







IIM AHMEDABAD

INDIA GOLD POLICY CENTRE

3rd ANNUAL REPORT

April 2017 to March 2018


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India Gold Policy Centre
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Note from Professor Errol D’Souza, Director IIMA

Greetings to policymakers and stakeholders of gold industry! Global economic data in 2017 indicates a moderate global economic recovery. In the backdrop of some optimistic fundamentals, US and EU central banks have gradually reduced their monetary policy stimulus levels. The precious metals prices at the end of 2017 and beginning of 2018 have been greatly influenced by the tax reforms introduced by Trump administration in the USA which, despite expectations, has not significantly influenced inflation yet and consequently, is not currently steering the FED of the USA to raise the interest rate. At the same time, the increased geopolitical risks related to tensions with North Korea and Iran have increased the investors’ interest in gold and other precious metals, and substantially supported the further rise in oil prices.

As a macroeconomist, I uphold the view that integrating gold with India’s broader economic vision is the touchstone for India’s gold policy and gold markets. The foremost is adopting ‘Make in India’ policy which should address unexplored gold stocks below the ground, optimal use of gold stocks in circulation and mobilize gold holdings held by individuals in lockers and temples. Policy reforms in the Oil & Gas sector like NELP (National Exploration and Licensing Policy)/ OAP (Open Acreage Policy) under the framework of Hydrocarbon Exploration and Licensing Policy (HELP) which replaces the controversial profit model in petroleum with revenue share model is an analogy of some positive industrial policy measures. Emulating the success of automotive and other industries by good governance in India could help transform India’s gold industry fraught with smuggling, money laundering and tax evasion to a jeweler and refiner for the global gold industry complying with tax laws and minimizing fiscal/ current account deficit. Mapping all segments of the gold value chain for a uniform reform impact, increase in handcrafted gold jewelry exports, honing skills of goldsmiths through Skills India programmes and improve the fraternity’s economic status, indigenous gold mining for enhancing supply side and generating employment and reduction in imports are primal; setting up of a gold spot exchange, drafting Indian Precious Metals Code (PMC), good delivery list and adopting IRMS (Indian Responsible Mineral Supply) are the latest buzzwords doing rounds in India’s gold sector. Adopting global due diligence guidelines for responsible sourcing of gold, adherence to global good delivery standards and having an ethical gold ecosystem are some of the policy reforms advocated. Is the hope of transforming India’s gold market a pipe dream? The winds of change can be witnessed with accentuation of deliberations in global conventions, proactive stance of policymakers and stakeholders in the value chain.

India Gold Policy Centre was created as a think tank with the vision to impact policies and practice in the gold ecosystem through research, engagement, policy recommendations and training. In the last three years since its inception, IGPC has strived to be a neutral cohesive force thriving to transform gold markets. A lot more is to be accomplished for designing a novel landscape of India’s gold sector and carve out a niche in the global gold industry. IGPC shoulders the responsibility of functioning as a beacon for India’s gold industry but this is possible only with collective efforts of all stakeholders to transform it into a sustainable transparent ethical ecosystem.

Recap of activities and Acknowledgements from Professor Arvind Sahay, Head IGPC

India Gold Policy Centre (IGPC) witnessed a plethora of activities in the last financial year. IGPC actively participated in meetings of the Gold Working Group (GWG) by DEA (Dept. of Economic Affairs), Ministry of Finance, Govt. of India and Niti Aayog's Committee to transform India's gold industry and made recommendations on crafting gold policy. We organized the first 'Research Conference on Gold and Gold Markets' for academia and industry, a platform where sixteen papers were presented by researchers from several Indian and international institutions including four by IGPC@IIMA and where eminent speakers deliberated on gold policy issues. IGPC earmarked its international footprints in Singapore, Spain and UAE by partaking in research and industry conferences with paper presentations and engagements with international gold industry. These were LKSPP-NUS Singapore, Infiniti Conference Barcelona, APPMC (Asia Pacific Precious Metals Conference) Singapore and DMCC (Dubai Multi Commodity Centre) Dubai. IGPC, represented by Prof. Arvind Sahay, is now advising the DEA, Ministry of Finance, Government of India on the formulation and implementation of a Comprehensive Gold Policy for India.

