 per ... the international market ... concerns over impact ... coronavirus not ... other countries as ... over adverse fallo...

"The restrictions imposed by Singapore on movement of passengers has also fuelled rise in prices," Acharya added.

Experts said that prices are expected to rise further in the days to come. "Throughout the year, gold prices will continue to rise and this is because of rapidly changing global scenario. Big investors across the world have turned to safe-haven investments in gold," said Sudhish Nambiath, head, India Gold Policy Centre (IGPC), Indian Institute of Management, Ahmedabad (IIMA).

Experts also said that the rise in prices will adversely impact de-

'Gold & silver purchases from rural customers may decline'

▶ Continued from P1

According to Ashish Zaveri of Jewellers' Association of Ahmedabad (JAA) "rainfall in Saurashtra and south Gujarat regions and the rain forecast for central Gujarat has triggered fears of crop failure among farmers. As a result, gold and silver purchases from rural customers may decline."

According to IBJA national secretary, Surendra Mehta, geopolitical uncertainty coupled with depreciating Indian rupee and increase in basic customs duty have pushed ...

Geopolitical uncertainty coupled with depreciating rupee and rise in basic customs duty have pushed up gold prices

... dings begin. Each year, consumers go with a fixed budget. However, the same budget will certainly fall short this year due to high gold price. Moreover, incomes have not gone up due to the liquidity shortage. As a result, people tend to exchange old gold to purchase jewellery for wedding," said Sudheesh Nambiath, head, In... Policy Centre (IGPC)

'Roll back import-duty hike on gold'

OUR BUREAU
Mumbai, July 30

The All India Gem and Jewellery Domestic Council has urged the government to roll back the hike in gold import duty from 12.5 per cent to 10 per cent, and implement a comprehensive integrated 'gold policy' to save the gem and jewellery business.

The import duty of 12.5 per cent and a GST of 3 per cent has made gold jewellery costlier and has impacted consumer sentiment leading to postponement of fresh purchase.

The lack of demand in gems and jewellery has resulted in many craftsmen and artisans shifting to other businesses besides many workers in the sector committing suicide. It has also threatened jobs of 55 lakh labour force engaged in the business and the livelihood of their families, said GJC.

The import duty on gold was levied to curb the CAD

The GJC's recommendations are also echoed by the India Gold Policy Centre, set up by IIM-Ahmedabad, which has called for a comprehensive integrated gold policy, which would include setting up of a gold board and the advent of bullion banks.

The IGPC said that bullion banking would enable ...

गिफ्ट सिटी गोल्ड एक्सचेंज से सोने का आयात अगले चरण में!

THE GOLD PICTURE
The Demand & Supply Snapshot

Arvind Sahay
IIM Ahmedabad

COMMODITY CHAMPIONS

CNBC-TV18 ALERT
Air India Owes Around ₹4,300 Cr To Oil Companies

Banks can't buy gold from domestic mkt despite huge discount

RAJESH BHAYANI
Mumbai, 14 September

The more than a dozen banks nominated for importing gold are being forced to buy the metal from abroad for lending it to jewellers at a time when it can be purchased at a discount from the domestic market.

In the Mumbai market, gold is trading at a discount of over 2 per cent compared to the international price or cost of import. However, banks are not allowed to buy gold in India because of restrictions put by the Banking Regulations Act. They can only sell or import gold on behalf of users and traders after permission from the Reserve Bank of India (RBI).

In Mumbai's Zaveri Bazar, standard gold was trading at around ₹37,500 per 10 gram on Friday, ₹1,000 lower than the cost of import. Discount per ounce comes to over \$40 and that is the price banks are paying for not being allowed to source gold from domestic refineries. Discount varies in various cities but it is over 2 per cent.

Jewellers and traders directly buy gold from the local market whether it is imported or sold by domestic gold ... duty to 12.5 per cent.

In the Mumbai wholesale market, discount to cost of import is over \$40

INDIA'S LOVE FOR GOLD (Figures in tonnes)

750	Average annual gold imports
250–300	Refined in India from imported dore (unrefined gold)
600	Gold demand for jewellery
140–170	Investment demand
120–130	Size of Gold metal loan business
2%	Discount imported gold quoting in India

Source: Industry

Banks can't buy gold...

