INDIA GOLD POLICY CENTRE

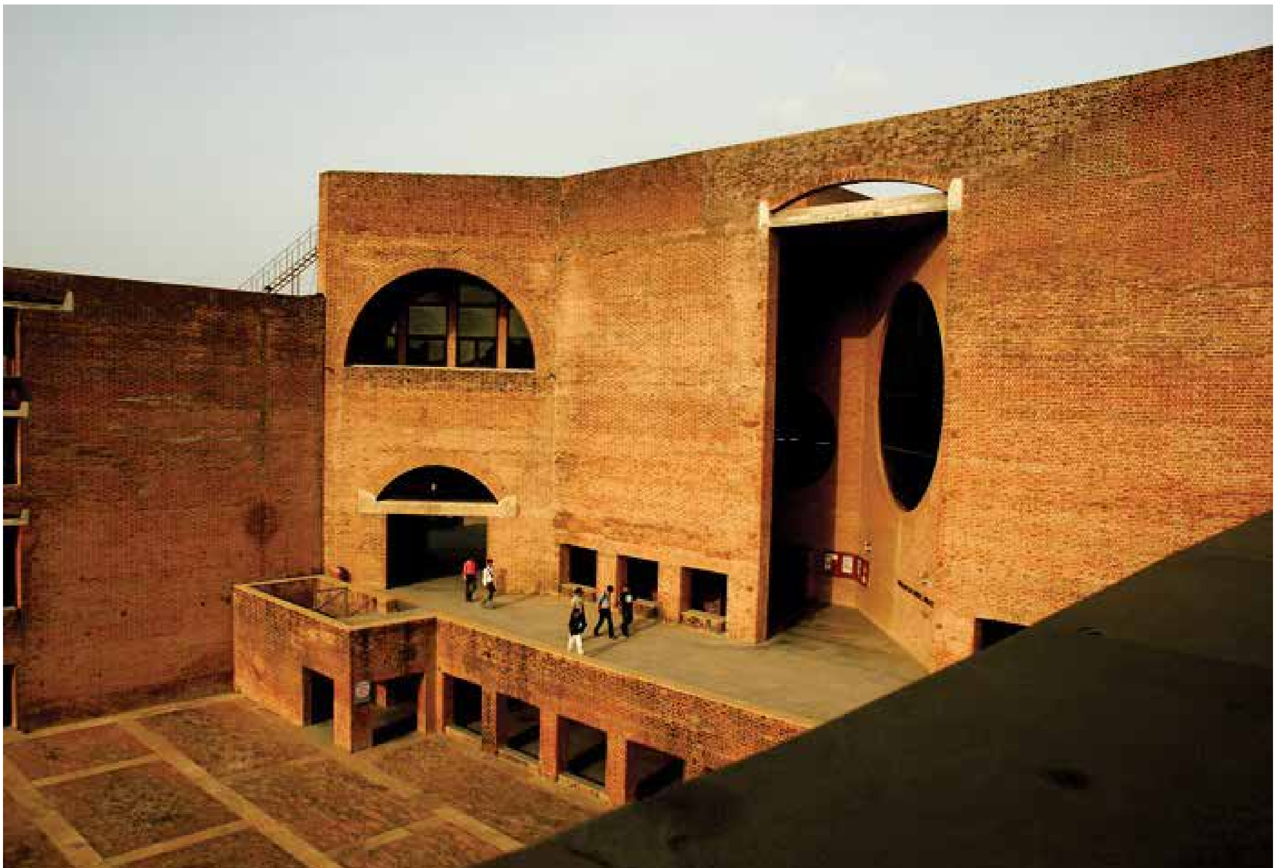
INDIA GOLD POLICY CENTRE
INDIAN INSTITUTE OF MANAGEMENT AHMEDABAD

2nd ANNUAL REPORT
March 2016 to March 2017







2nd ANNUAL REPORT

MARCH 2016 – MARCH 2017

India Gold Policy Centre
Indian Institute of Management, New Campus
Vastrapur, Ahmedabad 380015, Gujarat, India
T : +91 79 66324409/4410 • F : +91 79 26306896
Email : mngrigpc@iima.ac.in
Website: https://www.iima.ac.in/web/areas-and-centres/research-centers/igpc
Twitter : https://twitter.com/@IndiaGoldPolicy

India Gold Policy Centre is funded by the World Gold Council

Vision from Professor Ashish Nanda, Director IIMA

India Gold Policy Centre (IGPC) is a pioneer research and policy centre in India's gold industry at a premier management institution. It was established with a donation from World Gold Council and is IIMA's newest independent research outfit. IIMA has shouldered a big responsibility with this alliance and has already charted a trajectory of organic growth for the centre in a short span of two years. Since its inception to date, IGPC has made its mark in the industry and achieved certain milestones. We plan to enhance IGPC's footprints Pan-Asia and internationally through a wider spectrum of research collaborations and cross border engagement with stakeholders across countries in gold sector.

At the helm of establishing the Gold Research Centre, members of IGPC envisioned it as a neutral entity for research based policy recommendations on gold industry. The four key constituencies of IGPC are Research, Policy/ Advocacy, Engagement and Training.

The significance of gold in India and the world dates back to centuries when it was used as currency and medium of exchange to modern economic era when gold has multiple applications as a fungible asset, for adornment as jewellery, industrial, medical applications and as surrogate currency.

A world view of gold ecosystem owing to the ongoing geopolitical changes can be summarised as '*transformative'*. Internationally central bank policies continue to diverge. The global economic dynamics including deflation in Japan, "Brexit" in the UK; Elections in France, Germany, Turkey and EU countries seeking comfort by increasing gold reserves; the US regime's monetary policy promoting gold as currency in the international monetary system; Russia and China buying and escalating gold reserves of their central banks and continuing thrust on gold mining; India absorbing the policy changes of demonetisation, GST and mobilising gold holdings into circulation through various policy measures; Malaysia's increasing gold jewellery exports; Embedding gold as a Shari'ah compliant asset class propelling Islamic finance into the next stage of development in UAE; Thailand experiencing a slowdown while Vietnam witnessed a healthy economic growth and Indonesia had an upsurge in gold demand due to tax amnesty programme. Singaporean jewellery demand is forecast to see another year of broadly flat performance in 2017 while retaining its position as Asia's gold trading hub. Australia, Africa and South America largely continue to be dominant gold diggers and suppliers of gold doré and Switzerland of gold bullion.

There is a buzz amongst analysts and economists in the West of an impending collapse of money and back to gold standard days while the gold market increasingly shifts to the East with India and China constituting more than fifty percent of the global demand and China as frontrunner in gold supply and consumption. In times of transition such as this, there is unquestionable need for more research based policies, unified systemic approach by industry and spreading wings of IGPC to impact policy and practice in India and internationally.

Note and Acknowledgements from Professor Arvind Sahay, Head IGPC

The year 2016 will down in annals of India's gold sector as a landmark year with the impact of major policy announcements like demonetisation and GST and their inadvertent outcomes on the gold ecosystem. Official demand for gold declined, but smuggling of gold surged as the regulatory regime became more stringent. Government's policy interventions and tweaks in gold monetisation policy has slowly started enhancing the momentum of mobilising gold holdings estimated at 20,000 tonnes back to circulation but we still have a long way to go to make a substantive change to CAD (Current Account Deficit) by reduction of India's gold imports averaging about 800 tonnes annually and mitigating the trade deficits.

India Gold Policy Centre witnessed a busy year. IGPC engaged with policy makers and industry stakeholders through several new research projects, workshops, active participation at gold industry events, publishing working papers, authored articles in industry publications, substantial media coverage and digital communications on Indian and global gold industry.

India Gold Policy Centre (IGPC) acknowledges the unstinted support from World Gold Council for all the activities of the Centre. We are grateful to Mr. Aram Shishmanian, CEO WGC, Mr. PR Somasundaram, MD (India) WGC, Ms. Rakhi Khanna, Director Communications and colleagues of WGC. We are grateful to Policymakers at Ministry of Finance (MoF) for inclusion of IGPC in the recently constituted Gold Working Group (GWG) a think tank for policy work on gold sector.

We express our gratitude to Dr. Saurabh Garg, JS (Investments), Department of Economic Affairs, Ministry of Finance for his esteemed presence at IGPC's Senior Economists Roundtable (SER) on 17 October 2016 at New Delhi. IGPC acknowledges Dr. Rathin Roy, Director NIPFP and his team for collaborating with IGPC and delivering a useful workshop on GST. We are grateful to the economists and delegates from the industry who marked their presence at the SER. IGPC acknowledges support from IBJA (India Bullion & Jewellers Association), Parker Bullion and Bullion Federation, Brinks Global, Titan Company Ltd (Tanishq), DMCC (Dubai Multi Commodity Centre), FICCI, Gujarat Gold Centre, Scotia Bank, Metals Focus, MCX, GFMS, Foretell Business Solution's Bullion Bulletin, Banks, Refiners and Consumers for supporting research, policy and other mandates of IGPC in the past year. We acknowledge the direct and indirect support from all the stakeholders in gold industry across the value chain.

IGPC welcomes collaborative activities with industry and academic institutions in India and internationally with the overarching objective of strengthening the global gold ecosystem and adding value through effective research based insights, policy advocacy and training. We will continue to solicit your involvement in our endeavour to work for the betterment of industry and remain inspired by your co-operation.

Table of Contents


SAURABH GARG
RATHIN ROY
R. KAVITA RAO


ECONOMISTS ROUNDTABLE (SER 2016)
"Tax Levy and its Implications on India's Gold Ecosystem"
October 17, 2016
Auditorium, NIPFP
Organised by
India Gold Policy Centre, IIM-Ahmedabad
National Institute of Public Finance and Policy, New Delhi


ERROL D'SOUZA
P R SOMASUNDARAM

Global Gold Industry and India's Gold Ecosystem during FY 2016-17

01

Chapter

1.1 Global Gold Reserves in Central Banks

Gold Reserves in Central Banks across countries is an important global economic indicator. USA's Fort Knox holds the largest gold reserves with about 8000 tonnes constituting about 74% of its total reserves. India ranks eleventh with RBI's gold reserves of about 557 tonnes that constitutes about 6% of its total reserves. The table below provides World's top twenty gold holdings in Central Banks.

WORLD OFFICIAL GOLD HOLDINGS			
	International Financial Statistics, March 2017*		
		Tonnes	**% of reserves****
1	United States	8,133.5	74.6%
2	Germany	3,377.9	68.8%
3	IMF	2,814.0	1)
4	Italy	2,451.8	67.8%
5	France	2,435.8	63.8%
6	China	1,842.6	2.3%
7	Russia	1,645.1	16.2%
8	Switzerland	1,040.0	6.0%
9	Japan	765.2	2.4%
10	Netherlands	612.5	63.9%
11	India	557.8	6.0%
12	ECB	504.8	26.7%
13	Taiwan	423.6	3.6%
14	Turkey[6)]	411.0	15.0%
15	Portugal	382.5	59.1%
16	Saudi Arabia	322.9	2.3%
17	United Kingdom	310.3	8.6%
18	Lebanon	286.8	20.7%
19	Spain	281.6	17.1%
20	Austria	280.0	45.4%

***Source:** World Gold Council. This table was updated in March 2017 and reports data available at that time. Data are taken from the International Monetary Fund's International Financial Statistics (IFS), March 2017 edition, and other sources where applicable.

1.2 Global Gold Industry- A Snapshot of Demand and Supply

	2015	2016	Year-on-year % change	
Gold demand (tonnes)	**4,215.8**	**4,308.7**	▲	2
Jewellery	2,388.6	2,041.6	▼	-15
Technology	332.0	322.5	▼	-3
Investment	918.7	1,561.1	▲	70
Total bar and coin	1,047.0	1,029.2	▼	-2
ETFs and similar products	-128.3	531.9	-	-
Central banks & other inst.	576.5	383.6	▼	-33

Source: Metals Focus; World Gold Council

	2015	2016	Year-on-year % change	
Total supply (tonnes)	4,363.1	4,570.8	▲	5
Mine production	3,233.0	3,236.0	▲	0
Net producer hedging	13.5	26.3	▲	95
Recycled gold	1,116.5	1,308.5	▲	17

Source: Metals Focus; World Gold Council

1.3 Macro-Economic Environment of India

Indian gold sector's significance and socio economic impact over decades is validated by the various policy interventions by the government in the economic history of the country. While, on one hand, consumer demand is historically indifferent to gold prices and contributes hugely to trade deficit and current account deficit, the industry, on the other hand, is sensitive to policy interventions counteracting the negative macro-economic factors that lead to both positive and some unintended consequences.

The Economic Survey 2015-16 had predicted the Indian economy to register the GDP growth rate in the range of 7 to 7.75 per cent in the year 2016-17. The economy was indeed treading along that path and clocked 7.2 per cent in the first half of last financial year[1]. However, consequent upon the radical measures initiated in November 2016 in the form of demonetisation of INR 1000 and INR 500 currency notes, the Indian economy was likely to experience a slowdown in the growth rate. As per the latest figures published by the Central Statistics Office (CSO), the growth rate of Gross Domestic Product at constant market prices (real GDP) is estimated at 7.2 per cent, 7.9 per cent and 7.1 per cent respectively in 2014-15, 2015-16 and 2016-17.[2] That India managed to achieve high growth in the aftermath of demonetisation and amidst the global slowdown, along with a macro-economic environment of relatively lower inflation (unlike a generally higher inflation in the previous episodes of high growth), moderate current account deficit coupled with broadly stable rupee-dollar exchange rate and the economy treading decisively on the fiscal consolidation path, makes it quite creditable.