The Centre undertook research studies which were published/ disseminated and some are work in process. IGPC participated as 'Research Partner' in India International Gold Convention (IIGC) Goa, Bullion Federation Global Convention (BFGC) New Delhi, India Gold and Jewellery Summit (IGJS), New Delhi and India International Bullion Summit (IIBS5) Mumbai where brand IGPC had a vantage position in panel discussions for sharing insights on policy and its research remit. IGPC acquired significant media spots during the year in mainstream, commodity, financial and industry media. We conducted the first workshop in alliance with OECD (Organisation for Economic Co-operation and Development) Paris on responsible sourcing of gold and mineral supply chains on the margins of BFGC at Delhi and subsequently engaged in policy discussions on formulating IRMS (Indian Responsible Mineral Sourcing). IGPC is represented in the Independent Oversight Committee (IOC) of DMCC and industry's Precious Metals Code (PMC) for India good delivery committees. We contributed policy relevant articles in international industry publications.

IGPC acknowledges the generous guidance of WGC for the organic growth of the Centre. We express deep gratitude to Mr. Aram Shishmanian, CEO-WGC, Mr. Somasundaram PR, MD WGC (India) Mr. John Reade, Chief Market Strategist, Ms. Rakhi Khanna, Director Communications and all colleagues at WGC who have supported IGPC's activities. The Centre is grateful to Shri Subhash Chandra Garg, Secretary, Economic Affairs, Ministry of Finance, Govt. of India; Shri Govind Mohan, Joint Secretary (IER & Investment) Department of Economic Affairs, Ministry of Finance, GoI for seeking IGPC's recommendations in policy formulation and inviting our participation in meetings of the Gold Working Group (GWG). We thank Shri Manoj Dwivedi, Secretary- Ministry of Commerce and Shri Ratan Watal, Principal Advisor, Niti Aayog for soliciting IGPC's participation in the committee to transform gold industry.

I would like to thank Mr. Tyler Gillard, Head of Sector Projects, Responsible Business Conduct Unit, OECD Paris for collaborating in delivering the first workshop on DDG for Responsible Sourcing of Gold at BFGC 2017. We thank Shri Ajay Garg, Chairman of Bullion Federation, Shri Mohit Khamboj, President- IBJA (India Bullion Jewellery Association), Shri. Praveen Shankar Pandya, Chairman- GJEPC (Gems and Jewellery Export Promotion Council), Shri G Srivatsava, President- Foretell Business Solutions and Mr Debajit Saha, Editor- Bullion Bulletin for providing relevant platforms for IGPC's participation. We acknowledge support from the members of the Conference Committee at the IGPC Conference on Gold and Gold Markets namely Prof. Dirk Baur (University of Western Australia); Mr. Mrugank Paranjape, (MD & CEO, MCX of India Ltd.); Prof. Charan Singh (IIM Bangalore); Prof. Gourav Vallabh (XLRI); and Prof. Jayanth R. Varma (IIMA); Prof. Kavita Rao (NIPFP) and Mr Sudheesh Nambiath, Precious Metals Demand, GFMS South Asia & UAE Supply Chain & Commodities Research, Thomson Reuters for moderating the panel on policy at the IGPC conference. We thank various research presenters and their respective institutions for their interest in presenting papers at the IGPC conference. We express our gratitude to all the panel members at the IGPC conference in January 2018 at IIMA. We acknowledge the active participation by all the invited delegates from industry and academia. I would also like to thank my faculty colleagues Prof. Joshy Jacob, Prof. Sanket Mohapatra and Prof. Anindya Chakrabarti who undertook research projects and co-ordinated the Conference on Gold and Gold Markets.