India's Gold Policy Center (IGPC), under the Indian Institute of Management, Ahmedabad (IIM-A), has said in its latest annual report that "there is need for amendments and clarifications in the Banking Regulation Act.

IGPC has proposed a much larger role for banks in developing the bullion market.

The amendments would allow banks to source locally, do inter-bank dealings, export bullion, transfer ounces to the counterparty international bullion bank and allow opening of unallocated accounts.

It would also allow trade in dematerialised gold, hedge in domestic and international exchanges and finance refiners by sourcing dore.

અમદાવાદમાંથી નક્કી થશે દેશના સોનાના ભાવ, ગિફ્ટ સિટીને મળી બુલિયન એક્સચેન્જની ગિફ્ટ

અમદાવાદ, શનિવાર

નાણામંત્રી નિર્મલા સીતારમણે મોદી ૨.૦નું પ્રથમ બજેટ રજૂ કરતા શનિવારે દેશના પ્રથમ બુલિયન એક્સચેન્જની જાહેરાત કરી હતી. ભારતનું પ્રથમ બુલિયન એક્સચેન્જ અમદાવાદમાં શરૂ થશે એટલેકે અમદાવાદમાંથી નક્કી થશે દેશના સોનાના ભાવ.

નવી ગોલ્ડ પોલિસીના ભાગરૂપે આજે નાણાપ્રધાન નિર્મલા સિતારમણે ગુજરાતમાં ગાંધીનગર ખાતે આવેલા ગુજરાત ઈન્ટરનેશનલ ફાઈનાન્સ ટેક સિટી (ગીફ્ટ-સિટી)ના ઈન્ટરનેશનલ ફાઈનાન્શિયલ સ વસીસ સેન્ટર (IFSC) ખાતે દેશનું પહેલું બુલિયન એક્સચેન્જ બનાવવાની જાહેરાત કરી છે. એક્સચેન્જની સાથે-સાથે ગિફ્ટ સિટીમાં ગોલ્ડ રિફાઈનિંગ અને ટેસ્ટિંગ લેબ પણ શરૂ કરવામાં આવશે.

હાલમાં દેશમાં સોના, ચાંદી સહિતની બુલિયનના ભાવ નક્કી કરવાની કોઈ ચોક્કસ પદ્ધતિ નથી તેથી શહેર-શહેરે ભાવ બદલાય છે અને ગ્રાહકો-રોકાણકારોમાં નારાજગી અને વિસંગતતા જોવા મળે છે.

જોકે આજે જાહેર થયેલ ગોલ્ડ એક્સચેન્જ બનવાથી સોનાના ભાવમાં સમાનતા, સ્થિરતા આવશે. બજારમાં પ્રાઈસ મિકેનિઝમ આવશે, સોનાની પ્રાઈસિંગ ડિસ્કવરી થશે અને તેનો સીધો જ લાભ ગ્રાહકોને મળશે.

IIMમાં બની હતી પોલિસી

ગોલ્ડ પોલિસીને લગતા તમામ સૂચનો ભેગા કરી તેનો મુસદ્દો તૈયાર કરવાની જવાબદારી સરકારે વર્લ્ડ ગોલ્ડ કાઉન્સીલ (WGC) અને ઈન્ડિયન ઈન્સ્ટિટ્યૂટ ઓફ મેનેજમેન્ટ અમદાવાદ (IIMA)ના સંયુક્ત ભાગીદારીથી બનેલા ઈન્ડિયન ગોલ્ડ પોલિસી સેન્ટર (IGPC)ને આપી હતી. IGPCએ આ પોલિસીને લગતો મુસદ્દો તૈયાર કરીને સરકારને સોંપ્યો હતો અને અંતે આજે બજેટમાં તેની જાહેરાત થઈ છે.

ગોલ્ડ પોલિસીને લગતી તમામ તૈયારીઓ અમદાવાદ IIMમાં થઈ હતી

'Global uncertainties will fuel gold for a year more'

RUTAM VORA

Is the recent gold rally an indication of an impending recession? Drawing a parallel between the trade wars of the 1930s that triggered the Great Depression, and the ones happening now, Arvind Sahay, Chairperson, India Gold Policy Centre (IGPC) at IIM-Ahmedabad, spoke to BusinessLine about what possibly lies ahead for gold amid the prevailing local and global economic uncertainty. Excerpts:

THE BL INTERVIEW

What do you think is causing the recent gold price rally?