Merchandise Trade and Trade Deficit

1.3.1 Exports

As per Economic Survey Report 2016-17, India's merchandise exports have been declining continuously since December 2014, which is in line with the performance of export growth in different countries. The trend of negative growth was reversed somewhat during 2016-17 (April-December), with exports registering a growth of 0.7 per cent to US$ 198.8 billion from US$ 197.3 billion in 2015-16 (April-December). The Gems and Jewellery Sector was estimated to have registered positive growth of 11.6 per cent for April-Nov 2016 over the same period of 2015-16 due to increasing demand in the U.S. and Europe. The Gems & Jewellery exports had declined by 4.8 per cent in 2015-16.[3] According to the estimated data compiled by Ministry of Commerce and Industry for 2016-17 (April-March), Gems and Jewellery sector recorded a net export of US$ 43251.14 million contributing 15.7 per cent to country's overall exports worth US$ 274645.10 million.[4] Gold jewellery exports stood at US$ 7977.52 million in 2016-17 (April-February) recording a 4.35 per cent growth over the same period in 2015-16 at US$ 7644.60 million[5]. This year jewellery export is supposed to be logistically hurt in the short term because of increase in import duty on gold jewellery from 0.36

---

[1] Economic Survey 2016-17, Ch.8, p. 139

[2] Press Information Bureau. (2017, April 07). Growth rate of Gross Domestic Product. Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=160706

[3] Economic Survey 2016-17, Ch.8, p. 151

[4] Directorate General of Commercial Intelligence & Statistics. (2017, April 11). Quick Estimates for Selected Major Commodities. Retrieved from http://www.dgciskol.nic.in/pdfs/QE_EXIM_exp_usd.pdf

[5] Provisional figures of Export of gems & jewellery items during April 16 - February 2017. (2017, February). Retrieved from https://www.gjepc.org/admin/StatisticsExport/852999869_export_gem_jewellery%20February%2017.pdf

per cent to 5 per cent in Dubai. 32 per cent of gold jewellery exports from India are to UAE which includes Dubai.[6]

1.3.2 Imports

In keeping with the global trends of slow growth, value of imports had declined from US$ 448 billion in 2014-15 to US$ 381 billion in 2015-16, mainly on account of decline in crude oil prices resulting in lower levels of POL (Petroleum, Oils and Lubricants) imports. During 2016-17 (April- December) imports declined by 7.4 per cent to US$ 275.4 billion compared to the corresponding period of previous year. POL imports declined by 10.8 per cent. Gold and silver imports declined by 35.9 per cent and non-POL and non-gold & silver imports by 2.0 per cent.[7]

India is the second largest gold importer in the world, and the imports mainly take care of demand from the jewellery industry. India had imported 956t of gold worth US$ 31679 in FY2015-16 as compared to 915t worth US$ 34407 in FY2014-15[8]. It fell by about 32.7 per cent to US$ 19.74 billion during the April-January period of 2016-17, which is expected to keep a lid on the current account deficit. Total imports of the precious metal in the corresponding period of 2015-16 stood at US$ 29.31 billion. Softening prices of the precious metal in the domestic and world markets and cash crunch in the system in the wake of demonetisation impacted the inbound shipments. India imported 660 tonnes of gold during April – February (2016-17). The imports remained stable at around 100 tonnes in November despite fall in sales of jewellery due to the cash crunch following demonetisation.[9]

Gold Imports in India[10]

Year	Gold Imports (Rs. billion)	% of Total Imports
1996-97	24.4	1.76%
1997-98	103.1	6.69%
1998-99	190.4	10.68%
1999-00	180.1	8.35%
2000-01	190.4	8.20%
2001-02	198.8	8.10%
2002-03	186	6.26%
2003-04	299	8.33%
2004-05	473	9.44%
2005-06	480	7.26%
2006-07	654.4	7.79%
2007-08	673.5	6.65%
2008-09	953.2	6.94%
2009-10	1358.8	9.96%
2010-11	1847.2	10.97%
2011-12	2699	11.50%
2012-13	2921.5	10.94%
2013-14	1662.4	6.12%
2014-15	2106.5	7.69%
2015-16	2074.8	8.33%
2016-17	1839.06	7.21%

Source: Department of Commerce, CMIE Economic Outlook

[6] Dubai import duty hike may hit jewellery exports. (2017, January 11). Business Standard, Mumbai, p. 16

[7] Economic Survey 2016-17, Ch. 8, p. 152

[8] Directorate General of Commercial Intelligence & Statistics. (2016, March). Foreign Trade Statistics of India :Principal Commodities and Countries. Retrieved from https://economicoutlook.cmie.com/

[9] Gold imports shrink 32.7% in April-Jan. (2017, February 20). Retrieved from http://www.thehindubusinessline.com/markets/gold/gold-imports-shrink-327-in-apriljan/article9550656.ece

[10] World Gold Council. (2017, January). India's Gold Market: evolution and innovation. Retrieved from http://www.gold.org/research/india-gold-market

1.3.3 Trade Deficit

India's trade deficit had increased almost steadily from 2004-05 to 2010-11. It grew exponentially to reach unsustainable levels in the next two years. However, it moderated to US$ 135.8 billion in 2013-14 as a result of measures taken by the government to contain trade and current account deficits. In 2014-15, the trade deficit was marginally higher at US$ 137.7 billion[11]. In 2015-16, India's trade deficit declined by 13.8 per cent (vis-à-vis 2014-15) to US$ 118.7 billion. Furthermore, it declined by 23.5 per cent to US$ 76.5 billion in 2016-17 (April-December) as compared to US$ 100.1 billion in the corresponding period of previous year.[12] Overall the trade balance has improved. Taking merchandise and services together, overall trade deficit for April- March 2016-17 is estimated at US$ 46420.55 million which is 14.49 percent lower in Dollar terms than the level of US$ 54287.53 million during April-March 2015-16. (Services data pertains to April-February 2016-17 as February 2017 is the latest data available as per RBI's Press Release dated 13th April 2017).[13]

India's Trade Balance[14]

Year	Oil	Non-Oil	Total Trade Balance
1988-89	-38.53	-41.51	-80.04
1989-90	-55.76	-20.94	-76.7
1990-91	-98.78	-7.57	-106.35
1991-92	-121.05	82.95	-38.09
1992-93	-157.63	60.76	-96.86
1993-94	-167.98	134.49	-33.5
1994-95	-173.04	100.07	-72.97
1995-96	-236.56	73.31	-163.25
1996-97	-339.18	138.16	-201.03
1997-98	-290.3	49.55	-240.76
1998-99	-265.43	-120.36	-385.79
1999-00	-544.8	-11.95	-556.75
2000-01	-629.55	356.53	-273.02
2001-02	-566.63	204.82	-361.82
2002-03	-728.98	308.29	-420.69
2003-04	-781.23	123.82	-657.41
2004-05	-1026.9	-230.35	-1257.25
2005-06	-1431.07	-608.84	-2039.91
2006-07	-1740.52	-946.75	-2687.27
2007-08	-2064.63	-1499.85	-3564.48
2008-09	-2965.7	-2371.11	-5336.8
2009-10	-2787.5	-2394.52	-5182.02
2010-11	-2935.03	-2470.42	-5405.45
2011-12	-4751.6	-4043.44	-8795.04
2012-13	-5610.52	-4737.92	-10348.44
2013-14	-6146.38	-1957.85	-8104.23
2014-15	-4970.59	-3452.32	-8422.91
2015-16	-3408.66	-4330.54	-7739.20
2016-17	-3730.81	-3365.30	-7096.12

Source: Director General of Commercial Intelligence and Statistics, CMIE Economic Outlook

[11] Economic Survey 2015-16, Vol. 2, Ch. 4, p. 70
[12] Economic Survey 2016-17, Ch. 8, p. 152
[13] India's Foreign Trade: March 2017. (2017, April 13). Retrieved from http://commerce.gov.in/writereaddata/UploadedFile/NTESCL_636277022318871082_PRESS_RELEASE_March_2017.pdf
[14] World Gold Council. (2017, January). India's Gold Market: evolution and innovation. Retrieved from http://www.gold.org/research/india-gold-market

1.3.4 Current Account Deficit

Despite moderation in India's exports, India's external sector position has been comfortable, with the current account deficit (CAD) progressively contracting from US$ 88.2 billion (4.8 per cent of GDP) in 2012-13 to US$ 22.2 billion (1.1 per cent of GDP) in 2015-16. The CAD further narrowed in 2016-17 (H1) to 0.3 per cent of GDP.[15] During the first half of the fiscal year, the main factor was the contraction in imports, which was far steeper than the fall in exports. The downward spiral in international crude oil prices resulted in a decline in oil import bill by around 18 per cent which together with a sharp decline in gold imports led to a reduction in India's overall imports. But during October-December, both exports and imports started a long-awaited recovery, growing at an average rate of more than 5 per cent. The improvement in exports appears to be linked to improvements in the world economy, led by better growth in the US and Germany.

India's Current Account Deficit[16]

Year	Rupees bn	as % of GDP (rhs)
2000-01	-115.98	-0.01
2001-02	164.26	0.01
2002-03	306.6	0.01
2003-04	639.83	0.02
2004-05	-121.74	-0.38
2005-06	-437.37	-1.18
2006-07	-443.83	-1.03
2007-08	-634.78	-1.27
2008-09	-1276.29	-2.27
2009-10	-1796.99	-2.77
2010-11	-2196.54	-2.82
2011-12	-3759.73	-4.17
2012-13	-4796.1	-4.74
2013-14	-1877.5	-1.65
2014-15	-1700.49	-1.36

Source: RBI; Economic Survey 2015-16

15 Economic Survey 2016-17, Ch. 1, p. 152

16 World Gold Council. (2017, January). India's Gold Market: evolution and innovation. Retrieved from http://www.gold.org/research/india-gold-market

1.4 Gold Sector in India

India's gold industry suffered FY2016-17. New policy initiatives, aimed at purging India of black money and instilling greater transparency, have rocked the country's economy, including its gold market. In H1, the 1% excise duty on jewellery manufacturing prompted a 42-day strike. The income disclosure scheme disrupted the black market – fearing a backlash from tax officials, some consumers postponed buying gold. And in H2, the shock demonetisation initiative caused a liquidity squeeze that affected the entire economy. These policies, combined with fragile rural sentiment and a soaring gold price, pushed gold demand to its lowest level since 2009. And the forthcoming Goods & Service Tax (GST) will change the shape of the industry.

1.4.1 Demand and Supply

According to the World Gold Council's report on Gold Demand Trends 2016[17], the demand for gold jewellery in India dropped to a record low of 514 tonnes in Calendar Year (CY) 2016 due to demonetisation, high prices and protests by traders in the initial months. The fall was 22 per cent, while in neighbouring China the drop in gold jewellery demand was 17 per cent.

Jewellery				
Tonnes	**2015**	**2016**		**Year-on-year change**
World Total	**2,388.6**	**2,041.6**	▼	**-15**
India	662.3	514.0	▼	-22
China	753.4	629.0	▼	-17

Investment				
Tonnes	**2015**	**2016**		**Year-on-year change**
World Total	**918.7**	**1,561.1**	▲	**70**
Bar & coin	1,047.0	1,029.2	▼	-2
India	194.9	161.6	▼	-17
China	228.1	284.6	▲	25
Gold-backed ETFs	-128.3	531.9	-	-

Consumer Demand					
Tonnes	**2014**	**2015**	**2016**		**Year-on-year % change**
World total	**3,520.5**	**3,435.6**	**3,070.7**	▼	**-11**
India	833.5	857.2	675.5	▼	-21
China	1,005.3	981.5	913.6	▼	-7

Source: WGC Gold Demand Trend Report Full Year 2016

17 World Gold Council. (2017, February 3). Gold Demand Trends Full Year 2016. Retrieved from http://www.gold.org/supply-and-demand/gold-demand-trends/back-issues/gold-demand-trends-full-year-2016

Indian Supply Estimates							
Tonnes	**2012**	**2013**	**2014**	**2015**	**2016**		**Y-o-Y % change**
Supply							
Gross Bullion imports	974.5	959.4	994.8	1,065.0	648.3	▼	**-39**
of which doré[1]	23.2	36.9	84.1	229.0	141.9	▼	**-38**
Net bullion imports	842.8	876.4	898.6	913.6	557.7	▼	**-39**
Scrap	118.0	95.8	92.5	80.2	89.6	▼	**12**
Domestic supply from other sources[2]	10.0	9.6	9.9	9.2	9.9	▲	**8**
Total supply[3]	970.8	981.8	1,001.0	1,003.0	657.2	▼	**-34**

1 Volume of fine gold material contained in the doré.
2 Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment.
3 This supply can be consumed across the three sectors – jewellery, investment and technology. Consequently, the total supply figure in the table will not add to jewellery plus investment demand for India.

Source: WGC Gold Demand Trend Report Full Year 2016


GIRISH VANYARI
JOHNSON LEWIS

India’s Gold Policies and their Impact during FY 2016-17

02

Chapter

India is the second largest consumer of gold after China, and gold constitutes about 8% of total imports basket in the country which is second largest import item after oil. 60% of average gold imports of 900 tonnes is consumed for jewellery which is equivalent to almost half of FDI received by the country. Gold has multiple applications such as jewellery, investment, industrial, dental and medical implants and so on. The GOI has made policy interventions keeping in mind the impact on other aspects. Circumstances in India during 2016 created a very challenging environment for the gold sector. The nationwide jewellers’ strike in March 2016 effectively shut down the gold industry. Further difficulties arose with the government’s clampdown on undeclared income – which reached its pinnacle in November 2016 through introduction of demonetisation policy and indirect fillip to grey market.

India is the largest private holder of gold. As per the common estimate, household and temple holdings amount to roughly around 22,000-25,000 tonnes. But, the gold backed financial products represent only 0.2% of the value of India’s stock of gold. [18]

Gold- a demerit good

Subsidies for the poor tend to attract policy attention but a number of policies provide benefits to the well-off. Gold is one amongst them. Economic Survey 2015-16 referred gold as a ***strong demerit good***, the reason being - the ‘rich’ consume most of it (the top 20 per cent of population account for roughly 80 per cent of total consumption) and the poor spend almost negligible fraction of their total expenditure on it. Yet gold is only taxed at about 1-1.6 per cent (States and Centre combined), compared with tax of about 26 per cent for normal goods (the central government’s excise tax on gold is zero compared with 12.5 per cent for normal commodities). In other words, there is a huge subsidy of about 25 percentage points (the difference between average tax on other commodities and tax on gold). About 98 per cent of this subsidy accrues to the better-off and only 2 per cent to the bottom 3 deciles and this is an underestimate as the data on consumption is from the NSS, which does not capture consumers at the top end of income and expenditure distribution.[19]

Turning gold into a financial asset is the need of Indian economy. Government initiated this with the launch of Sovereign Gold Bonds and Gold Monetisation Schemes on 5th November, 2015. The objectives of the schemes are:

- To mobilize the gold held by households and institutions in the country
- To provide a fillip to the gems and jewellery sector in the country by making gold available as raw material on loan from the banks
- To be able to reduce reliance on import of gold over time to meet the domestic demand

2.1 Sovereign Gold Bonds (SGB)

These are issued by RBI on behalf of the Government of India in rupees and denominated in grams of gold and restricted for sale to the resident Indian entities only both in demat and paper form. The minimum and maximum investment limits are 1 gram (initially it was 2 grams) and 500 grams of gold per person per fiscal year respectively. The rate of interest is 2.75 per cent per annum, payable on a half yearly basis. The tenor of the bond is for a period of 8 years with exit option from 5th year onwards. KYC norms are the same as that for gold. Exemption from capital gains tax is also available. Redemption is made in the rupee value equivalent to the price of gold at the time of maturity.

---

[18] A comprehensive gold policy in India is required for truly monetising the gold. (2016, November 28-December 11). Dalal Street, pp. 60-61

[19] Economic Survey 2015-16, Vol. 1, Ch. 6, p. 100

Three tranches of SGB scheme were floated in 2015-16. The total subscription in first 3 tranches was Rs. 1318 Crores corresponding to 4.9 tonnes of gold[20] and till 14 November 2016, from the six tranches of Sovereign Gold Bonds issued, a total of 14071 kgs of gold units amounting to Rs. 4127 Crore was subscribed.[21]

Tweaks: To improve attractiveness of SGB, new product features were introduced in 2016-17. The minimum subscription limit was reduced from 2 gm to 1 gm. The Capital gain tax arising on redemption of SGB to an individual was exempted, in line with the Budget 2016-17 announcements. This exemption was also extended to last 3 tranches. The applications were allowed to be routed online and SGB was issued in Demat/ paper form. National Stock Exchange and Bombay Stock Exchange were notified as additional receiving offices. Trading of Gold Bonds was also operationalised.