India Gold Policy Centre is thankful to Mr. Samir Hosangady, MD Brink's India Ltd for supporting case development of IGPC, Mr. Rajesh Khosla, Chairman Emeritus MMTC Pamp, Mr Anil Kansara, Director- GGC and Ghana Gold Refinery, Shri Haresh Acharya, Secretary- Bullion Federation, Mr Rahul Gupta, Founder Member Bullion Federation and Mr. Surendra Mehta, Secretary IBJA for supporting IGPC's activities. We acknowledge LBMA (London Bullion Market Association), SBMA (Singapore Bullion Market Association), India Refiners Association, Hallmarking Association, BIS (Bureau of Indian Standards), IBA (Indian Bankers Association), GJF (Gems & Jewellery Federation), Metals Focus and other industry interlocutors who have directly or indirectly supported IGPC. We are grateful to friends in the media for dissemination of IGPC research and policy events, followers of IGPC on its Twitter handle and consumers who have participated in IGPC's field research for projects. We acknowledge support from various departments of IIMA for facilitating logistics and administrative support for day to day operations of the centre.

IGPC would continue to work for the socio-economic benefit of the country as an independent neutral entity and will seek co-operation from stakeholders in improving the gold ecosystem with a comprehensive gold policy, digital platform, fair trade, establishment of a spot exchange, world class refineries, robust logistics supply chain backed by secure banking system for audit trails, quality consciousness among jewellers, higher number of hallmarking centres, wider product options for consumers, more gold in circulation, avenues for design and craftsmanship, exports, employment and an industry respected for integrity and self- regulation. Needless to say, any errors that remain are ours.


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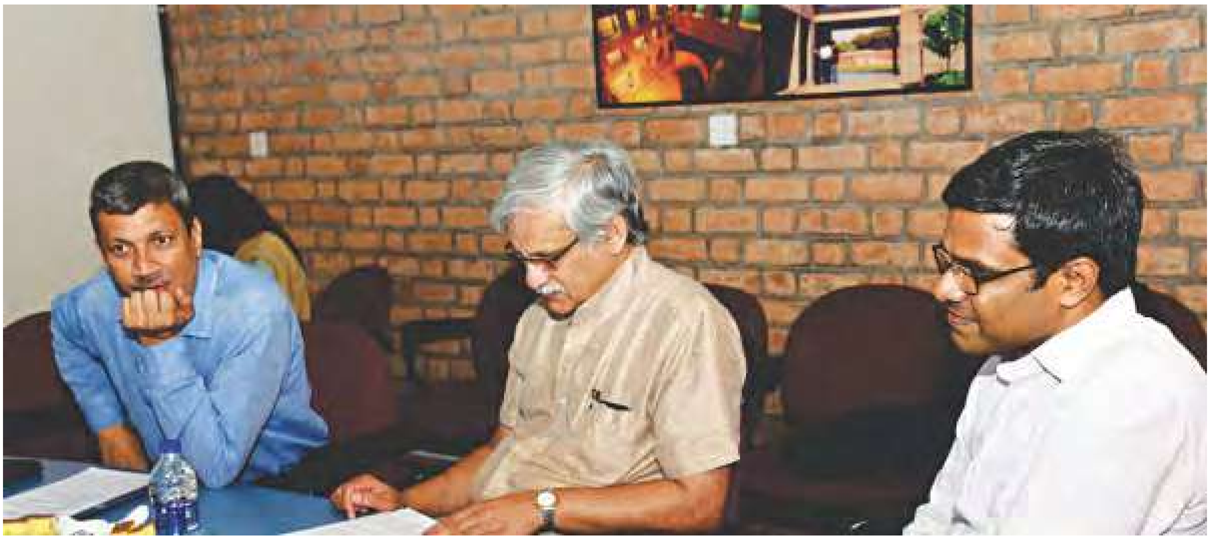

A Governing Committee meeting in progress L to R: Mr Somasundaram PR, Prof. Errol D' Souza and Prof. Joshy Jacob

L to R: Prof. Arvind Sahay and Prof. Ashish Nanda at a Governing Committee Meeting