We have been saying at the IGPC since last December that gold prices are set to go up. It is likely to go up till at least the second half of next year. There are global and domestic reasons for this rally.

How serious is this global economic uncertainty?

How are central banks behaving amid all this? Is their action fuelling the gold rally?

We are inching closer to

Diwali festivities. What is the gold demand outlook?

Should buyers opt for gold ETFs?

Should they be preferred?

India is among the top gold consumers, but why does it still have no say in global prices?

Akshaya Tritiya sees bounce back in gold, jewellery sales

SANGEETHA G
CHENNAI, MAY 7

The confluence of stable prices, upcoming wedding season and pent-up demand made this Akshaya Tritiya memorable for the gold and jewellery sector, which saw demand bouncing back after a gap of two years. Jewellers across the country witnessed on an average 15 to 20 per cent growth in sales over last year.

Gold body to commission household demand survey

IGPC to study pattern of gold consumption in India

Niyati.Parikh@timesgroup.com

Ahmedabad: With a view to create a comprehensive database on gold consumption patterns in India, the India Gold Policy Centre (IGPC) at Indian ...

... of which, the findings will be shared with the relevant stakeholders including the government, policymakers, bankers and jewellers," Sahay added.

IGPC has collaborated with two private agencies for data collection and analysis, during the course of the study. Sahay also told TOI that the study will be made an annual effort.

One of the key aims of the study is to help strengthen the Gold Monetization Scheme (GMS). "GMS has abysmally failed. While the motto of the scheme was to capitalize on individual gold holding over a four-year period, the scheme managed to attract barely 0.1% of the total individual gold holding. A detailed database will

The Indian EXPRESS

International bullion exchange to check business to Dubai, Singapore: Officials

Hours after the announcement, the BSE's India International Exchange's MD and CEO, V Balasubramaniam, said it was keen to set up the International Bullion Exchange at GIFT IFSC.

Businessmen at the Gujarat Chamber of Commerce and Industry in Ahmedabad watch the Union Budget on Saturday. Javed Raja

Setting up of an international bullion exchange in GIFT IFSC will help retain a lot of business, which is currently migrating to centres like Dubai and Singapore, said Tapan Ray, Managing Director and Group CEO of GIFT City, after Union Finance Minister Nirmala Sitharaman announced setting up of such an exchange for "creating additional jobs" and "better price discovery of gold".

BusinessLine

Govt has not shelved the gold policy plan, says FinMin official

IGPC rolls out first-of-its-kind national survey of gold consumption trends in Indian households

The Centre has not dropped plans for bringing in a gold policy and this could become a reality in next three to four months, said a top Finance Ministry official.

Gold standard for gold in India

ARVIND SAHAY

The author is chairperson, India Gold Policy Centre, IIM Ahmedabad

Creating a robust gold ecosystem in India and setting a world-class standard

Govt has not shelved the gold policy plan, says Finance Ministry official

Gold Policy Centre rolls out national survey of consumption trends

"Gold and gems and jewellery are not on the welcome list of banks in providing credit. It is not only one Nirav Modi, there are also several others who have contributed to this mess. A lot needs to be done to clean up this industry. We need policy inputs from industry to see what the government can do to facilitate this clean up," he said.

data based insights for the benefit for jewellers, academics, gold miners and policymakers," said Arvind Sahay, Chairperson, IGPC.

The survey — which will run for three years — will cover 40,000 Indian households every year and these will be picked from a pool of one lakh households. The households will be chosen based on the consumption pattern of gold.

Allow bullion banks to buy, trade in gold, says IGPC

THE PLAN

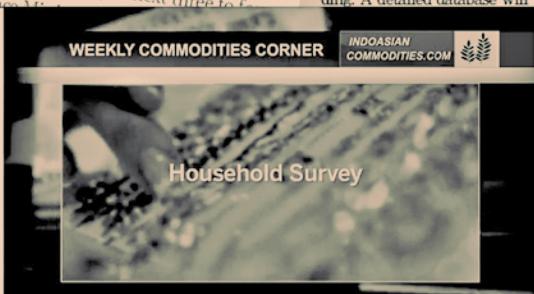
- Bullion banking and gold bo... pre-requisite for gold reform
- IGPC suggests banks should b... gold-related activities under o...
- Banking Regulation Act will ha... be amended
- Gold metal loans currently com... an interest rate of 2.2 – 3.5%, ba... on the type of collateral
- Lenders should be able to buy yellow metal and hedge positions

Business Standard
BUDGET 2020

Businesses pitch for gold import as Budget proposes bullion exchange

The exchange at the international financial services centre (IFSC) will be an additional option for trade for global market participants, says Budget 2020.