Accrual: An estimated break-up of accrual has been summarised in the table below:

Sovereign Gold Bonds 2015-16 & 2016-17: Summary of progress

Issue	**1st Tranche**	**2nd Tranche**	**3rd Tranche**	**4th Tranche**	**5th Tranche**	**6th Tranche**	**7th Tranche**
Issued date	26-Nov-15	08-Feb-16	29-Mar-16	05-Aug-16	30-Sep-16	17-Nov-16	17-Mar-17
Issue price(Rs)	2,684	2,600	2,916	3,119	3,150	2957(disc Rs50/gm)	2893(disc Rs50/gm)
Total No. of applications received	62,169	3,30,000	64,000	1,95,000	2,00,000	Not Available	
Rate of Interest	2.75	2.75	2.75	2.75	2.75	**2.5**	**2.5**
Collected Amount (Rs. Cr)	246	798	329	919	768	1067	
Worth of gold (in Kg)	916	3071	1128	2950	2435	3550	

Source: HDFC sec Note - Sovereign Gold Bond 2016-17 - Series IV retrieved from http://hdfcsec.com/Share-Market-Research/Research-Details/DebtReports/3021605

2.2 Gold Monetisation Scheme (GMS)[22]

Bureau of Indian Standards (BIS) certified Collection, Purity Testing Centres (CPTC) collect the gold from the customer on behalf of the banks. The minimum quantity of gold (bullion or jewellery) which can be deposited is 30 grams and there is no limit for maximum deposit. Gold Saving Account can be opened with any of the designated bank and denomination in grams of gold for short-term period of 1-3 years, a medium-term period of 5-7 years and a long-term period of 12-15 years .The CPTCs transfer the gold to the refiners. The banks will have a tripartite / bipartite legal agreement with refiners and CPTCs. For the year 2015-16 interest rates had been fixed as 2.25 percent and 2.5 percent for the medium and long term respectively and redemption was made in cash/gold for short term and in cash for medium and long term deposits. Tax exemptions are same as those available under GDS 1999.The difference between the current borrowing cost for the Government and the interest rate paid

[20] Press Information Bureau. (2016, July 30). Collections under Sovereign Gold Bond Scheme Reach a New High. Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=148057

[21] Press Information Bureau. (2016, November 18). Sovereign Gold Bond Scheme and Gold Monetisation Scheme. Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=153849

[22] Details available at https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10084&Mode=0 updated as on 2016, March 31

by the Government under the medium/long term deposit shall be credited to the Gold Reserve Fund.[23]

Market Developments on GMS in FY 2016-17

- The scheme has had a slow start. By February 26, 2016, the government had mobilised only 1131 kg of gold valuing Rs. 3014 crore deposited by 71 depositors under the GMS.[24] To create the awareness amongst the public, government launched media campaign on FM radio, Print Media, Mobile SMS and Social Media. Further, based on the feedback received from the stakeholders of the schemes and the reviews held, at the regular intervals necessary changes have been implemented in the schemes.

Tweaks:

- The finance ministry convened a meeting in March 2016 to discuss how to make the gold monetisation scheme more lucrative.[25]
  The key proposals to the meeting were:
  - Proposal from IBJA (India Bullion and Jewellers Association) to act as an aggregator and offer an alternative to the hallmarking centres which have to play the role of CPTCs. Jewellery shops will act as collection centres, test the gold or jewellery for purity and issue a certificate right away; then deposit pure gold to the respective banks within 48 hrs. IBJA proposed to appoint 1000 such centres.
  - To increase the tenure of gold loans by banks.
  - Proposal from NCDEX that GMS be implemented as a parallel to banks within its electronic platform which can recognise stakeholders including refineries to ensure delivery of gold under the scheme.
  - One of the concerns for the hallmarking centres was that banks were taking too much time in signing tripartite agreements (with their members and refineries)[26]
- Budget 2016-17 had exempted interest earned on deposit certificates and capital gains arising from tax. Tax relief should encourage individual investors to come forward and deposit their unused gold under the scheme.
- In April 2016 government tweaked the scheme[27]. In the case of MLTGD (Medium and Long Term Government Deposit), the redemption of the principal at maturity shall, depending on the depositor's preference, be either in Indian Rupees equivalent to the value of gold at the time of redemption, or in gold. Where the redemption of the deposit is in gold, an administrative charge of 0.2% of the notional redemption amount in terms of Indian Rupees is applied. But the interest accrued on MLTGD is calculated with reference to the value of gold in terms of Indian Rupees at the time of the deposit and is paid in cash. Prior to this principal and interest both were to be redeemed in cash.
- By 18 February 2017, a total of 6410 kilo grams of gold was mobilized through the scheme.[28] Most of these deposits have been from temples and trusts. Indian temples are estimated to have around 3000-4000 tonnes of gold in their vault as offerings from devotees. 4 temples from Tamil Nadu, 2 from Maharashtra, 1 each from Andhra Pradesh and Jammu & Kashmir had participated in the scheme. [29] Tirumala Tirupati Devasthanam had deposited 1.31 tonnes at 1.75% rate of interest with Punjab National Bank that allows long term and medium term deposits to be redeemed in gold while Shree Sidhhivinayak Ganapati Temple Trust in Mumbai had deposited 204 kg gold. Recently Shree Somnath Trust and Shri Arasuri Ambaji

[23] Economic Survey 2015-16, Vol. 2, Ch. 3, p. 60
[24] Gold worth Rs. 3,000 cr deposited under monetisation scheme. (2016, February 27). The Financial Express, National, p. 16
[25] Government calls meet to review gold monetisation scheme. (2016, March 10). Business Standard, National, p. 16,
[26] Govt likely to again change GMS rules. (2016, March 19). Business Standard, National, p. 3,
[27] Govt tweaks Gold Monetisation Scheme. (2016, April 2). The Economic Times, National, p. 11
[28] Press Information Bureau. (2017, March 10). Gold Monetisation Scheme. Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=159120
[29] Bringing temple gold into the mainstream. (2016, June 5). Business Standard, Mumbai, p. 11

Trust, both in Gujarat have deposited small quantities with Dena Bank. Industry sources suggest that out of 6 tonnes gold deposited 40% is with State Bank of India.[30]

2.3 Indian Gold Coin

Progress: As on 31 January 2017, 70% of 150,000[31] pieces of Indian gold coins weighing 800 kg were already sold by MMTC since its launch in Nov 2015 in tie-ups with Indian Overseas Bank, Vijaya Bank, Federal Bank, Yes Bank, Andhra Bank and HDFC Bank through 400 sales outlets. Coins are 5 &10 gm and prices vary with the price of bullion. MMTC has also received 800 kg of gold deposited with the SBI.

Tweaks: Removal of 1% excise duty on branded gold coins with purity of 99.5%, would now ensure a level playing field between the Indian Gold Coins and other coins of the same purity.[32]

2.4 Introduction of Excise Duty

The Economic Survey 2015-16 had hinted at gold as a strong ‘demerit good’ as 80 per cent is consumed by the top 20 per cent among income earners, while it is taxed at 1-1.6 per cent, compared with about 26 per cent for normal goods. The central government’s excise tax on gold is zero, compared with 12.5 per cent for normal commodities.[33]

One of the features of the Budget 2016-17 was, “*Excise duty of ‘1% without input tax credit or 12.5% with input tax credit’ on articles of jewellery [excluding silver jewellery, other than studded with diamonds and some other precious stones], with a higher exemption and eligibility limits of ` 6 crores and ` 12 crores respectively.*” The response from the jewellery sector was swift and decisive: a nationwide strike was called from 2 March with the support of national industry associations. While jewellery stores in south of India re-opened on 19 March, retailers across the country remained shut for the remainder of the quarter and into April. Jewellers were of the opinion that proposed 1 per cent excise duty will reduce the ease of doing business as the gems and jewellery sector consists of less educated but highly skilled manpower, who are not equipped to deal with the cumbersome process required for it.[34]

The strike had some major direct and indirect impact on gold market: jewellers lost business of around US$ 150 million[35] a day, many artisans lost their jobs, several hallmarking centres suffered business losses, smuggling of gold increased into India and retail stores such as Senco Gold and Diamond expanded their online footprint by tying up with e-commerce platforms like Flipkart. However, the government remained firm on its decision and jewellers had to call off their 40 day long strike after government’s assurance that they will not be harassed by the excise department. Most stores re-opened in the second half of April, ahead of the Akshaya Tritiya festival in early May and the start of the wedding season.

Demand for gold jewellery was expectedly weak in the quarter of March 2016. Quarterly demand of 88.4t was down 41% year-on-year and the lowest quarterly total since Q1 2009. Combination of surging prices (in mid-January, the local gold price reached Rs. 28,000 from Rs. 26,000/10g level and further surged higher close to Rs. 30,000/10g by the end of quarter) and industrial strike sent a strong signal to Indian consumers to hold off on buying gold jewellery until prices stabilised. As demand declined, the local market quickly moved into a discount to the international price. The discount widened sharply, reaching levels close to US$ 40/oz.[36]

---

[30] Two more Gujarat temples deposit gold under GMS. (2017, February 10). Business Standard, Mumbai, p. 18

[31] MMTC to import Rs. 8,000-crore gold in 2017-18. (2017, January 31). Business Standard, Kolkata, p. 3

[32] Indian Gold Coin Gets an edge over other branded ones. (2016, December 2). Economic Times, Mumbai, p. 14

[33] Survey hints at higher tax on gold, sparks market worry. (2016, February 27). Business Standard, Delhi-Mumbai, p. 4

[34] Govt reimposes 1% excise duty on gold jewellery. (2016, February 28). Retrieved from http://www.business-standard.com/article/pti-stories/govt-reimposes-1-excise-duty-on-gold-jewellery-116022901146_1.html

[35] Jewelers in India losing $150 million a day as strike continues. (2016, March 10). Retrieved from http://www.bloomberg.com/news/articles/2016-03-09/jewelers-in-india-losing-150-million-a-day-as-strike-continues

[36] World Gold Council. (2016, May). Gold Demand Trend Q1 2016. Retrieved from http://www.gold.org/supply-and-demand/gold-demand-trends/back-issues/gold-demand-trends-q1-2016

2.5 PAN Norm

In January 2016, government had made it mandatory to quote PAN number for purchasing jewellery worth Rs. 2 lakh and above. This brought a negative impact on consumers' purchase behavior. In order to bypass the rule, they started to split their bills into multiple parts and underquote the actual value of purchase resulting in an illegitimate market in the country. This has affected organised players in the sector who want to do business legally. High net worth Indians started to shop for gold abroad, mostly in Dubai, Singapore and Malaysia. Jewellers with operations in India and overseas have seen business grow 10-20% in the first two months of 2016 from a year earlier, mainly because of purchases by Indian tourists.[37] The PAN norm continued and supposed to fulfil the government objective of bringing transparency to the system and reduced tax evasion.

2.6 TCS (Tax Collection at Source)

In the Budget 2016-17, government had announced the levy of 1% TCS on cash transactions for buying gold jewellery worth over Rs. 2 lakh as one of the measures to keep a check on and to bring down black money in the system, but the government had to roll back the decision in May 2016 upon negative response from the industry. [38] The Income Tax Department has been levying 1% TCS on cash purchase of bullion in excess of Rs. 2 lakh and jewellery in excess of Rs. 5 lakh since July 1, 2012. Now, Finance Bill 2017 seeks to do away with the threshold of Rs. 5 Lakh on jewellery purchases for applicability of TCS because the Union Budget 2017-18 has proposed to ban on cash dealings of over Rs. 3 lakh. The Income Tax Act provides for 1% TCS on cash purchase of goods and services above Rs. 2 lakh. The jewellery will now be clubbed with general goods as per the Finance Bill 2017.[39]

2.7 Shift of Gems & Jewellery Exports to Online Mode

In order to check black money, the Finance Ministry has made assessment of export of gems and jewellery, running into several thousand crore of rupees annually, online. The move to shift the export of gems and jewellery to EDI mode is important as authorities suspected money laundering and generation of black money.[40]

2.8 Demonetisation

Policy initiatives aimed at purging India of black money and instilling greater transparency has rocked the country's economy, including its gold market. The radical decision to demonetise over Rs. 15 trillion, equivalent to US$ 220 bn was dramatic. On 8th November 2016, the government announced the abolition of Rs. 500 and Rs. 1,000 notes, ordering them to be tendered into local banks or the Reserve Bank of India by 30 December 2016. This scheme has become colloquially known in the market as *demonetisation*. Rs. 1,000 notes were scrapped entirely but new Rs. 500 notes and Rs. 2,000 notes were introduced. The government also capped the value of old bills exchanged at bank counters, as well as withdrawals from bank accounts and ATMs. This liquidity squeeze had a short-term impact on the economy. The informal sector which is mainly reliant on cash accounted for 85% of non-agricultural employment in 2012.[41] Demonetisation hit this part of the economy hard. As regarding gold sector, demand spiked in the days immediately following the move. In a frantic bid to exchange obsolete banknotes, consumers rushed to buy gold. As an aftermath, the local price

---

[37] With new PAN Norm, urban rich prefer to shop for gold abroad. (2016, March 15). The Economic Times, National, pp. 1 & 14

[38] Govt rolls back 1% TCS applicable on gold jewellery. (2016, March 31). Retrieved from http://www.dnaindia.com/money/report-govt-rolls-back-1-tcs-applicable-on-gold-jewellery-2218329

[39] Jewellery purchase in cash above Rs. 2 lakh to attract 1% tax from April 1. (2017, February 20). Retrieved from http://economictimes.indiatimes.com/wealth/tax/buying-jewellery-over-rs-2-lakh-cash-to-attract-1-tcs-from-april-1/articleshow/57233171.cms

[40] Online assessment of gems, jewellery export to check black money. (2016, March 20). Retrieved from http://economictimes.indiatimes.com/news/economy/foreign-trade/online-assessment-of-gems-jewellery-export-to-check-black-money/articleshow/51479271.cms

[41] World Gold Council. (2017, March). Market update: India demand will recover from 2016 lows. Retrieved from http://www.gold.org/research/indian-demand-will-recover-from-2016-lows

escalated to a premium over the global spot price. For many, gold had become the preferred route to channel their unaccounted wealth; prices for these 'grey market' transactions were reportedly as high as Rs. 50,000/10g, compared to a market price of Rs. 31,000/10g.[42] This rush drained retailers of their stocks leading to a severe liquidity crunch.