Global Gold Industry and India's Gold Ecosystem during FY 2017-18

01 Chapter

The year 2017 witnessed global economic stimulus and risk assets rise in value. In the US, the S&P (Standard & Poor's) 500 was up 19%, in Europe the DAX (Deutscher Aktien Index) and FTSE 100 (The Financial Times Stock Exchange)were up 13% and 8% respectively, the Shanghai Shenzhen Composite 300 rose by 22% in China, and India's SENSEX was up 28%.[1] Over the course of the year the gold price rose across many major currencies. The Indian rupee and Chinese yuan gold price rose by 5.1% and 3.5% respectively, while in US dollars the gold price was up 13.5% – its biggest annual gain since 2010 – outperforming all major asset classes other than stocks.[2]

1.1 Global Gold Industry – A Snapshot of Demand and Supply[3]

Global Gold Demand

	2016	2017		Year-on-year % change
Gold demand (tonnes)	**4,362.2**	**4,071.7**	▼	-7
Jewellery	2,053.6	2,135.5	▲	4
Technology	323.4	332.8	▲	3
Investment	1,595.5	1,231.9	▼	-23
Total bar and coin	1,048.7	1,029.2	▼	-2
ETFs and similar products	546.8	202.8	▼	-63
Central banks & other inst.	389.8	371.4	▼	-5
Source: Metals Focus; World Gold Council				

Global Technology Demand

	2016	2017		Year-on-year % change
Technology (tonnes)	**323.4**	**332.8**	▲	3
Electronics	255.6	265.3	▲	4
Other Industrial	49.8	50.6	▲	2
Dentistry	18.0	16.8	▼	-6

Global Gold Supply

Tonnes	2016	2017		Year-on-year % change
Total supply	**4,590.9**	**4,398.4**	▼	-4
Mine production	3,263.0	3,268.7	▲	0
Net producer hedging	32.8	-30.4	-	-
Recycled gold	1,295.1	1,160.0	▼	-10

Source: World Gold Council Report: Gold Demand Trends Full Year 2017 Statistics

2017 was a challenging year for gold demand: it declined to its lowest level since 2009 majorly on account of investment and central bank demand. Bar and coin demand was down 2%, largely because of a weak US market. While institutional investors continued to add funds to gold-backed ETFs, inflows were a fraction of what they were in 2016: 202.8t versus 546.8t. Total purchases were 5% lower than

[1] World Gold Council, Annual Review 2017, February 2017
[2] World Gold Council, Annual Review 2017, February 2017
[3] World Gold Council, Annual Review 2017, p. 8

the previous year despite inflation of gold reserves by several countries– notably Russia, Turkey and Kazakhstan. But jewellery demand recovered, rising 4% from 2016's seven-year low. Economic expansion and rising household wealth helped jewellery demand grow in China, India and the US – the three largest jewellery markets in the world. China's bar and coin market recorded its second-best year ever, as investors turned to gold to protect against potential yuan weakness and technology demand increased for the first time since 2010, as advanced features in smartphones boosted demand for semiconductors. India and China, together, accounted for 41% of global gold demand.

1.2 Global Gold Reserves in Central Banks[4]

Central banks added gold to their reserves for an eighth consecutive year. Russia, Turkey and Kazakhstan – continued to add gold to their reserves, however, total purchases were totalled 371t in 2017, 5% lower than they were in the previous year.

Top 20 reported official gold holdings in t (as of December 2017)			
1	United States	8,133.5	75%
2	Germany	3,373.6	70%
3	IMF	2,814.0	-
4	Italy	2,451.8	68%
5	France	2,436.0	65%
6	China	1,842.6	2%
7	Russia	1,838.8	18%
8	Switzerland	1,040.0	5%
9	Japan	765.2	3%
10	Netherlands	612.5	66%
11	Turkey	564.8	22%
12	**India**	**558.1**	**6%**
13	ECB	504.8	28%
14	Taiwan	423.6	4%
15	Portugal	382.5	61%
16	Saudi Arabia	322.9	3%
17	United Kingdom	310.3	9%
18	Kazakhstan	301.0	40%
19	Lebanon	286.8	21%
20	Spain	281.6	17%

Source: World Gold Council Gold Demand Trends Full Year 2017 Statistics
Latest data and methodology available at http://www.gold.org/government_affairs/gold_reserves/