Gold vault in Kolkata RBI museum. Photo: Namrata Acharya



Appendix

World Official Gold Holdings

International Financial Statistics, May 2020*

		Tonnes	% of reserves**			Tonnes	% of reserves**
1	United States	8,133.5	79.1%	51	Qatar	42.2	5.8%
2	Germany	3,363.6	75.0%	52	Bulgaria	40.8	7.5%
3	IMF	2,814.0		53	Malaysia	38.9	2.1%
4	Italy	2,451.8	70.5%	54	WAEMU	36.5	11.7%
5	France	2,436.0	65.0%	55	Peru	34.7	2.8%
6	Russian Federation	2,298.7	22.2%	56	Slovak Rep.	31.7	21.2%
7	China, P.R.: Mainland	1,948.3	3.3%	57	Hungary	31.5	5.5%
8	Switzerland	1,040.0	6.7%	58	United Arab Emirates	31.3	1.6%
9	Japan	765.2	3.1%	59	Serbia, Rep. of	31.1	12.3%
10	India	653.0	7.4%	60	Syrian Arab Republic	25.8	7.8%
11	Netherlands, The	612.5	71.5%	61	Ukraine	25.2	5.4%
12	Turkey	524.0	35.8%	62	Mongolia	23.4	30.8%
13	ECB	504.8	32.3%	63	Morocco	22.1	4.7%
14	Taiwan Province of China	422.4	4.6%	64	Afghanistan, Islamic Rep. of	21.9	13.9%
15	Portugal	382.5	77.1%	65	Nigeria	21.5	2.9%
16	Kazakhstan, Rep. of	377.1	68.0%	66	Tajikistan, Rep. of	17.2	62.6%
17	Uzbekistan, Rep. of	335.9	59.1%	67	Ecuador	14.5	49.3%
18	Saudi Arabia	323.1	3.4%	68	Bangladesh	14.0	2.3%
19	United Kingdom	310.3	9.8%	69	Cyprus	13.9	67.0%
20	Lebanon	286.8	30.0%	70	Colombia	13.9	1.4%
21	Spain	281.6	19.9%	71	Curaçao and Sint Maarten	13.1	35.9%
22	Austria	280.0	58.0%	72	Mauritius	12.4	9.8%
23	Poland, Rep. of	228.6	10.6%	73	Cambodia	12.4	3.8%
24	Belgium	227.4	40.4%	74	Kyrgyz Rep.	11.8	27.0%
25	Philippines	197.9	11.9%	75	Ghana	8.7	4.9%
26	Algeria	173.6	13.9%	76	Paraguay	8.2	5.4%
27	Venezuela, Republica Bolivariana de	161.2	82.0%	77	Czech Rep.	7.8	0.3%
28	Thailand	154.0	3.6%	78	Myanmar	7.3	6.3%
29	Singapore	127.4	2.4%	79	North Macedonia, Republic of	6.9	11.0%
30	Sweden	125.7	12.7%	80	Guatemala	6.9	2.3%
31	South Africa	125.3	13.0%	81	Tunisia	6.8	4.8%
32	Mexico	120.0	3.4%	82	Sri Lanka	6.7	4.6%
33	Libya	116.6	7.5%	83	Latvia	6.7	7.6%
34	Greece	113.7	65.1%	84	Nepal	6.4	4.1%
35	Korea, Rep. of	104.4	1.4%	85	Ireland	6.0	5.8%
36	Romania	103.6	13.6%	86	Lithuania	5.8	7.0%
37	BIS	102.0		87	Bahrain, Kingdom of	4.7	6.4%
38	Iraq	96.3	7.6%	88	Brunei Darussalam	4.5	6.8%
39	Australia	79.9	10.3%	89	Mozambique, Rep. of	3.9	5.6%
40	Egypt, Arab Rep. of	79.5	11.0%	90	Guinea	3.9	14.8%
41	Kuwait	79.0	9.7%	91	Slovenia, Rep. of	3.2	15.7%
42	Indonesia	78.6	3.5%	92	Aruba, Kingdom of the Netherlands	3.1	16.3%
43	Brazil	67.4	1.1%	93	Bosnia and Herzegovina	3.0	2.3%
44	Denmark	66.5	6.6%	94	Albania	2.8	4.2%
45	Pakistan	64.6	20.1%	95	Luxembourg	2.2	11.1%
46	Argentina	61.7	7.5%	96	Hong Kong SAR	2.1	0.0%
47	Belarus, Rep. of	49.5	30.3%	97	Iceland	2.0	1.6%
48	Finland	49.1	23.5%	98	Papua New Guinea	2.0	4.6%
49	Jordan	43.5	15.5%	99	Trinidad and Tobago	1.9	1.6%
50	Bolivia	42.5	35.8%	100	Haiti	1.8	4.1%