Demonetisation had the greatest impact in rural India, where people do not necessarily have access to cheques and electronic payments. It curbed gold purchases, encouraged gold shoppers to buy smaller quantities of gold spread over more transactions, or pushed a large part of demand underground and encouraged growth in the black market. Demonetisation also boosted large jewellery retailers, and they continued to grab a larger share of the market. This latest demonetisation exercise is likely to expand the tax base and impact public finances positively. Over time, consumers will move away from cash towards digital payments, and organised players should benefit from this trend. This change in market dynamics will result in greater transparency and better deals for consumers in the long run.

2.9 Gold Refining and Recycling

Out of India's total demand of 1000 tonnes annually, 85% is imported and rest is met through recycled gold. The refining sector plays an important role in converting standard bars, doré and recycled gold for India's gold industry. For example, either re-casting imported 1kg bars into smaller bars for onward delivery to jewellers, or refining doré into purer gold. The refining industry also recycles old gold jewellery, which accounts for around 15% of supply. India's long-established refining sector has seen a sharp rise in new capacity in recent years. The organised refining landscape has grown sharply from mere three or four refineries in 2013 to 30 in 2015, taking the total capacity above 1,450t.[43]

Tax incentives encouraged Doré imports

Import of gold bar attracts 10% BCD (Basic Customs Duty), whereas gold doré attracts 'Nil' rate of BCD and 8.75% CVD (Countervailing Duty). The CVD paid can be adjusted against output excise duty of 9.35%, as applicable on manufacture of gold bar. In other words, effective tax rate on locally refined gold bar is 9.35%, as against 10% BCD applicable on imported gold bar. Therefore, locally refined gold enjoys a marginal tax advantage of 0.65% over imported gold bar. However, refiners located in EFZ (Excise Free Zones) are not required to pay excise duty of 9.35%. Hence, the import duty differential between refined gold bar and doré gold in EFZ would be 1.25%. Nevertheless, the incentive remains. Such a favourable government stance, including the bullion/doré import duty differential has supported the expansion of the organised sector. The indirect tax regime provides for favourable tax rates to domestically refined gold though much of this additional capacity remains under-utilised, largely because of the difficulty in sourcing doré and limited availability of recycling material. Indian refineries are operating at only 15%–20% of their capacity and though 26 refineries imported doré in 2015, over 90% of imports were concentrated among just six refineries. However, changes to import duties in 2016 cloud the outlook for doré inflows.

During the period January to September 2016, estimated 65 tonnes of gold was recycled as the consumers in India opted to postpone further recycling which could lead to lacklustre of recovery in fourth quarter of CY2016. With continuous decline in recovery through recycling the refining sector is likely to enter a period of consolidation. In CY2015, 80 tonnes of gold was recovered (lowest in last 6 years).[44]

[42] Demonetisation: Jewellers under I-T scanner for sub- Rs. 2 lakh split of sales. (2016, November 15). Retrieved from http://indianexpress.com/article/business/business-others/demonetisation-jewellers-under-i-t-scanner-for-sub-rs-2-lakh-split-of-sales-4375907/

[43] World Gold Council. (2017, January). India's Gold Market: evolution and innovation. Retrieved from http://www.gold.org/research/india-gold-market

[44] Consolidation likely among gold refineries. (2017, January 29). Business Standard, Mumbai, p. 3

2.10 Mining

- India has gold deposits spread across several states including Andhra Pradesh, Chhattisgarh, Jharkhand, Karnataka, Kerela, Madhya Pradesh, Tamil Nadu and Rajasthan. Vedanta Resources won the first gold mine auction in February 2016 for Baghmara in Chhattisgarh.[45]
- The government planned to auction a total of 42 blocks in the second phase of mineral auctions during 2016-17. These blocks have been identified by seven state governments for auction under the Mines & Minerals Development & Regulation (Amendment) Act, 2015. By April 2016, auction of one block of gold in Chhattisgarh along with other mineral blocks was held.[46] The Ministry of Mines has also decided to constitute IMG (Inter-Ministerial Group) i.e. Post-Auction Mining Clearances and Approvals Facilitator (PAMCAF) in a bid to fast track mining activity in the country.[47]
- In May 2016, Parliament approved an amendment to the Mines and Minerals (Development and Regulation) Act 1957 (MMDR), which allowed private companies to bid for mining leases via a competitive auction process and proposed that mining leases for major minerals to be granted for a period of 50 years, compared with the previous 30-year limit. Further amendments were also accepted, under which transfer of captive mining blocks could be allowed without need for auction. Under the initial issue of 43 mining blocks for tender, three are gold mining deposits.[48]
- The state government of Andhra Pradesh is also in process to collaborate with Australian Indian Resources Ltd for mining gold in known deposits of gold bearing quartz rocks in the Rayalaseema region of AP, including Anantapur, Chittoor and Kurnool.[49]
- India also plans to launch a massive aero geophysical survey of minerals to unearth deep-seated resources such as gold and copper, as it seeks to develop its mining industry and reduce its dependence on imports.[50]

2.11 Smuggling

In order to check gold smuggling, the government has decided to put a cap on gold jewellery being brought by Indian passengers who have been residing abroad for over one year. A male passenger can bring gold jewellery of up to 20 gms with a value cap of Rs. 50,000 and woman can carry 40 gms of gold jewellery with a value cap of Rs. one lakh. The customs form currently has fields for declaration of dutiable and prohibited goods, gold jewellery and bullion (over free allowance), satellite phone, foreign currency notes exceeding $US 5,000 or equivalent and Indian currency exceeding Rs. 5,000.[51] Given India's insatiable appetite for gold and the restrictions the government has placed on imports, unofficial flows have often been an important, if problematic, source of gold supply for the Indian market. Multiple routes are used to smuggle gold into India. Smuggling via land or sea routes tends to occur through relatively porous borders that India shares with its neighbours, notably Pakistan, Nepal, Bangladesh and Sri Lanka. In the first half of 2016, in response to the newly imposed 1% manufacturing excise duty, smuggling from Thailand also surged. The World Gold Council report

---

[45] Vedanta bags India's first goldmine lease in Chhattisgarh. (2016, February 27). Retrieved from http://www.hindustantimes.com/business/vedanta-bags-india-s-first-gold-mine-lease-in-chhattisgarh/story-igFJypoy4v7J7Rb5h5PTxN.html

[46] Government to auction 42 blocks in second phase of mines auction. (2016, March 16). Retrieved from http://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/government-to-auction-42-blocks-in-second-phase-of-mines-auction/articleshow/51411655.cms

[47] Mines Min to form IMG for post-auction clearances, approvals. (2016, April 05). Retrieved from http://www.business-standard.com/article/pti-stories/mines-min-to-form-img-for-post-auction-clearances-approvals-116040401125_1.html

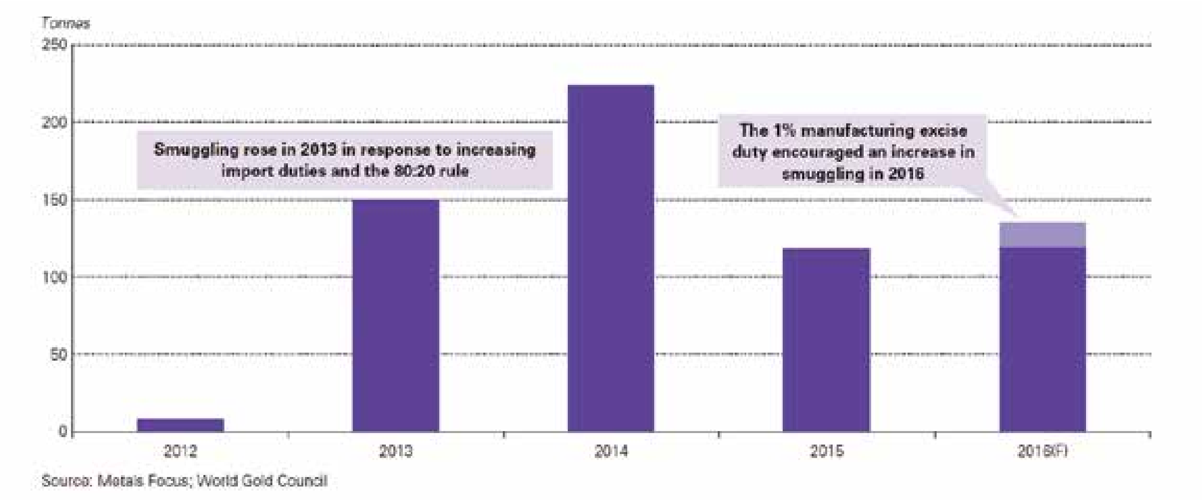
[48] World Gold Council. (2017, January). India's Gold Market: evolution and innovation. Retrieved from http://www.gold.org/research/india-gold-market, p. 71

[49] Andhra Pradesh has huge gold mining potential. (2017, January 28). Retrieved from http://timesofindia.indiatimes.com/city/visakhapatnam/ap-has-huge-gold-mining-potential/articleshow/56840679.cms

[50] India to explore mining potential with massive aerial survey. (2017, January 31). Retrieved from http://www.moneycontrol.com/news/economy/india-to-explore-mining-potentialmassive-aerial-survey_8374721.html

[51] Flyers to declare 'drones' in new customs form April 1. (2016, March 02). Retrieved from http://www.business-standard.com/article/pti-stories/flyers-to-declare-drones-in-new-customs-form-from-april-1-116030100815_1.html

"India's gold market: evolution and innovation" states the following figures of smuggling of gold into India.



Smuggling increased in response to taxes and trade barriers

Source: India's Gold Market: evolution and innovation (World Gold Council)

Demonetisation crippled gold smuggling with an unprecedented 60 per cent fall in seizures in 2016-17 over 2015-16. According to the Directorate of Revenue Intelligence (DRI), it seized 560 kg gold valued at Rs. 162 crore in 2016-17 (till March 26) against 1,417 kg worth Rs. 410 crore in 2015-16.[52]

2.12 Spot Exchange for Gold

A spot exchange for gold has already been accepted in principle by the Ministry of Finance. It was first proposed by India Bullion and Jewellers Association (IBJA) in year 2015-16. IGPC had also released a feasibility study for the same in 2015-16.[53] A spot gold exchange with electronic nationwide trading is expected to enhance the gold market's efficiency by way of efficient price discovery, quality assurance, active retail participation, use of gold bars and coins and gold linked financial markets instead of jewellery for investment purposes. The stumbling block had been the manner in which a trading platform or a bullion exchange would be regulated. It was forwarded by the Ministry of Finance to SEBI (Securities and Exchange Board of India) and the latter had said the exchange would not fall under its jurisdiction. However, as per the meeting held in March 2017, there seems to be a consensus that to protect investors' interest, SEBI may be allowed by the Ministry of Finance to regulate online spot gold trading just as it regulates the futures commodity market in bullion.[54]

2.13 Goods and Service Tax (GST) Proposed

The government's objective to introduce GST is to improve the supply chain in an organised manner. The government would implement a sustainable tax rate which enhances revenue through official channel and plug tax evasion and thereby escalating smuggling of gold. From tax policy perspective, government's focus is on removing all exemptions whether positive or negative hitherto causing least distortion to the existing tax system with respect to gold industry. The GST Council had decided on four tax rates under GST - 5 per cent, 12 per cent, 18 per cent and 28 per cent. A cess would be further applicable on goods such as luxury cars, aerated drinks, pan masala and tobacco products. The GST Council, however, has decided that a business entity with an annual turnover of up to Rs. 20 lakh need not register under GST. The GST rate on gold is yet to be finalised. Gold industry stakeholders

[52] FY17 gold seizures fall 60% on note ban. (2017, March 31). Retrieved from http://www.business-standard.com/article/economy-policy/fy17-gold-seizures-fall-60-on-note-ban-117033100062_1.html

[53] Jacob, Joshy and Varma, Jayanth R.(2016, February). Viability of a Gold Exchange in India. Report available at https://web.iima.ac.in/users/webrequest/files/IGPC/Viability-of-gold-exchange-report-final-edited.pdf

[54] Gold spot exchange likely by year-end, work on fast track . (2017, February 28). Financial Chronicle, Delhi, pp. 1&2

want the GST council to keep gold in the lowest possible tax bracket. Given the Rs-20-lakh threshold, more than 90 per cent of the industry would come under the GST ambit they opine.

GST is India’s opportunity to get rid of the byzantine tax structure and create a uniform tax code that will simplify the way the nation conducts its business. It will help realize India’s vision to become the manufacturing base of the world and set the nation on the path of sustainable growth.

GST is a tax on value addition of output. From a systemic perspective, if gold is taxed at a particular point in the ecosystem it should not disrupt others. Industry suggests that the government could perhaps consider reduction in custom duty considering excise and other taxes and factor-in people’s needs to balance it with GST made so that the overall burden of taxation is optimal.

Presently gold products attract effective duty tax rates in the range of 12 to 13.5%; leading gold industry associations are lobbying to keep GST in gold at the rate of 1 to 4% and rationalise the BCD (Basic Customs Duty) rate.


INDIA GOLD POLICY CENTRE
SENIOR ECONOMISTS ROUNDTABLE (SER 2016)
"Tax Levy and its Implications on India's Gold Ecosystem"
October 17, 2016
Auditorium, NIPFP
Organised by
India Gold Policy Centre, IIM-Ahmedabad
National Institute of Public Finance and Policy , New Delhi
INDIA


ISTS ROUNDTABLE (SER 2016)
and its Implications on
s Gold Ecosystem"
October 17, 2016
Auditorium, NIPFP
Organised by
old Policy Centre, IIM-Ahmedabad
e of Public Finance and Policy , New Delhi

Engagement with Industry Stakeholders and Policy Makers

3

Chapter

3.1 Events by India Gold Policy Centre

3.1.1 Senior Economists Roundtable (SER), New Delhi, 17 October 2016

The plan to organise a 'Senior Economists Round Table' was conceived in one of the IGPC GC (Governing Committee) meetings in 2016 catapulting IGPC a step forward in policy work on gold further to its signature workshop on GMS organised in October 2015. The members of IGPC decided to collaborate with **NIPFP (National Institute of Public Finance & Policy)**, a reputed institution of Ministry of Finance with a plethora of work on public policy impacting the India economy and industries through papers, training, seminars, research, colloquia and the like. Members from IGPC at the panel of SER were Professor Arvind Sahay**,** Head, IGPC, Professor Ashish Nanda, Director IIM Ahmedabad, Professor Errol D'Souza, Dean (Faculty), IIM Ahmedabad, Mr. P.R. Somasundaram, Managing Director India, World Gold Council. Ms. Ruchi Agarwal, Manager IGPC was present for facilitating, co-ordinating and managing the event with NIPFP and Media.