Russian gold reserves increased 224t – the third consecutive year of +200t growth. The most notable purchaser of the year was **Turkey.** The central bank began buying with gusto: reserves increased by an average of 11t per month from May 2017 (excluding commercial bank gold holdings held at the central bank as part of the reserve option mechanism). By the end of 2017, gold reserves had increased by 86t to over 200t. **Kazakhstan** remained committed to increasing their gold reserves. The central bank bought a net 11.6t in Q4, taking total net purchases for the year to 42.9t. This brings Kazakhstan's gold reserves to just over 300t, 40% of total reserves, at the end of 2017. Other noteworthy purchasers during

[4] World Gold Council. (2018, February 06). Gold Demand Trends Full Year 2017. Retrieved from https://www.gold.org/research/gold-demand-trends/gold-demand-trends-full-year-2017

the year were: Colombia (4.6t), Venezuela (4.4t), Indonesia (2.5t), Jordan (2.2t), Kyrgyz Republic (1.8t), Thailand (1.6t) and Mongolia (1.3t).

1.3 Macro-economic Environment of India

The Economic Survey Report 2017-18 has evinced swings in the macroeconomic developments in India. In the first half of FY 2017-18, India's economy temporarily decelerated as the rest of the world accelerated, still it remained the second-best performer amongst major countries, with strong macroeconomic fundamentals. The reasons for deceleration were demonetization, teething difficulties in the new GST, high and rising real interest rates, the Twin Balance Sheet (TBS) challenge, and sharp falls in certain food prices that impacted agricultural incomes. In the second half, the economy improved with the fading impacts of reform shocks, corrective measures and boosted exports synchronous with global economic recovery. However, the macroeconomic stability was challenged (but not threatening) with higher than expected fiscal deficits, current account deficit and inflation. [5]

1.3.1 Gross Domestic Product (GDP)

[*After registering GDP growth of over 7 per cent for the third year in succession in 2016-17, the Indian economy headed for somewhat slower growth.*][6] As per the second advance estimates for 2017-18 by Central Statistics Office (CSO), India's real gross domestic product (GDP) growth marginally revised upward to 6.6 per cent from 6.5 per cent in the first advance estimates. GDP growth in 2017-18 at 6.6 per cent was lower than 7.1 per cent in 2016-17[7]

1.3.2 Merchandise Trade and Trade Deficit

[*The year 2016-17 was characterized by positive growth in merchandise exports after two years of negative growth. Similarly, merchandise imports also printed positive growth in 2016-17 after three years of negative growth. Imports declined by around US $107 billion from US$ 491 billion in 2012-13 to US$ 384 billion in 2016-17. This was mainly due to a reduction in value of imports of crude oil and petroleum products to the tune of US $77 billion along with US $26.4 billion reduction of gold and silver imports during this period. Thus, these two commodity groups accounted for nearly 97 per cent of the reduction in imports … A larger reduction in value of imports vis-à-vis that of exports helped in significant improvement in the merchandise trade balance, from US$ 190 billion in 2012-13 to US$ 108.5 billion in 2016-17. The reduction in trade deficit in this period has been the major contributor to bring about an improvement in the current account deficit that declined from 4.8 per cent of GDP in 2012-13 to around 0.7 per cent of GDP in 2016-17. With capital flows remaining at healthy levels, the foreign exchange reserves steadily increased from US$ 292 billion at the end of March 2013 to US$ 370 billion at the end of March 2017.*][8]

1.3.3 Exports

[*India's export growth continued to be negative in the H1 of 2016-17 at (-)1.3 per cent. However, in the H2 of 2016-17, it started recovering and the year 2016-17 witnessed a growth of 5.2 per cent. In 2017-18 (April – December) export growth picked up further to 12.1 per cent with POL (Petroleum, Oil and Lubricants) and non-POL growth at 18.5 per cent and 11.2 per cent respectively. India's export volume growth (3MMA-3 month moving average), showed an upward trend till April 2017, started decelerating and picked up again in August 2017 and increased sharply in November 2017 in tandem*