Source: https://www.gold.org/goldhub/data/monthly-central-bank-statistics

India: Foreign Exchange Reserves & Gold (1959-60 to 2019-20)

Year	Total Foreign Exchange Reserves (USD Mn)	Gold (USD Mn)	Gold (% of Reserves)	Year	Total Foreign Exchange Reserves (USD Mn)	Gold (USD Mn)	Gold (% of Reserves)
1959-60	762	247	32.4	1990-91	5,834	3,496	59.9
1960-61	637	247	38.8	1991-92	9,220	3,499	38
1961-62	624	247	39.6	1992-93	9,832	3,380	34.4
1962-63	619	247	39.9	1993-94	19,254	4,078	21.2
1963-64	642	247	38.5	1994-95	25,186	4,370	17.4
1964-65	524	281	53.6	1995-96	21,687	4,561	21
1965-66	626	243	38.8	1996-97	26,423	4,054	15.3
1966-67	638	243	38.1	1997-98	29,367	3,391	11.5
1967-68	718	243	33.8	1998-99	32,490	2,960	9.1
1968-69	769	243	31.6	1999-00	38,036	2,974	7.8
1969-70	1,094	243	22.2	2000-01	42,281	2,725	6.4
1970-71	975	243	24.9	2001-02	54,106	3,047	5.6
1971-72	1,194	264	22.1	2002-03	76,100	3,534	4.6
1972-73	1,219	293	24	2003-04	112,959	4,198	3.7
1973-74	1,325	293	22.1	2004-05	141,514	4,500	3.2
1974-75	1,379	304	22	2005-06	151,622	5,755	3.8
1975-76	2,172	281	12.9	2006-07	199,179	6,784	3.4
1976-77	3,747	290	7.7	2007-08	309,723	10,039	3.2
1977-78	5,824	319	5.5	2008-09	251,985	9,577	3.8
1978-79	7,268	377	5.2	2009-10	279,057	17,986	6.4
1979-80	7,361	375	5.1	2010-11	304,818	22,972	7.5
1980-81	6,823	370	5.4	2011-12	294,398	27,023	9.2
1981-82	4,390	335	7.6	2012-13	292,647	26,292.3	9
1982-83	4,896	324	6.6	2013-14	303,674	20,978	6.9
1983-84	5,649	320	5.7	2014-15	341,378	19,837	5.8
1984-85	5,952	325	5.5	2015-16	355,560	19,325.4	5.4
1985-86	6,520	417	6.4	2016-17	369,955	19,869	5.4
1986-87	6,574	471	7.2	2017-18	424,361	21,614.9	5.1
1987-88	6,223	508	8.2	2018-19	411,905	23,408.4	5.7
1988-89	4,802	473	9.9	2019-20	4,74,660	30,550.0	6.4
1989-90	3,962	487	12.3				

Source: RBI

Commodity composition of India's Imports from World From 2007-08 to 2019-20

(Rs. In Million)