The theme of the Roundtable was **"Tax Levy and its Implications on India's Gold Ecosystem"-**pertinent to the current issues in the economy in general and gold sector in particular. The proposed GST legislation is the biggest indirect tax reform envisaged in the country. As the policy makers are drafting and advocating the proposed Goods & Service Tax (GST) regime which is likely to impact the gold industry significantly, IGPC's plan to host the roundtable was a step to create an open neutral platform for deliberations by experts and stakeholders with the objective to submit a whitepaper to policy makers on taxes levied in the gold sector and recommend a sustainable model for gold trade in the country in the coming years.

The existing Custom Duty @10% on import of standard gold is already perceived high by stakeholders in the value chain. High taxation of gold would impact the economics of gold from investment as well as consumption perspective. In the current tax regime, typically, gold attracts effective tax cost of 12% to 15.5% depending on the geographical location of consumption. In addition, if the GST is levied at 4 to 6% (with the proposed merging of all indirect taxes) and Customs Duty at 10%, the consumer will need to pay taxes to the extent of 14 to 16% on the purchase of gold. Leading gold industry associations are lobbying to keep GST in gold at the rate of 1 to 4%. After GST kicks in, what would be the price differential of domestic gold prices over international prices was a concern raised by Professor Sahay, Head IGPC. If indeed prices remain at 10% or more on the upside, this would likely affect the final price of gold to the consumer, and then this could have a further cascading impact on the industry and consumer behaviour and needs policy attention. It would also lead to greater smuggling of gold.

The Guest of Honor (GoH) at the SER was Dr. Saurabh Garg, Joint Secretary (Investment), DEA, Ministry of Finance, GOI who earmarked his presence by addressing the delegates about government's policy on gold announced last year and plan to improvise it without much distortion. The objective is to improve the supply chain in an organised manner he opined. The government would implement a sustainable tax rate which enhances revenue through official channel and plug tax evasion thereby escalating smuggling of gold. Dr. Garg mentioned about the establishment of the 'Gold Working Group' with inclusion of IGPC as a member. He suggested some areas of research that could be explored by the Centre.

Professor Ashish Nanda, Director IIMA briefed about the inception and growth of the centre acknowledging the foresight and support from Mr. Somasundaram, MD India WGC. Professor Nanda outlined the research projects and activities undertaken by IGPC and the impact envisioned on the economy both on policy and practice owing to gold's colossal socioeconomic importance and immense potential for multidisciplinary research by faculty, fellow students at IIMA and in collaboration with other institutions.

The SER witnessed participation by leading economists from the government, academia and industry delegates from across the gold value chain viz. bullion banks, refiners, jewellery associations, logistics companies, tax consultants and so on. There was participation by 11 economists, about 30 delegates from industry, WGC and NIPFP. A few journalists were invited post noon session for a media interaction with Professor Arvind Sahay, Head IGPC, Professor Errol D'Souza, Dean (Faculty), IIMA and Dr. Rathin Roy, Director NIPFP.

The Senior Economists Roundtable (SER) had participation by Dr. Saurabh Garg**,** Joint Secretary (Investments), Ministry of Finance, Dr. Rathin Roy, Director, NIPFP, Dr. R. Kavita Rao, Professor, NIPFP, Dr. Ajit Ranade, Corp. Economics Cell, Aditya Birla Group, Shri Girish Vanvari, Partner & Head – Tax, KPMG, Shri Johnson Lewis, MD and Head – Sales and Trading, The Bank of Nova Scotia, Dr. Venkatachalam Shunmugam, Chief Economist, MCX and Shri R.K. Anand, Dy. General Manager (Economist), Punjab National Bank. Some other prominent speakers at the event were Mr. Anil Kansara, Director-Gujarat Gold Centre, Mr. James Jose, MD- Chemmanur Refinery, Mr. Rahul Gupta, Chairman-Export Promotion Council for EOUs-Ministry of Commerce, Mr. Prashant Upadhyay, DGM (Precious Metals) SBI, Mr. Haresh Acharya, Bullion Federation, Mr. Sabyasachi Ray, ED-GJEPC (Gems & Jewellery Export Promotion Council) and others. Deliberations and full proceedings of the SER has been captured and disseminated on IGPC repository.

A draft Whitepaper is work in progress. IGPC and NIPFP endeavoured to host a successful forum on 'Tax levy in the Gold sector' bringing together key policy makers, economists and stakeholders to discuss and share their views which is being collated to create a whitepaper for submission to the Ministry of Finance in the coming weeks. The event was appreciated by stakeholders as a pragmatic one in reinforcing brand IGPC as a neutral research and policy centre in the Indian gold industry.

At the Podium: Professor Ashish Nanda, Director, IIMA addressing Senior Economists & Delegates

(L to R: Dr. Kavita Rao, Professor NIPFP, Dr. Ajit Ranade, Senior Economist, Aditya Birla Group and Mr. Girish Vanvari, Partner & Head-Tax, KPMG)

At the Podium: Professor Arvind Sahay, Head, IGPC addressing Senior Economists and Delegates

(At the dais L to R: Professor Ashish Nanda, Director, IIMA, Dr. Saurabh Garg, JS (I), DEA, MoF and Dr. Rathin Roy, Director, NIPFP)

(L to R 1st Row: Mr. Anil Kansara, Director, GGC; Mr. Debajit Saha, Editor, Bullion Bulletin; Mr. Prashant Upadhyay, DGM (Precious Metals), SBI; Mr. Aditya Doshi, Edelweiss Commodities; Mr. Sabyasachi Ray, ED, GJEPC)

(L to R 2nd Row: Mr. R K Anand, Economist, PNB; Dr. Venkatachalam Shunmugam, Senior Economist, MCX; Mr. PR Somasundaram, MD India, WGC)

At the Podium: Dr. Rathin Roy, Director, NIPFP addressing Senior Economists and Delegates

(L to R: Mr. PR Somasundaram, MD India, WGC; Professor Errol D'Souza, Dean IIMA; Professor Arvind Sahay, Head, IGPC and Professor Ashish Nanda, Director, IIMA)

Dr. Saurabh Garg, IAS, JS (Investments), DEA, Ministry of Finance addressing Senior Economists and Delegates

Dr. Saurabh Garg, IAS, JS (Investments), DEA, Ministry of Finance being falicitated by Ms. Ruchi Agarwal, Manager IGPC.

(At the Dais: L to R Professor Ashish Nanda, Director, IIMA; Dr. Rathin Roy, Director, NIPFP)

3.1.2 Launch of two working papers by IGPC at IIMA on 30 January 2017

(L: Media Journalists R: Professor Arvind Sahay, Head, IGPC addressing the media on release of two working papers. Also see FPM students Ms Priya N and Mr. Balagopal G.)

Professor Arvind Sahay, Head, IGPC and Professor Sanket Mohapatra addressing the media on release of two working papers

The India Gold Policy Centre shared two important research studies on behaviors of individuals and central banks impacting gold industry in India and globally. It was addressed by Professor Arvind Sahay, Head, IGPC, IIMA; Professor Sanket Mohapatra (Faculty in Economics Area) and Mr. Balagopal Gopalakrishnan and Ms. Priya N (FPM Students at IIMA).

In two studies conducted exhaustively among stakeholders by India Gold Policy Centre (IGPC) under Indian Institute of Management, Ahmedabad, the relevance of gold and need for its monetisation remains as strong as ever. The two studies are part of a series of studies being conducted by IGPC@IIMA to obtain a research based independent and in-depth understanding of the gold industry in India – given that India is the second largest consumer of gold in the world and that gold tends to increase current account deficit and is a part of exchange reserves. The studies reveal many interesting aspects that they reveal about the stakeholders' behavior in India and globally. The studies, **"Gold Monetization in India as a Transformative Policy"** by FPM students Priya Narayanan, Balagopal Gopalakrishnan and Professor Arvind Sahay and **"Global Risk and Demand for Gold by Central Banks"** by Balagopal Gopalakrishnan and Profesor Sanket Mohapatra have been uploaded for public on IGPC's website https://www.iima.ac.in/web/areas-and-centres/research-centers/igpc/useful-resources.

The first study "Gold Monetization in India as a Transformative Policy" is an in depth analysis of the buying pattern of gold in India. With an aim to suggest improvisations for a better implementation of Gold Monetisation Policy that was introduced in 2015, a nationwide survey was carried across 1171 households, from 10 states that constitute approximately three-quarters of annual national gold consumption. Also interviewed were senior management of 6 banks, 5 refiners and one industry consultant to understand the challenges and implications of the policy for members of the gold ecosystem. The households revealed a tendency to accumulate gold for purposes ranging from marriage to child's education; about 50% of respondents who accumulate gold in small quantities do so for marriage of child or self. Family functions and festivals form two main triggers for gold purchase, for around 60% of respondents, indicating ingrained habit and planned accumulation. There is also high liquidity and safety association of gold, with virtually no substitute, along with a clear reluctance to sell gold received as a gift by almost 70% of respondents.

Shared Professor Arvind Sahay, Head of IGPC "Rural consumers are more reluctant to part with gold as compared to urban consumers, but are also ready to pledge gold as collateral, with 74% of rural consumers being open to pledging their gold, suggesting "liquidity use" of gold on the basis of requirement. High openness to pledging gold is also strongly correlated with a high level of comfort with holding one's gold assets in the form of paper. Moreover, high income urban consumers hold a high proportion of their assets in the form of gold, indicating the use of gold for investment purposes, and implying its scope for monetisation. A state wise analysis of parameters indicating propensity to consider gold as "investment" rather than "sentiment" shows Karnataka, Telengana and Tamil Nadu to be the most attractive regions for increasing the effectiveness of the policy in both rural and urban regions.

The Banks in India are struggling to promote products based on Gold Monetisation policy and seek more control on the process to have a clear separation of risks or effective mitigation of risks relating to the operationalization of the policy. Continued Professor Sahay, "While there is a broad understanding that banks need to take the lead in furthering this policy, inadequate specialization/experience in quality management of gold and lack of sufficient incentive alignment have been pointed out as the main reasons why banks are not yet fully on board. Process issues such as turnaround time and logistics requirements also deter banks and refiners from taking up the policy".

The second study analysed the behavior of central banks through data from 100 countries for 25 years during the period 1990 – 2015. Consistent with portfolio diversification and perception of gold as a safe asset, the gold holdings of central banks as a share of overall reserves increase in response to higher global risk. A one standard deviation increase in the global risk measure (equivalent to 6 units increase in VIX index), increases the share of the gold reserves by 4.2 percent.

Stated Professor Sanket Mohapatra, “In addition, we find evidence that high-income countries have a relatively higher sensitivity of gold reserves to global risk than developing countries, possibly due to better reserve risk management by their central banks. Moreover, greater capital account openness is associated with a stronger response of central banks’ gold holding to global risk, while higher reserve coverage of imports (an indicator of external vulnerability) is associated with a weaker response. Finally, we also find evidence that the sensitivity depends on whether the currency regime followed is fixed or floating, with higher responsiveness seen in the case of fixed exchange rate regimes. These findings suggest that central banks adjust their gold holdings in response to changes in global risk conditions, with the magnitude of response depending on reserve-management capacity and country-specific vulnerabilities. The study reiterates the importance of gold as a hedge against potential vulnerabilities faced by an economy”.

Clearly, gold continues to glitter. The reasons may be different for India and for rest of the world.

3.1.3 Research Seminar by Ms. Rama Bijapurkar at IIMA on 11 January 2017

Professor Arvind Sahay, Head IGPC organised a talk by Ms. Rama Bijapurkar, IGPC Member and Dr. Rajesh Shukla from ICE360 on gold related research study presented to IGPC members, FPM students, PGPX students and AFP students on 11 January 2017 at IIMA.

People Research on India’s Consumer Economy abbreviated as PRICE (www.ice360.in) is a not-for profit think tank engaged in disseminating seminal knowledge on India’s macroeconomic consumer economy to enable policy formulation, regulatory response and business decisions. Two household surveys in 2014 and 2016 have been undertaken on how consumers earn, spend, save, invest, live and access public goods.

A gold module delineating profiling of gold buyers and investors was done. The survey was to establish gold buying behaviour for five years from 2011 to 2016. The sample framework consisted of 300,000 households with panel size of 60,000 and a sample size of 61,000 with panel of 12,000. The survey covered 3018 Villages and Urban Blocks cutting across 25 states of India which is almost 95% Indian population. Gold emerged as the third among different household saving instrument after Bank/Post Office Savings and Life Insurance and 13% of the households invested in gold products. Less than 1% of households own gold in any other form than jewellery. 87% of the households own jewellery. The survey established that at least half of India purchased gold at least once in last five years. Several interesting revelations about demand for gold, demographic variations, reasons for purchase, gold loans, profiling consumers based on buying behaviour and other analytics were presented from the data collected.

The session was a very useful learning source for doctoral students especially those with keen interest in financial sector, consumer behaviour and gold industry.

3.2 IGPC’s active participation at Gold Industry Events

3.2.1 Bullion Federation Global Convention (BFGC) , 21-24 July, 2016 at Agra

Overview: The Bullion Federation, an association established in 2016 comprising of Bullion Dealers and Traders, Gold Refiners, Jewellers, Banks and Security Logistics companies organised its maiden global convention from 21-24 July 2016 at Hotel Jaypee Palace, Agra to create a platform for parley on general business related issues and policies impacting bullion businesses. The objective of the event was to create awareness for its members about the global bullion market, international and national factors affecting prices, demand and supply of gold and silver bullion, latest policy changes, effective tax rates and the like. The conference set out to tackle issues facing the country's gold industry, with ministers and businessmen coming together to address various challenges. The programme also outlined ethical and practical standards for bullion trade and advocate good practices in the industry. The event witnessed turnout of over 250 delegates from various segments of gold industry. Professor Joshy Jacob, IGPC Member, Ms. Ruchi Agarwal, Manager IGPC and Mr. Balagopal Gopalkrishnan, FPM student IIMA participated in BFGC.

Highlights of Deliberations and Discussions:

- Current market scenario
- Demand and supply positions
- Future of refiners in India
- Developing scrap market
- Impact of smuggling on the industry and suggestions for controlling it
- Development in Global Bullion Market and their relevance for India
- Emerging avenues for Silver Market.
- Gold and silver price outlook
- GST effect in bullion trade
- Hedging and risk management
- Gold India-UAE (Dubai) –Trade Partnership

Synopsis of Panel discussions, Presentations and 1-o-1 interactions : BFGC was planned over three days with a programme schedule comprising of twelve panel discussions, three individual presentations, addresses by Guests of Honor (Ministers), open interactive sessions and a gala award night.

The Bullion Federation's key request to the government is to reduce the refined bullion import duty to 6% from existing 10%. There are hopes by some that this could happen soon, although not all are convinced. Traditionally, India is a 800-900 mt/ year import market, with only one mine supplying insignificant quantity. Indian gold bar imports fell 46% in June to 26 mt, from 50.1 mt in May, customs data showed earlier this month. Industry sources indicated that imports were down 40% year on year, from 44.6 mt in June 2015, to their lowest level since March. India has shipped in around 130 mt so far in 2016.