[5] Economic Survey 2017-18, Vol. 1, Ch.01, p. 2
[6] Economic Survey 2017-18, Vol. 2, Ch.01, p. 1
[7] First Bi-monthly Monetary Policy Statement, 2018-19 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India. (2018, April 05). Retrieved from https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=43573
[8] Economic Survey 2017-18, Vol. 2, Ch.01, p. 15

with the sharp increase in export value growth. However, in December the growth rate of export volume and value index decelerated.] [9]

Cumulative value of exports for the period April-February 2017-18 was US$ 273730.91 million (Rs1762897.63 crore) as against US $246550.17 million (Rs1656399.85 crore) registering a positive growth of 11.02 per cent in Dollar terms and 6.43 per cent in Rupee terms over the same period last year.[10]

Gems & Jewellery Sector exports showed a negative growth of -3.8% (provisional) for the period Apr-Nov 2017-18.[11] During April 2017-February 2018, the exports of gems & jewellery declined by 5.32 per cent to USD 30.7 billion[12] as compared to the year-ago period while imports of gems & jewellery grew by 12.1 per cent to USD 28.3 billion[13] as compared to the year-ago period. (Source: GJEPC data).

1.3.4 Imports

[*In 2017-18 (April-December), imports grew by 21.8 per cent. POL import growth was 24.2 per cent mainly due to the rise in crude oil prices. Non-POL imports registered a growth of 21.1 per cent. Gold & silver imports registered a growth of 52 per cent. Non-POL and non-gold & silver imports grew by 18.1 per cent.*][14]

Cumulative value of imports for the period April-February 2017-18 was US$ 416865.64 million (Rs. 2684600.75 crore) as against US$ 344408.90 million (Rs. 2314510.09 crore) registering a positive growth of 21.04 percent in Dollar terms and 15.99 percent in Rupee terms over the same period last year. Non-oil imports during April-February 2017-18 were valued at US$ 318863.39 million which was 19.34per cent higher than the level of such imports valued at US$ 267195.38 million in April-February, 2016-17.[15] Gold import stood at US$31179.6 million for the period April-February 2017-18[16].

1.3.5 Trade Deficit and Balance of Payment

[*India's trade deficit, which had registered continuous decline between 2014-15 and 2016- 17, widened to US$ 74.5 billion in H1 of 2017-18 from US$ 43.4 billion in H1 of 2016-17. In 2017- 18 (April-December) trade deficit shot up to US$ 114.9 billion.*][17]

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9 Economic Survey 2017-18, Vol. 2, Ch.06, p. 82
10 India's Foreign Trade: February 2018. (2018, March 15). Retrieved from http://pib.nic.in/PressReleseDetail.aspx?PRID=1524689
11 Economic Survey 2017-18, Vol. 2, Ch.06, p. 89
12 Gems and Jewellery Export Promotion Council. Exports of Gems & Jewellery. Retrieved from https://gjepc.org/admin/StatisticsExport/1355652232_export_gem_jewellery%20February%2018.pdf accessed on 2018, April 04
13 Gems and Jewellery Export Promotion Council. Imports of Gems & Jewellery. Retrieved from https://gjepc.org/admin/StatisticsImport/370489137_import_gem_jewellery%20February%2018.pdf accessed on 2018, April 04
14 Economic Survey 2017-18, Vol. 2, Ch.01, p. 16
15 India's Foreign Trade: February 2018. (2018, March 15). Retrieved from http://pib.nic.in/PressReleseDetail.aspx?PRID=1524689
16 CMIE Economic Outlook. Retrieved from https://economicoutlook.cmie.com/kommon/bin/sr.php?kall=wshreport&tabcode=001055011000000000&repnum=103430&frequency=M&colno=1 (updated 2018, Apr 03) accessed on 2018, April 05
17 Economic Survey 2017-18, Vol. 2, Ch.01, p. 16