Year	All Commodities	Petroleum & crude products (POL)	Electronic Goods	Gold	POL % of actual commodities	Electronic Good % of actual commodities	Gold % of actual commodities
2007-08	1,00,51,594.90	32,05,471.80	8,12,086.10	6,72,260.40	31.89	8.08	6.69
2008-09	1,37,44,355.60	41,99,676.10	10,73,197.80	9,53,238.00	30.56	7.81	6.94
2009-10	1,36,37,355.50	41,16,490.70	9,94,186.10	13,58,779.10	30.19	7.29	9.96
2010-11	1,68,34,669.60	48,22,816.90	12,10,172.00	18,47,422.10	28.65	7.19	10.97
2011-12	2,34,54,632.50	74,30,748.80	15,65,036.20	26,99,007.10	31.68	6.67	11.51
2012-13	2,66,91,619.60	89,18,708.60	17,09,851.70	29,21,462.90	33.41	6.41	10.95
2013-14	2,71,54,339.10	99,78,854.50	21,65,832.70	16,62,426.20	36.75	7.98	6.12
2014-15	2,73,70,865.80	84,28,744.80	24,71,533.10	21,06,580.40	30.79	9.03	7.70
2015-16	2,49,02,980.80	54,05,046.90	28,44,345.80	20,74,875.30	21.70	11.42	8.33
2016-17	2,57,76,655.90	58,32,171.70	30,55,918.30	18,44,387.60	22.63	11.86	7.16
2017-18	3,00,10,334.30	70,03,208.10	35,93,334.10	21,70,720.70	23.34	11.97	7.23
2018-19	3,58,76,839.10	98,60,196.10	42,08,935.70	22,94,473.30	27.48	11.73	6.40
2019-20	3,30,79,770.50	92,36,247.35	40,17,556.90	19,92,483.43	27.92	12.15	6.02

Source: DGCIS

Worldwide Production and Fabrication Data

(Value in Metric Tonnes)

	2015	2016	2017	2018	2019
Production					
China	454.1	453.5	426.1	399.7	413.4
Australia	279.2	290.2	295.0	312.2	315.4
Russian Federation	249.5	253.6	270.7	281.5	340.5
United States	216.2	222.0	230.0	253.2	210.6
Canada	162.5	165.0	175.6	193.0	191.8
Indonesia	176.3	174.9	154.3	190.0	129.4
Peru	177.9	168.5	162.3	155.4	155.8
South Africa	151.0	145.7	139.9	123.5	128.4
Mexico	141.3	133.3	126.8	121.6	135.7
Fabrication					
China	832.6	691.4	673.9	688.2	628.8
India	736.2	454.4	718.1	632.2	514.0
Italy	84.9	79.3	79.7	74.9	78.5
Turkey	91.6	77.6	83.2	70.1	66.0
United States	66.8	66.6	68.1	74.6	74.0
Indonesia	48.2	43.5	43.5	47.6	45.2
UAE	41.5	41.7	53.1	40.1	35.3
S Korea	41.0	40.7	40.4	40.2	35.7
Saudi Arabia	51.7	40.0	33.5	34.4	33.6
Malaysia	39.4	33.8	30.2	30.1	29.5

Source: Refinitiv GFMS

Exports of Precious metals, stones, diamonds and jewelry 2007-08 to 2019-20

(Rs. In million)

Year	Total value	Cut & polished diamonds	Gold jewelry	Gold medallions & coins	Colored gemstones	Silver jewelry	Pearl's value	Synthetic stones	Rough Diamonds	Rough diamonds (qty in million carats)	Rough diamonds unit realisation (Rs/carat)
2007-08	8,37,654.80	5,71,171.70	2,23,157.00	-	11,110.50	9,211.10	156.20	45.00	22,803.20	28.7	794.50
2008-09	11,16,114.80	6,62,246.80	3,96,001.50	-	11,835.30	10,647.40	153.30	54.50	35,176.00	30.7	1,145.40
2009-10	13,87,522.90	8,60,951.70	3,27,749.60	1,29,750.70	13,580.10	19,519.00	162.50	65.20	35,254.20	24.5	1,437.00
2010-11	19,57,358.40	12,85,140.60	3,52,682.70	2,24,794.00	14,325.40	25,662.10	186.60	772.90	51,750.60	33.5	1,547.10
2011-12	20,60,800.90	11,09,267.70	4,72,796.30	3,34,703.80	16,472.00	36,772.30	157.10	1,180.60	85,137.20	33.9	2,509.40
2012-13	21,26,855.00	9,47,391.60	7,12,078.10	2,84,900.60	35,278.10	50,164.60	257.80	2,827.10	85,920.50	35.2	2,438.50
2013-14	21,11,913.00	14,81,852.00	5,07,388.50	1,85,645.30	39,097.00	88,987.80	626.30	4,864.10	95,559.70	43.3	2,205.90
2014-15	22,13,321.60	14,15,142.80	6,05,100.30	1,73,924.70	27,733.90	1,25,689.40	121.40	4,831.50	86,666.70	33.9	2,553.20
2015-16	21,35,946.60	13,54,012.20	5,61,368.10	3,44,172.50	28,445.00	1,94,109.00	70.20	4,727.90	76,758.30	30.6	2,511.20
2016-17	23,77,026.70	15,26,825.90	5,84,649.20	3,62,437.50	28,166.60	2,69,232.50	344.20	9,024.90	1,00,559.10	30.0	3,351.00
2017-18	21,07,850.80	15,29,087.30	6,23,812.10	1,27,080.50	27,854.90	2,18,121.80	146.70	14,180.80	92,002.10	38.1	2,416.70
2018-19	21,65,021..00	16,65,731.10	8,32,384.60	61,260.80	27,907.80	59,033.50	111.00	15,822.80	94,792.30	30.1	3,144.60
2019-20	20,53,298.40	13,19,809.60	8,48,873.60	58,417.70	22,726.20	1,20,262.40	-	-	78,122.00	20.9	-