Gold refineries of varying capacities from 50 tonnes to 300 tonnes import gold doré for refining. There was a deliberation on the sunset clause up to the year 2020 on excise exemption for refineries in the duty free zone at Rudrapur which has about 18 refineries as compared to those outside of it. As the refineries within DTA (Duty Tariff Area) are mandated to pay a differential 1% excise duty, their operating margins range between 0.54% to 0.65% vis-à-vis their counterparts in duty free zone with average margins of 1.05% to 1.25%. The representatives from gold refineries expressed concerns on the current suspension of operations due to non-viability of business since past four months. Senior gold refiner, Mr. Rajesh Khosla of MMTC-PAMP advocated for Government's policy to allow refineries to export bullion as they have huge inventory of bullion adding to their costs. Mr. Anil Kansara of Gujarat Gold Centre raised concern about non-acceptance by banks of bullion bars from non-LBMA refineries despite their BIS/ OECD compliance. Some representatives from refineries at Rudrapur expressed challenges about the variable quality of 300 to 400 tons of scrap procurement within the duty free area.

Bullion Federation Secretary, Mr. Haresh Acharya said that the key agenda of the federation is that the industry has to work in tandem with the government in order for change to be successful. He emphatically expressed his view to see the gold business move to a cashless one in the coming years. However, a few members of the federation were of the opinion that there is a big demand especially for smaller operations and buyers living in rural areas. Smuggling was another hot topic of discussion, with many complaining that it is one of the main reasons for the current steep discount. However, others said that smuggling has always been a factor in the Indian market and that it shouldn't be seen as the primary cause for the current dire trade conditions. Nearly all traders and bankers said that they have done zero business in the past five-months.

Hon. Union Minister of State for Finance & Corporate Affairs, Shri Arjun Meghwal's address highlighted the demands by the Federation on lack of price transparency, increased smuggling, problems of bullion banks, money laundering, tax levies, loss of business etc. He expressed government's support on a policy framework that works in the interest of gold sector, is conducive to fair practices and revenue management of GOI. The minister endorsed the new mining policy for exploration of assets in the states of Karnataka, Chattisgarh and Jharkand and stressed on the need to enhance Research & Development in the gold industry. He reiterated government's view on a Central body of Gold and an ecosystem that creates an 'India Fix gold price' rather than adopting London fix or other international prices. The minister applauded the federation for their initiative in organising the convention and reaching out to policy makers as well as trade.

3.2.2 13th India International Gold Convention, 11-14 August 2016 at Agra

Overview: IGPC committed as a Research Partner at Indian Gold Industry's most popular annual event-**India International Gold Convention (IIGC)** held at Hotel Jaypee Palace, Agra from 11-14 August 2016. As Research Partner, IGPC's brand was promoted through IIGC's collaterals namely website, backdrop, promos, publications, media and event souvenir. IGPC's research brochures were disseminated through delegate kits at the event. Professor Arvind Sahay, Head, IGPC was invited as a speaker at a prominent speaking slot on the second day of the convention. Ms. Ruchi Agarwal, Manager IGPC and Ms. Priya Narayanan, FPM student IIMA also attended IIGC.

(L: IGPC Research Partner Plaque R: Professor Sahay, Head, IGPC felicitated by Mr. Johnson Lewis, MD, Scotia Bank India)

(L: IGPC Research Partner Souvenir R: 1st Row: Mr. Anil Kansara, Director, GGC; 2nd Row behind L to R: Ms. Priya N, FPM student and Ms. Ruchi Agarwal, Manager, IGPC)

This was the 13th edition of the convention organised by Foretell Business Solutions Ltd. with participation by over 400 business delegates, 50 plus speakers, 5 panel discussions and 20 exhibitors, a wide spectrum of stakeholders from the entire gold eco-system converged for the gold convention. There were representatives from Australia, Brazil, Ghana and Peru, 12 international banks, 8 Indian banks, 10 plus refineries, nominated agencies, bullion dealers, logistics companies, hallmarking agencies, insurance and technology service providers, government representatives and media.

Synopsis of Deliberations and Discussions: (The Programme Schedule, Panels and Speakers can be accessed at http://www.goldconvention.in/iigc2016/index.html)

The conference emphasised on global and India's gold demand, Challenges in bullion trade, Factors affecting Price of gold, Import and smuggling of gold, Tax levies and their impact, Technical sessions on measuring Gold content in Doré, GMS (Gold Monetisation Scheme) and SGBS (Sovereign Gold Bond Scheme) and ways to improvise them, Innovations in Global Gold markets and relevance for India, LBMA's standards and Responsible Gold value chain, Assaying best practices in the West and learnings for Indian gold Industry and Gold Mining.

Some concerns raised at IIGC were about supply chain and related aspects. The core challenge of supply side today has been mitigating the negative impact of high import duty on official business observed some Industry stakeholders. India imports 99% of its gold demand in the form of standard gold of 995 purity called Bullion and mined gold called Doré. About 100 institutions mainly banks, nominated agencies, star trading houses import standard gold. Doré is imported by licensed refiners for manufacturing refined bars in India. Subsequently in the value-chain standard gold moves through bullion dealers to jewellery manufacturers and gets distributed through 300,000 retailers of which 13000 are BIS certified. India's total gold imports fell to 60 tonnes this year in the first quarter from April to July compared to 250 tonnes for the same period in the previous financial year. Surprisingly, India imported 80 tonnes of gold through unofficial channel due to high custom duty during this period. It was largely felt that gold business is affected by illegal imports as several jewellers are shying away from excise duty and instead purchasing from grey market which is thriving all over the country.

Professor Arvind Sahay, Head IGPC's presentation at IIGC: Gold in India-Taking Stock

Professor Arvind Sahay, Head IGPC, IIMA explained in his presentation "The success of GMS largely depends on addressing consumers attitudes, behaviour and emotions embedded in the brain towards gold. This can be tackled by designing interventions based on neuroscience that makes consumers more willing to part with gold. Interventions to mobilise gold were designed from the economic perspective hitherto and none from influencing the consumers brain" he emphasised. Professor Sahay's presentation received a standing ovation as it highlighted consumer side of GMS by linking it to human mind and need for neuro marketing strategies for its success in the long term.

A write-up by Professor Sahay was carried in the August issue of Bullion Bulletin, an industry publication by Foretell Business Solutions. An interview of Professor Sahay was also organised in the margins of the event.

3.2.3 IGPC's participation at IIBS 4 (India International Bullion Summit 4) by IBJA on 16 March 2017 at Hotel Star Sahara, Mumbai

Professor Arvind Sahay participated as a speaker at Panel 1 of IIBS 4 organised by India Bullion and Jewellers Association on Bullion Business World Over vs. India. Details of the event can be accessed at www.iibsummit.in and a snapshot of the Panel 1 is captured on the following page:

3.3 IGPC's Engagement with Policy Makers

Professor Arvind Sahay's participation at the Meeting of Gold Working Group at North Block, Ministry of Finance on 6 March 2017

Ministry of Finance (MoF) constituted a GWG (Gold Working Group) recently. Professor Arvind Sahay, Head, IGPC attended the second meeting hosted by the Ministry of Finance on 6 March 2017 at North Block to discuss gold policies and roadmap ahead. Professor Sahay made a presentation on the current gold ecosystem and recommended his version of what the policy should be has been shared with the ministry. The meeting was participated by the following others:

1. Secretary, DEA, MoF
2. JS, DEA, MoF
3. Secretary, Revenue, MoF.
4. JS, DFS, MoF.
5. Dy. Governor, RBI,
6. Member Board, SEBI
7. Pahle India Foundation (Dr. Rajiv Kumar)

3.4 IGPC's Growing International Footprint

Professor Arvind Sahay, Head IGPC nominated on IOC of DMCC (Dubai Multi Commodity Centre)

Professor Arvind Sahay, Head IGPC has been nominated as a member of the 'Independent Oversight Committee' (IOC) of DMCC (Dubai Multi Commodity Centre) and has been a regular contributor to the functioning of the entity. The committee monitors sourcing of gold into Dubai responsibly.

DMCC's IOC has expanded to seventeen members recently and has two applications in the pipeline. In a meeting held on 11 April 2017, the committee oversaw transition to new norms of sourcing gold responsibly with the goal to be a benchmark for pricing and to buttress Dubai as a major centre for trade and processing of gold.

3.5 IGPC Meetings at IIMA Campus

Members of the Governing Committee and Faculty Members of IGPC meet intermittently to assess and plan activities of the Centre.

L to R: Professor Ashish Nanda, Director, IIMA; Professor Arvind Sahay, Head, IGPC; Mr. PR Somasundaram, MD (India), WGC

L to R: Ms. Ruchi Agarwal; Professor Joshy Jacob; Mr. P.R. Somasundaram; Professor Errol D’Souza; Professor Ashish Nanda; Professor Arvind Sahay; Ms. Rakhi Khanna

3.6 PGP Students Project on Gold

Under the guidance of Professor Errol D' Souza, Dean (Faculty), IIMA 3 students namely Hardik Wadhwa, Samyak Daga, and Yash Baheti completed a project titled "Dynamics of Gold Market in India" in January 2017.

The report, written for the Project course undertaken in Term 5 by PGP2 students, analyses the gold market and the value chain in India from a taxation and policy perspective. Given the huge industry which provides significant employment, exports and current account deficits, there are often unintended consequences to any policy from the government. The report tries to cover some of these issues.

It begins with a brief mapping of the value chain worldwide and then specific to India. After that, it moves onto the taxation perspective, starting with details on the history of these policies. After discussing the current issues, it also touches upon the impact of GST which is the future of indirect taxation in India. The report ends with a few recommendations and proposals. They visited sites of a gold refinery and hallmarking centre to understand the nuances of gold refining process and get insights on industry dynamics.


BULLION FEDERATION GLOBAL CONVENTION
BFGC 2016

Media Spots and Coverage

4

Chapter

Media Reports

1. Press Conference Report on Release of Two Working Papers on Behaviors of Individuals and Central Banks Impacting Gold Industry in India and Globally on 30 January 2017

   https://www.iima.ac.in/c/document_library/get_file?uuid=0bb308df-bba6-4696-aa8a-2edd44fb3df5&groupId=62390&filename=Event%20Report%20IIM%20Ahmedabad%2030th%20Jan

2. Senior Economists Round Table 2016

   http://web.iima.ac.in/users/webrequest/files/IGPC/2016/Media%20Coverage%20Report%20SER%2017th%20Oct%202016%20final.pdf

Interviews/Podcasts

3. Professor Arvind Sahay, Head, IGPC's media interview with NDTV Profit on "Tweaks needed in Gold Monetisation Policy" on 27 Feb 2017

   http://www.ndtv.com/video/business/news/tweaks-needed-in-gold-monetisation-policy-arvind-sahay-450499

4. How India's Love Affair with Gold is a hindrance to Economic Development and a Balanced Current Account (Podcast by Professor Arvind Sahay, Head, IGPC)

   https://soundcloud.com/iimapodcast/how-indias-love-affair-with-gold-is-a-hindrance-to-econ-development-and-a-balanced-current-account

5. Professor Arvind Sahay, Head, IGPC's media interview with Mr. Debajit Saha, Editor of Bullion Bulletin at India International Gold Convention 2016

   https://www.youtube.com/watch?v=SzlxVDrw5Fk

India Gold Policy Centre in Media: few clips

The Telegraph

Gold policy review underway

Our Special Correspondent

METAL ALERT

The concern
- Gold import drops to decade low of \$7.2bn in the first half of 2016-17
- Demand subdued

The factors
- High import duties
- Strict disclosure norms while buying jewellery
- Jewellers' strike
- Govt efforts to unearth black money

New Delhi, Oct. 17: The government is reviewing the regulatory policies on gold as the import of the yellow metal has dipped to a decade low of \$7.2 billion in the first half of 2016-17.

High import duties, strict disclosure norms for jewellery purchase, a jewellers' strike and government efforts to unearth black money have hit the imports of the yellow metal.

"A working group has been formed to review the current regulatory policies related to gold," Saurabh Garg, joint secretary in the department of economic affairs, said at a round table of senior economists organised by the India Gold Policy Centre (IGPC) and the National Institute of Public Finance and Policy (NIPFP).

An import duty of 10 per cent was imposed on gold in 2013 when the current account deficit was under severe stress. Ballooning imports of the yellow metal had pushed the current account deficit (CAD) to 4.8 per cent of the gross domestic product (GDP) in 2012-13 from 4.3 per cent in the previous financial year. CAD of \$277 million, or 0.1 per cent of GDP, in the April-June quarter this fiscal - same as in the preceding quarter - has put to rest expectations of a surplus. Icra expects a current account deficit of \$20-25 billion in 2016-17 compared with \$22 billion in 2015-16.

Arvind Sahay, head of the IGPC, said the increase in customs duty to 10 per cent was a concern. "Not only has the increase in prices been a likely factor for low consumer demand, but may have also caused a great deal of smuggling of gold into the country," Sahay said at the event.

According to Sahay, if GST is levied at 4-6 per cent along with a customs duty of 10 per cent, consumers will need to pay 14-16 per cent taxes on the purchase of gold.

"If indeed prices remain at 10 per cent or more on the upside, this is likely to affect the final price of gold for the consumer, and then this could have a cascading impact on the industry and consumer behaviour and needs policy attention. It would also lead to greater smuggling of gold," Sahay said.

Rathin Roy, director at the NIPFP, observed that gold in India had been historically not just a store of value and a medium of exchange but also an investment. "The treatment of gold as a resource requires unorthodox thinking and careful treatment. India's gold policy is an integral part of our macroeconomic and fiscal toolbox," he said. India imports 99 per cent of its gold demand in the form of standard gold of 995 purity.


Gold Monetization Scheme: Flaws that Prevent Scale

The Hindu Business Line, 18 October 2016, p. 4


Taxes, adverse policies taking sheen off gold, say experts

Govt reviewing policies: official

OUR BUREAU

Current regulatory policies and higher tax regime have taken the sheen off the yellow metal, which is seeing subdued consumer demand even after the onset of the festival season, experts said.

The domestic gold industry has remained merely a bystander watching the festival buying coming to its end without any glitter, they said.

At a 'Senior Economists' Roundtable', jointly organised by India Gold Policy Centre (IGPC) and National Institute of Public Finance and Policy (NIPFP), industry leaders, economists and experts said the weak consumer demand may be due to manyfactors such as higher imports duty, entry tax, octroi, excise duty and sales tax (VAT) and the overall economic slowdown.

The stakeholders called upon the government to address the issues on an urgent basis.

Working group formed

Speaking at the roundtable Saurabh Garg, Joint Secretary (Investments), Department of Economic Affairs, Ministry of Finance, said a working group has been formed to review the current regulatory policies on gold.

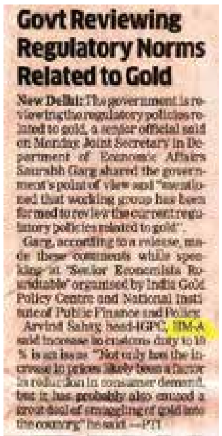
Arvind Sahay, Head of IGPC at the Indian Institute of Management - Ahmedabad, said, "An increase in customs duty to 10 per cent is an issue. It was, however, encouraging to note that the government appeared committed to bringing more transparency in the industry."