Balance of Payment

[*India's balance of payments situation which has been benign since 2013-14, continued to be so in the H1 of 2017-18, despite some rise in CAD in Q1. The Current Account Deficit (CAD) increased from US$ 3.8 billion (0.4 per cent of GDP) in H1 of 2016 -17 to US$ 22.2 billion (1.8 per cent of GDP) in H1 of 2017-18, primarily on account of a higher trade deficit brought about by a larger increase in merchandise imports relative to exports. The surge in imports owed to sharp rise in imports of gold, with its volume more than doubling as uncertainty over GST implementation resulted in front loading of purchases by jewellers in Q1. This coupled with increase in oil prices in the international markets resulting in increase in oil import bill, led to the increase in imports. While trade deficit widened in H1 of 2017-18 as compared to H1 of 2016-17, the improvement in invisibles balance along with the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the trade deficit leading to accretion in foreign exchange reserves in H1 of 2017-18.*][18]

1.3.6 Exchange Rate

[*During 2017-18 (up to December 2017), the rupee generally traded with an appreciating bias against the US dollar, barring intermittent depreciation in September and October 2017. The rupee strengthened by 2.5 per cent to a level of Rs. 64.24 per US dollar during December 2017 from the level of Rs. 65.88 per US dollar during March 2017 on the back of significant capital flows. The appreciating trend vis-à-vis US$ has continued in January so far. During 2017-18 (April-December), on an average, the rupee has also appreciated against other major currencies besides the US dollar.*][19]

1.4 Gold Sector in India

India's economy slowly recovered from 2016's shock demonetisation. The RBI continued to remonetise India's economy, thereby easing pressure on cash-strapped consumers. By the end of March 2017, 85% of the value of currency had been returned to circulation. After very tough 2016, India saw some major reforms in 2017. The transformational Goods and Services Tax (GST) was launched in July 2017. With a policy change of such scale, scope, and complexity, challenges of policy, law, and information technology systems during the transition were obvious, which especially affected the informal sector. Corrective measures followed to rationalize and reduce rates, and simplify compliance burdens.

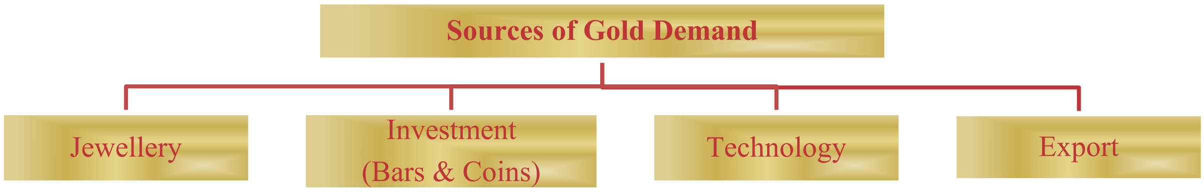
Retailers in organised segment significantly built up their capacity post demonetisation. According to GFMS estimates, total gold demand by the top 18 retailers in India contribute to one-third of the jewellery demand.[20] The demand from the retailers who have moved their business to formal transactions and have been expanding their presence this year, resulted in higher fabrication volumes and thus it is not a surprise to notice that the full-year (Jan-Dec 2017) fabrication increased by 56%, while the consumption increased at a relatively slower pace at 32%.[21]

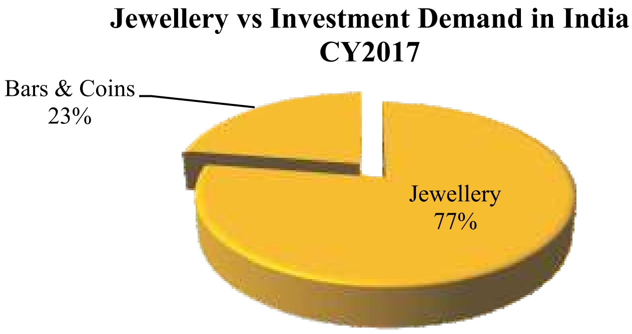
1.4.1 Demand and Supply of Gold in India

Demand for gold in India mostly comprises of jewellery and investment (bars & coins). Gold backed financial products such as Exchange Traded Funds (ETFs) are less popular and use of gold in industry/technology (electronics, dentistry and other uses) is relatively small in India, adding between