Source: GJEPC

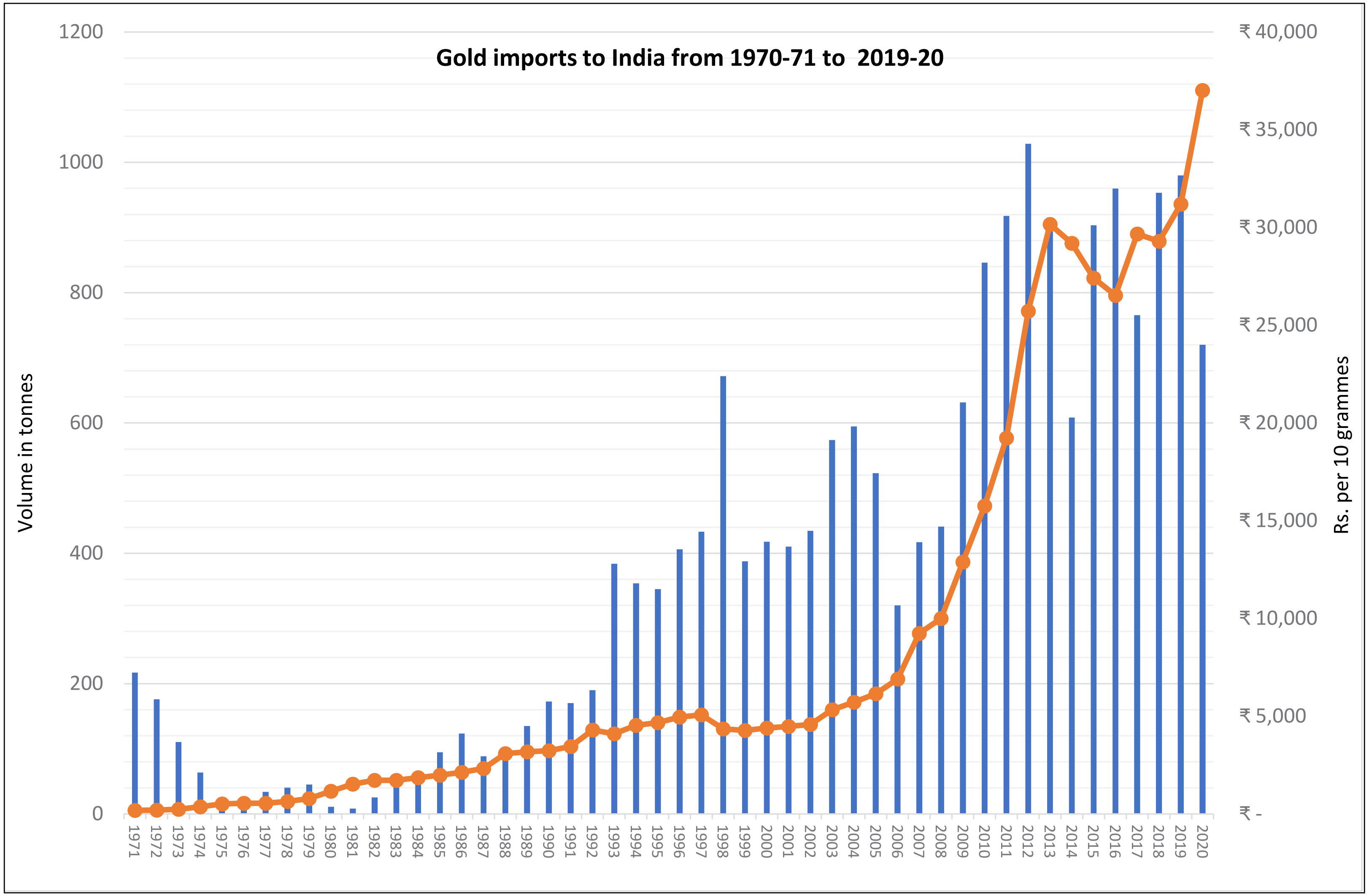
Imports of Precious metals, stones, diamonds and jewelry 2007-08 to 2019-20