GST regime

Under the Goods and Services Tax (GST) regime, if tax is levied at 4-6 per cent (with the proposed merger of all indirect taxes) and Customs duty at 10 per cent, the consumer will need to pay taxes to the extent of 14-16 per cent on purchase of gold. Gold traders are pitching for GST rate of 4-5 per cent.

Ashish Nanda, Director, IIMA, said, "Gold is an important asset, particularly in India. Policy makers and industry participants recognise the importance of having thoughtful and clear policies to appropriately regulate and nurture the industry for social benefit."

Economic Times
18 October 2016, p. 17


Govt Reviewing Regulatory Norms Related to Gold

New Delhi: The government is reviewing the regulatory policies related to gold, a senior official said on Monday. Joint Secretary in Department of Economic Affairs Saurabh Garg shared the government's point of view and "mentioned that working group has been formed to review the current regulatory policies related to gold".

Garg, according to a release, made these comments while speaking at "Senior Economists Roundtable" organised by India Gold Policy Centre and National Institute of Public Finance and Policy.

Arvind Sahay, head-IGPC, IIM-A said increase in customs duty to 10 % is an issue. "Not only has the increase in prices likely been a factor in reduction in consumer demand, but it has probably also caused a great deal of smuggling of gold into the country," he said. —PTI

Navbharat, Mumbai
19 October 2016, p. 7


'गोल्ड नीतियों की समीक्षा कर रही है सरकार'

Hindu Business Line, 31 January 2017, p. 6

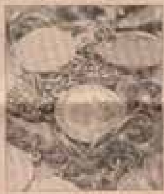

'Gold Monetisation Scheme lacks lustre'

IIM-A study calls for policy tweaks

Financial Express, 31 January 2017, p. 14

High-income group holds a high proportion of assets in gold: Study

FE Bureau



Ahmedabad, Jan 30: Flying in the face of the Centre's rationale behind demonetisation as a means to remonetise the economy, a study by the India Gold Policy Centre (IGPC) under the Indian Institute of Management Ahmedabad (IIM-A) shows the tendency of high-income urban consumers to hold a high proportion of their assets in the form of gold.

The two studies released on Monday are part of a six-study series being conducted by IGPC to obtain a research-based in-depth understanding of India's gold industry.

Conducted by IGPC head Arvind Sahay and students Priya Narayanan and Balagopal Gopalakrishnan, the study 'Gold Monetisation in India as a Transformative Policy', which carried out a nationwide survey across 1,171 households in 10 states, aims to suggest improvisations for a better implementation of the Gold Monetisation Policy introduced in 2015.

Addressing members of the media, Professor Sahay said: "The surveys for this study were conducted before the demonetisation exercise by the Centre, but these findings will still hold. We are currently working on another study with regards to the demonetisation, and we expect to have the results by March. We have found that there is a need for targetted intervention by the government into the Gold Monetisation Scheme, which has not been very successful. There needs to be serious reconsideration into how the scheme can be tweaked to make it more successful. There is currently a lack of attractiveness for customers, as well as for banks. We have been holding talks with the Centre and other stakeholders, and there are discussions being held on how the scheme can be improved."

The study revealed the tendency of people to accumulate gold for purposes ranging from marriage to children's education, while family functions and festivals form two main triggers for gold purchase.

Professor Sahay added: "Rural consumers are more reluctant to part with gold compared to urban consumers, but are also ready to pledge gold as collateral, with 74% of rural consumers being open to pledging their gold, suggesting 'liquidity' use of gold on the basis of requirement. High openness to pledging gold is also strongly correlated with a high level of comfort with holding one's gold assets in the form of paper."

"Moreover, high income urban consumers hold a high proportion of their assets in the form of gold, indicating the use of gold for investment purposes, and implying its scope for monetisation," he added.

The other study 'Global Risk and Demand for Gold by Central Banks', conducted by Professor Sanket Mohapatra and Gopalakrishnan — analysed the behaviour of central banks in 100 nations for 20 years from 1996 to 2015 — found that the perception of gold as a safe asset leads to the gold holdings of central banks to increase in response to higher global risk.

"We find evidence that high-income countries have a relatively higher sensitivity of gold reserves to global risk than developing countries, possibly due to better reserve risk management by their central banks," Professor Mohapatra said.

Gold Monetization; Some Roadblocks Ahead

Prof. Arvind Sahay, Head, India Gold Policy Center, IIMA

Normally if there is a deep-seated emotional attachment to a certain thing, people do not easily change their behavior. In this case it is the attachment to the gold. So the challenge is how we can change the behavior of people so that they are more willing to take out their gold, lying in the mattresses or lockers and deposit it with the banks so that it gets monetized. If we are talking about 300 to 500 tons of gold getting out of lockers every year, it means that that amount of money is more available to the economy.

As I saw your presentation today you spoke about basically the habit behind buying gold in India and why Indians do not want to part with their gold and there is lot to be needed to motivate these people to deposit their gold in gold monetization scheme. Am I right?

When we start a scheme like the gold monetization scheme there are two sides to that scheme. One side is that of refiners, the banks, the CPTCs that has to have a system in place where people can go and deposit their gold and be assured of the quality that they are depositing and be sure that their gold doesn't get stolen. The other part of the equation is that people need to be comfortable with giving out their gold because in our country people are very emotionally attached to gold for a variety of reasons; it's a social security, it is the hedge against inflation, it's a saving because we don't have organized system of savings in the rural areas. So in a very real sense, for large number of people, gold has become a part of their DNA. It is a very deep-seated habit and habits are very emotional in nature.

Normally if there is a deep-seated emotional attachment to a certain thing, people do not easily change their behavior. In this case it is the attachment to the gold. So the challenge is how we can change the

The Art of Jewellery

Gold Monetization Scheme needs tweaks with incentives for participants: Report **31-01-2017 17:35 PM**

AOJ E-NEWS :Central government's ambitious Gold Monetisation Scheme, failed to generate interest from the key target groups mainly on account of the lack of incentives to players like banks, refiners and the individuals -- a latest report by researchers from the Indian Institute of Management, Ahmedabad (IIM-A) revealed.

"The stakeholders in the ecosystem have differing viewpoints with respect to the sharing of responsibilities. A closer collaboration between all stakeholders is critical for the success of the Gold Monetization Scheme. This would necessitate suitable incentivization of all players, as well as appropriate mechanisms for risk sharing and/or risk mitigation," revealed the study "Gold Monetization in India as a Transformative Policy" jointly undertaken by institute's students Priya Narayanan, Balagopal Gopalkrishnan and Prof Arvind Sahay.

According to the research, Banks seek more control on the process to have a clear separation of risks or effective mitigation of risks relating to the operationalization of the policy.

Sharing the outcome of the research, Prof Sahay said, "It can be said that GMS has not been a successful policy. Our research has identified the areas of policy, which can be tweaked to make it more attractive for the key players of the scheme i.e. consumers, and bankers and refiners."

The study revealed that the diversity in the associations and attributions to gold across consumer groups, a one-size-fits-all policy does not work for consumers.

It is essential to segment consumers on the basis of attributes such as willingness to part with gold for investment purpose after identifying the characteristics of such consumers. This will allow for targeted communication and other forms of targeted intervention that are more likely to be effective rather than laying out a general scheme, revealed the study, which was funded by the India Gold Policy Centre (IPGC) an independent research body at IIM-A sponsored by the World Gold Council.

It was also observed from the study, which was conducted on a pan-India sample size of 1171 households across income-groups that the awareness level about the scheme and its benefits was limited even in the urban areas, leave alone the rural pockets. The researchers interviewed top executives of 6 banks, 5 refiners and an industry consultant.

"The government needs to act effectively in terms of communicating the merits of the scheme to the consumers, and to enable the stakeholders to work in tandem," it said.

The study noted that about 50 per cent of the respondents, who accumulate gold in small quantities do so for marriage of child or self. Around 60 per cent of respondents, indicating ingrained habit and planned accumulation. Almost 70 per cent respondents expressed clear reluctance to sell gold received as a gift.

"Rural consumers are more reluctant to part with gold as compared to urban consumers, but are also ready to pledge gold as collateral, with 74% of rural consumers being open to pledging their gold, suggesting “liquidity use” of gold on the basis of requirement," Sahay added.

THE WEEK

GOLD SCHEME

Gold Monetisation Scheme not successful: Survey, 30 January 2017

Gold Monetisation Scheme introduced by the Union government has not been successful, a study held by India Gold Policy Centre (IGPC) at IIM-Ahmedabad has revealed. IGPC is a centre of excellence sponsored by the World Gold Council.

Professor Arvind Sahay, head of the IGPC, said on Monday that the GMS was not successful and that there was a need for a serious rethink so that something could be worked out to make it successful. According to him, there are some systematic and regulatory issues with the scheme and that the banks also need incentives.

He said that many banks did not have the organisational bandwidth to handle the scheme and that the consumers also needed to be encouraged. Pointing out former governor of RBI Y. V. Reddy's recent remarks that India need a comprehensive gold policy, Sahay said a policy could not be successful unless it could draw from individuals.

“Temple Trusts cannot provide much,” he felt.

The study—Gold Monetisation in India as a Transformative Policy—was undertaken with an aim to suggest improvisations for a better implementation of Gold Monetisation Policy. The survey was carried across 1,171 households in 10 states that constitute approximately three-quarters of annual national gold consumption. The survey was undertaken in September- October 2016 before the demonetisation announcement.

The study revealed that rural consumers were more reluctant to part with gold as compared to urban consumers, but were ready to pledge gold as collateral, with 74 per cent rural consumers being open to pledging their gold, suggesting “liquidity use” of gold on the basis of requirement.

High income urban consumers hold a high proportion of their assets in the form of gold, indicating the use of gold for investment purposes, and implying its scope for monetisation.

The state wise analysis also revealed that Karnataka, Telengana and Tamil Nadu would part with gold more as compared to other states, indicating that these were the most attractive regions for increasing the effectiveness of the policy in both urban and rural regions.

Asked if there was a need to increase the rate of interest for those opting for GMS, Prof. Sahay said that this was one of the things they were looking into in another study that was being carried out.

Business Standard, Ahmedabad
31 January 2017, p. 05

Lack of sops hurt Gold Monetisation Scheme

VIMUKT DAVE
Ahmedabad, 30 January

Lack of incentives for key players like banks and refiners, coupled with lack of awareness on the Gold Monetisation Scheme (GMS), led to poor response, found a study conducted by the Indian Gold Policy Centre (IGPC) at the Indian Institute of Management, Ahmedabad (IIM-A).

"It can be said that GMS has not been a successful policy. Our research has identified the areas of policy that can be tweaked to make it more attractive for the key players of the scheme - consumers, and bankers and refiners," said Arvind Sahay, head of IGPC.

The study, Gold Monetisation in India as a Transformative Policy, by IGPC is an in-depth analysis of the buying pattern of gold. With an aim to suggest improvisations for a better implementation of GMS that was introduced in 2015, a nationwide survey was carried across 1,171 households, from 10 states that constitute approximately three-quarters of annual national gold consumption. IIM-A's IGPC interviewed top officials of six banks, five refineries and one industry consultant to understand the challenges and implications of the policy for the gold industry.

The study found that lack of incentivisation led to banks losing interest in the scheme as deposits of gold or selling coins were not key operations. Banks are also struggling to promote products based on gold monetisation policy and seek more control on the process to have a clear separation of risks or effective mitigation of risks relating to the operationalisation of the policy.

IGPC Research & Publications

5

Chapter

Articles in Gold Industry Publications

1. Professor Arvind Sahay (August 2016), "Gold Monetization Scheme: Flaws that Prevent Scale," Bullion Bulletin, Vol. 6 Issue 8, pp. 16-18 (fulltext http://web.iima.ac.in/users/webrequest/files/IGPC/Prof%20Arvind%20Sahay%27s%20write%20up%20in%20Bullion%20Bulletin.pdf)

2. Professor Arvind Sahay (October 2016), "Gold Monetization; Some Roadblocks Ahead," Bullion Bulletin, Vol. 6, Issue 10, pp. 14-18 (fulltext https://web.iima.ac.in/users/webrequest/files/Prof.%20Arvind%20Sahay%20PDF%20(1)(1).pdf)

3. Professor Arvind Sahay (December 2016), "Demonetization and Gold," Bullion Bulletin, Vol. 6, Issue 12, pp. 6-7, (fulltext http://web.iima.ac.in/users/webrequest/files/IGPC/2017/01/December%20BB%20Mag%202016%20%20Article%20IGPC.pdf)

Presentation at Industry Events

4. Gold in India: Taking Stock and Getting the Consumer to Part with Gold, Presented at the India International Gold Convention on August 12, 2016 (fulltext http://goldconvention.in/iigc2016/presentation/2016/6_Prof%20Arvind%20Sahay%20IGPA%20IIMA%20_Gold%20In%20India%20Taking%20Stock.pptx)

Working Papers

5. Priya Narayanan, Balagopal Gopalakrishnan, Arvind Sahay, "Gold Monetization in India as a Transformative Policy: A Mixed Method Analysis (IIMA W. P. No. 2017-01-02, January 2017)" (fulltext https://web.iima.ac.in/assets/snippets/workingpaperpdf/1743454792017-01-02.pdf)

6. Balagopal Gopalakrishnan and Sanket Mohapatra Indian Institute of Management, Ahmedabad, "Global Risk and Demand for Gold by Central Banks (IIMA W. P. No. 2017-01-01, January 2017)" (fulltext https://web.iima.ac.in/assets/snippets/workingpaperpdf/19957570802017-01-01.pdf)

1. **Professor Arvind Sahay (August 2016), "Gold Monetization Scheme: Flaws that Prevent Scale", Bullion Bulletin, Vol. 6 Issue 8, pp. 16-18**

   (fulltext http://web.iima.ac.in/users/webrequest/files/IGPC/Prof%20Arvind%20Sahay%27s%20write%20up%20in%20Bullion%20Bulletin.pdf)

   Over the past 35 years, the government has attempted several times to collect and / or use the stored gold (as ornaments or bullion) in India. Estimates suggest that there is more than 22000 to 25000 tons of stored gold in India in private hands. At current prices in July 2016, that is Rs. 300,000 X 22= Rs. 66,00,000 crores (or $ 990 billion) - that is half of India's GDP and in the same ball park as the bank deposits in the country. The argument is that monetization will release money back in circulation and it will be available for useful economic activity.

   The latest Gold Monetization Scheme launched in 2015 is part of this long tradition. And like all other attempts, this one too will fail. The article looks at why.