(Rs. In million)

Year	Total value	Rough Diamonds value	Rough Diamonds (Qty in million carats)	Rough diamonds unit Rs/ carat	Cut & Polished diamonds	Gold bar	Gold jewelry	Rough colored gemstones	colored gemstones	non-gold jewelry	silver bar
2007-08	7,41,505.40	3,99,215.00	171.5	2,327.10	2,22,520.00	89,496.10	17,088.70	5,994.60	2,767.30	437	796
2008-09	10,33,441.70	3,50,412.50	118.8	2,950.10	4,06,382.90	2,10,769.40	13,363.30	4,814.20	4,464.20	1,525.30	1,194.90
2009-10	13,48,625.10	4,27,331.10	149.9	2,851.70	5,47,466.40	3,40,186.00	15,343.60	5,543.30	6,808.80	1,683.90	1,458.20
2010-11	19,19,820.70	5,45,642.70	154.2	3,538.80	9,47,256.50	3,82,450.80	22,133.90	6,818.30	5,538.40	3,805.90	1,900.70
2011-12	20,12,384.70	7,22,218.90	131.5	5,490.40	6,83,564.00	5,02,833.40	70,881.30	6,954.10	14,053.90	3,511.80	3,897.10
2012-13	20,31,934.00	8,09,925.20	148.4	5,458.10	3,02,008.90	6,04,708.10	2,50,376.10	11,277.80	27,762.30	4,726.60	2,809.90
2013-14	18,71,098.90	10,03,772.70	162	6,195.50	3,95,859.70	3,36,495.40	34,959.40	14,447.80	19,723.50	7,714.20	2,360.80
2014-15	19,08,534.60	10,22,350.90	146.2	6,993.20	4,05,435.90	3,25,626.30	22,238.90	17,395.00	48,678.70	4,128.90	1,936.70
2015-16	15,86,549.80	9,19,705.30	138.4	6,645.00	1,81,277.00	2,65,367.40	18,972.20	24,241.70	68,804.80	3,500.70	2,593.40
2016-17	19,25,130.90	11,44,764.00	153.3	7,466.80	1,76,493.20	2,83,624.10	18,079.90	38,256.40	95,815.00	2,704.70	3,218.80
2017-18	20,30,227.70	12,17,445.40	187.7	6,487.40	1,44,076.40	3,67,036.20	18,004.00	56,688.90	35,169.60	4,207.10	3,467.90
2018-19	18,39,833.10	10,95,237.90	165	6,637.60	92,684.90	5,48,059.50	20,405.10	23,900.90	27,624.90	4,011.10	2,649.50
2019-20	16,98,997.50	8,96,205.70	146.4	-	1,21,946.90	5,53,431.20	20,567.40	17,693.60	37,307.40	117.70	2,644.20

Source: GJEPC

India’s Gold Imports and Gold Price: 1971 to 2020



Note: India started importing unrefined gold (dore’) in large quantities from 2012 thus the volumes include unrefined gold. The dollar payout is only on the gold content in the total dore’ volume

Source: https://www.rbi.org.in/scripts/PublicationsView Economic and Political Weekly, February 20 1999, “Consumption of gold in India, Trends and determinants” by A Vaidyanathan

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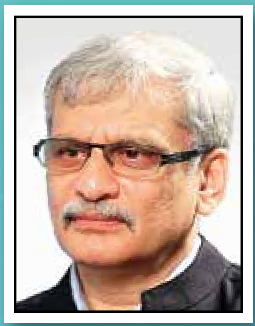

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