2. **Professor Arvind Sahay (October 2016), "Gold Monetization; Some Roadblocks Ahead," Bullion Bulletin, Vol. 6, Issue 10, pp. 14-18**

   (fulltext https://web.iima.ac.in/users/webrequest/files/Prof.%20Arvind%20Sahay%20PDF%20(1)(1).pdf)

   Normally if there is a deep-seated emotional attachment to a certain thing, people do not easily change their behavior. In this case it is the attachment to the gold. So the challenge is how we can change the behavior of people so that they are more willing to take out their gold, lying in the mattresses or lockers and deposit it with the banks so that it gets monetized. If we are talking about 300 to 500 tons of gold getting out of lockers every year, it means that more amount of money is available to the economy.

3. **Professor Arvind Sahay (December 2016), "Demonetization and Gold," Bullion Bulletin, Vol. 6, Issue 12, pp. 6-7**

   (fulltext http://web.iima.ac.in/users/webrequest/files/IGPC/2017/01/December%20BB%20Mag%202016%20%20Article%20IGPC.pdf)

   We are now going through the largest economic experiment in history. 1.3 billion Indians are suddenly dealing with a situation where 86% of the currency was withdrawn with a 4 hour notice in a country where a preponderant majority of transactions are in cash. Analysts suggest that three reasons are driving this policy checking fake currency used in terrorist financing, flushing out black money and bringing more people into the tax net. In this article, we examine the implications of demonetization on the gold sector.

4. **Gold in India: Taking Stock and Getting the Consumer to Part with Gold, Presented at the India International Gold Convention on August 12, 2016**

   (fulltext available at http://goldconvention.in/iigc2016/presentation/2016/6_Prof%20Arvind%20Sahay%20IGPA%20IIMA%20_Gold%20In%20India%20Taking%20Stock.pptx)

   Professor Arvind Sahay, Head IGPC, IIMA explained in his presentation "The success of GMS largely depends on addressing consumers attitudes, behaviour and emotions embedded in the brain towards gold. This can be tackled by designing interventions based on neuroscience that makes consumers more willing to part with gold. Interventions to mobilise gold were designed from the economic perspective hitherto and none from influencing the consumers brain" he emphasised. Professor Sahay's presentation received a standing ovation as it highlighted consumer side of GMS by linking it to human mind and need for neuro marketing strategies for its success in the long term.

5. **Priya Narayanan, Balagopal Gopalakrishnan, Arvind Sahay, "Gold Monetization in India as a Transformative Policy: A Mixed Method Analysis (IIMA W. P. No. 2017-01-02, January 2017)"**

(fulltext available at https://web.iima.ac.in/assets/snippets/workingpaperpdf/1743454792017-01-02.pdf)

Executive Summary

India is the second largest consumer of gold in the world and gold is a major contributor to the current account deficit. Much of the gold goes out of circulation and is not available to support economic activity. To encourage consumers to bring the gold back into circulation, the government of India instituted the Gold Monetization Policy in 2015. This research views the Gold Monetization Policy in India through the lens of consumer associations with gold, as well as the banker and refiner perspectives on implementation challenges. The success of this policy is important for the country to better manage its current account balance, in a milieu where gold consumption holds sociocultural importance. The research uses an empirical approach to analyse how various stakeholders have approached the policy, and provides suggestions to increase uptake of the policy. It employs a mixed method approach to understand the motivations and barriers faced by various stakeholders in the gold ecosystem.

First, a nationwide survey-based study of 1171 households, across 10 states that constitute approximately three-quarters of annual national gold consumption, was conducted to understand the consumer associations with and attributions related to gold. This highlights consumers' tendency to accumulate gold for purposes ranging from marriage to child's education; about 50% of respondents who accumulate gold in small quantities do so for marriage of child or self. Family functions and festivals form two main triggers for gold purchase, for around 60% of all respondents, indicating ingrained habit and planned accumulation. There is also high liquidity and safety association of gold, which is also not considered as having any substitute by nearly half of all respondents, along with a clear reluctance to sell gold received as a gift by almost 70% of respondents.

Rural consumers are more reluctant to part with gold as compared to urban consumers, but are also ready to pledge gold as collateral, with 74% of rural consumers being open to pledging their gold, suggesting "liquidity use" of gold on the basis of requirement. High openness to pledging gold is also strongly correlated with a high level of comfort with holding one's gold assets in the form of paper. Moreover, high income urban consumers hold a high proportion of their assets in the form of gold, indicating the use of gold for investment purposes, and implying its scope for monetization. A state wise analysis of parameters indicating propensity to consider gold as "investment" rather than "sentiment" shows Karnataka, Telengana and Tamil Nadu to be the most attractive regions for increasing the effectiveness of the policy in both rural and urban regions. These states score 10.88 or above whereas the scores for all states range from 7.74 to 11.48.

Second, an interview based study was conducted with senior management of 6 banks, 5 refiners and one industry consultant to understand the challenges and implications of the policy for members of the gold ecosystem. Discussions with these stakeholders clarified that banks would promote products based on this policy if they had more control on the process and if there was clear separation of risks or effective mitigation of risks relating to the operationalization of the policy. While there is a broad understanding that banks need to take the lead in furthering this policy, inadequate specialization/experience in quality management of gold and lack of sufficient incentive alignment have been pointed out as the main reason why banks are not yet fully on board. Process issues such as turnaround time and logistics requirements also deter banks and refiners from taking up the policy. Jewellers are not seen as major stakeholders in the system by the banks although they are strong consumer touchpoints.

Finally, an econometric analysis of gold consumption and its potential determinants was conducted using household data from all 640 districts of the National Sample Survey for 2011-12. The analysis shows that propensity to consume gold is positively correlated with proportion of females in the household and with number of daughters in the household. Also, ceteris paribus, rural households have a higher propensity to consume gold, and Hindu households have a higher propensity to consume gold. A supply side analysis of state level data from 20 states across the country using number of gold jewellery licences in the state as proxy for supply (and hence consumption) indicates higher propensity to consume gold in states with a higher sex ratio.

Clearly, increasing the effectiveness of the Gold Monetization Policy depends on a deeper understanding of consumers' interactions with and sentiments towards gold, in order to delineate measures to reach out to consumers. This will enable a targeted approach towards various consumers segments that differ on parameters such as affinity for gold and use of gold for investment rather than adornment. The effectiveness of the policy also depends on recognizing the challenges faced and incentives required by banks, refiners and other stakeholders in implementing this policy. This research is an attempt at developing such an understanding.

6. **Balagopal Gopalakrishnan and Sanket Mohapatra Indian Institute of Management, Ahmedabad, "Global Risk and Demand for Gold by Central Banks (IIMA W. P. No. 2017-01-01, January 2017)"**

(fulltext avaiable at https://web.iima.ac.in/assets/snippets/workingpaperpdf/19957570802017-01-01.pdf)

Executive Summary

Our study examines the influence of global risk on the holding of gold by central banks based on annual data for 100 countries (41 high income countries and 59 developing countries) during 1990-2015. We use dynamic panel models to estimate this effect and control for a variety of domestic factors. Consistent with portfolio diversification and perception of gold as a safe asset, the gold holdings of central banks as a share of overall reserves increase in response to higher global risk. A one standard deviation increase in the global risk measure (equivalent to 6 units increase in VIX index), increases the share of the gold reserves by 4.2 percent.

In addition, we find evidence that high-income countries have a relatively higher sensitivity of gold reserves to global risk than developing countries, possibly due to better reserve risk management by their central banks. Moreover, greater capital account openness is associated with a stronger response of central banks' gold holding to global risk, while higher reserve coverage of imports (an indicator of external vulnerability) is associated with a weaker response. Finally, we also find evidence that the sensitivity depends on whether the currency regime followed is fixed or floating, with higher responsiveness seen in the case of fixed exchange rate regimes.

These findings suggest that central banks adjust their gold holdings in response to changes in global risk conditions, with the magnitude of response depending on reserve-management capacity and country-specific vulnerabilities. The study reiterates the importance of gold as a hedge against potential vulnerabilities faced by an economy.

Policy Notifications by GOI/RBI

6

Chapter

S.No.	Notification, Source	Date
Sovereign Gold Bonds		
1	*First Issue of Sovereign Gold Bonds, 2015-16* Reserve Bank of India https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10095&Mode=0	30 October 2015
2	*Overwhelming response received from the retail investors for Sovereign Gold Bond Scheme (SGB) ; 63,000 applications received for a total of Rs. 246.20 crore by the Banks and Post Offices for 917 kgs of gold; Number of decisions taken to improve the reach of Gold Monetisation Scheme (GMS)* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid= 131962	27 Nov 2015
3	*3.16 lakh applications were received by the Banks during the Second Tranche of Sovereign Gold Bonds for a total subscription of 2790 Kilograms of Gold amounting to Rs. 726 crore* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid= 135876	28 Jan 2016
4	*Third Tranche of the Sovereign Gold Bond Scheme to remain open from 8th March 2016 (Tuesday) to 14th March, 2016 (Monday)* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=137367	4 March 2016

S.No.	Notification, Source	Date
5	*Third Tranche of SGB from 8th March, 2016 to 14th March, 2016, as per initial figures, show more than 64,000 Applications received for a total subscription of 1128 Kilograms of Gold amounting to Rs. 329 crore; SGB to be issued on March 29, 2016* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=138148	18 March 2016
6	*Fourth tranche of Sovereign Gold Bonds: Applications for the bond will be accepted from July 18, 2016 to July 22, 2016* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=147096	14 July 2016
7	*Collections under Sovereign Gold Bond Scheme Reach a New High* *Press Information Bureau, Ministry of Finance* http://pib.nic.in/newsite/PrintRelease.aspx?relid=148057	30 July 2016
8	*Tradability of Sovereign Gold Bonds, 2016* *(Issued on February 8, 2016 and March 29, 2016)* Reserve Bank of India, Ministry of Finance https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=37888	30 July 2016
9	*Government to issue Fifth Tranche of Sovereign Gold Bonds: Applications for the Bonds will be accepted from 1st September to 9th September, 2016 and Bonds will be issued on 23rd September,2016* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=149325	30 August 2016
10	SGBs issued on August 05, 2016 to be tradable from September 1 Reserve Bank of India https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=37921	31 August 2016

S.No.	Notification, Source	Date
11	*More than Rs. 820 crore expected to be realised through Fifth Tranche of Sovereign Gold Bond (SGB) Scheme from 1st to 9th September, 2016; This is mobilised through over 2.00 lakh applications representing around 2.37 tonnes of gold; The next tranche of SGB Scheme is expected around the third week of October, 2016, prior to Diwali, with additional features to attract more consumers* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=151017	22 September 2016
12	*Sovereign Gold Bonds issued on September 30 to be tradable from October 19* Reserve Bank of India https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=38322	17 October 2016
13	*Sovereign Gold Bond – Dematerialisation* Reserve Bank of India https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=38335	18 October 2016
14	*Sovereign Gold Bonds- Maximum Limit of Investment and Acceptance as Collateral- Clarification* Reserve Bank of India https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10656&Mode=0	20 October 2016
15	*Government decides to issue Sovereign Gold Bonds Scheme 2016 -17–Series III; Applications for the bond to be accepted from October 24, 2016 to November 02, 2016 and the Bonds will be issued on November 17, 2016* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=151832	20 October 2016
16	*Government to issue Sovereign Gold Bonds 2016 -17 – Series IV; Applications for the bond to be accepted from February 27, 2017 to March 03, 2017* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=158652	23 February 2017

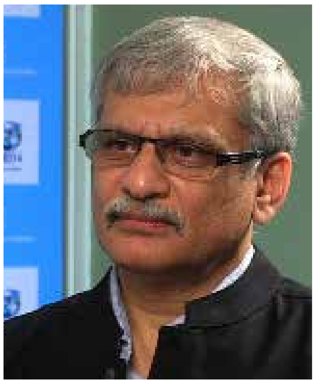
S.No.	Notification, Source	Date
Gold Monetisation Scheme		
17	*Gold Monetisation Scheme, 2015* Reserve Bank of India https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=10084	October 22, 2015 (Updated as on March 31, 2016
18	*Modifications in the Gold Monetisation Scheme* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=135751	24 January 2016
19	*Gold Monetisation Scheme Liberalized to make it more attractive for potential depositors* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=138491	01 April 2016
20	*Finance Ministry reviews the progress of Gold related Schemes; Total gold collected under Gold Monetisation Scheme (GMS) is 2891 kgs; Banks asked to put concerted efforts to mobilize more gold under the GMS in order to achieve the Scheme's objectives* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=145392	16 May 2016
21	*Sovereign Gold Bonds Scheme and Gold Monetisation Scheme* *(Notifies quantity of gold mobilized/subscribed from the two schemes till 14 November 2016)* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=153849	18 November 2016
22	*Norms on gold monetisation scheme* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid= 154367	25 November 2016
23	*Gold Monetisation Scheme* *(Notifies quantity of gold mobilized from the scheme)* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid= 159120	10 March 2017

S.No.	Notification, Source	Date
Excise Duty		
24	*Clarifications on levy imposed on jewellery* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/mbErel.aspx?relid=137342	4 March 2016
25	*Simplified Central Excise norms for Jewellery Sector notified* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/mbErel.aspx?relid=147888	28 July 2016
National Mineral Exploration Policy		
26	*Minister of Mines Shri Narender Singh Tomar launches "National Mineral Exploration Policy"* Press Information Bureau, Ministry of Mines http://pib.nic.in/newsite/mbErel.aspx?relid=146751	04 July 2016
Goods and Services Tax (GST)		
27	*Goods and Service Tax (GST) Bill* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/mbErel.aspx?relid=159108	10 March 2017
28	*The Union Cabinet chaired by the Prime Minister Shri Narendra Modi approves the four Goods and Services Tax (GST) related bills today* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/mbErel.aspx?relid=159528	20 March 2017

IGPC Members

Professor Ashish Nanda
Director, IIMA
(Business Policy)

Professor Arvind Sahay
Head, IGPC & Faculty, IIMA
(Marketing)



Professor Errol D'Souza
Dean-Faculty, IIMA
(Economics)

Professor Joshy Jacob
Faculty, IIMA
(Finance & Accounting)

Prof. Viswanath Pingali
Faculty, IIMA
(Economics)

Professor Neharika Vohra
Faculty, IIMA
(Organization Behaviour)

Mr P R Somasundaram
MD, India,
World Gold Council

Ms Rama Bijapurkar
Industry Representative

IGPC Staff

Ms Ruchi Agarwal
Manager, IGPC

Ms Richa Srivastava
Research Associate, IGPC

Professor Arvind Sahay, Head
Email: head-igpc@iima.ac.in

Ms. Ruchi Agarwal, Manager
India Gold Policy Centre
Indian Institute of Management, New Campus
Vastrapur, Ahmedabad 380015, Gujarat, India
T : +91 79 66324409/4410 • F : +91 79 26306896
Email : mngrigpc@iima.ac.in
Website: https://www.iima.ac.in/web/areas-and-centres/research-centers/igpc
Twitter : https://twitter.com/@IndiaGoldPolicy

India Gold Policy Centre is funded by the World Gold Council