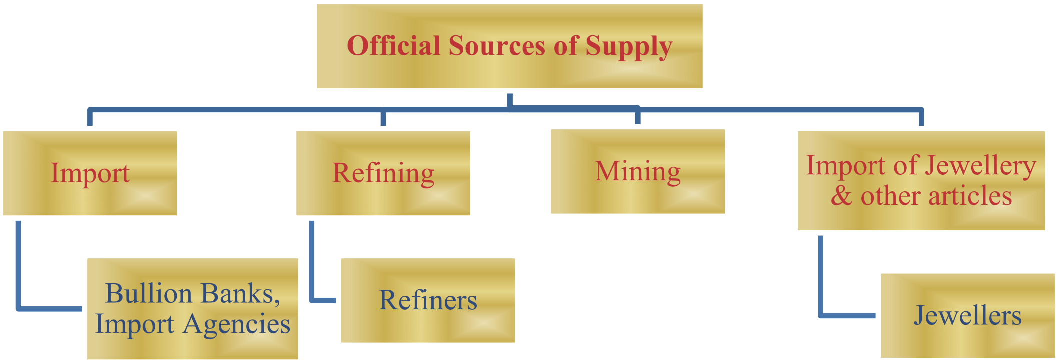
[18] Economic Survey 2017-18, Vol. 2, Ch.06, p. 81
[19] Economic Survey 2017-18, Vol. 2, Ch.01, p. 17
[20] Gold Survey Report 2017 Q4 Update, p. 11
[21] Gold Survey Report 2017 Q4 Update, p. 11

10 and 20 tonnes to total annual demand.[22] Of the total consumer demand in CY2017, jewellery and investment (bars & coins) demands were 77% and 23% respectively.





A majority of gold demand is met through gold that is imported. One-third of gold imports come in the form of gold doré and refined locally, and the balance two-thirds is imported as refined gold. This may be reduced by increasing domestic supply through gold mining, recycling of gold scrap and by monetisation of the 23,000-24,000 tonnes of gold that lies unused with the households and religious institutions throughout the nation as estimated by the World Gold Council.



Pent-up demand for gold from the closing weeks of 2016 was gradually released as liquidity improved. But, the industry remained uneasy, awaiting clarity on whether the forthcoming Goods & Services Tax (GST) will result in a higher tax burden for the end-user.

The local price rose steeply in the opening weeks of 2017 before a sharp appreciation of the rupee in February and March 2017. This along with greater liquidity, wedding season and the festival of Akshaya Tritiya at the end of April led boosted jewellery demand. As expected, India drove global jewellery demand growth for April-June 2017. As estimated by World Gold Council, Akshaya Tritiya-related sales were up by around 30% y-o-y.[23] A strong recovery was posted after exceptional import figures of

[22] World Gold Council. (January 2017). India's Gold Market: Evolution and Innovation Retrieved from https://www.gold.org/research/india-gold-market
[23] World Gold Council, Gold Demand Trends 2017 Q2 Update, p. 3

104.6t were reported in May 2017 as the market stockpiled gold ahead of the June GST rate announcement. Expecting a punitive GST rate, jewellers and consumers alike advanced their purchases in the first two months of the quarter, slowing down once the government confirmed that a 3% rate would be applied. Indian prices of gold rose to a small premium again in June as GST rollout drew near.

The new tax regime, advance purchases and imposition of Prevention of Money Laundering Act (PMLA) around jewellery transactions disrupted jewellery demand in the quarter July-September 2017. After three consecutive quarters of growth, demand fell by 25% y-o-y to 114.9t in the quarter.[24] While large, organised retailers, with their sophisticated accounting and inventory-management systems, were well equipped to cope with the transition to GST, the smaller, unorganised retailers faced difficulties. The retailers and consumers both were burdened with the compliance of the Act requiring 'know your customer' (KYC) documentation for all jewellery transactions worth Rs 50,000 or above. Demand therefore remained under pressure, especially in rural India, where cash transactions are the norm, as consumers shied away from providing official ID to support gold purchases.

Recognising the difficulties placed on the industry by the regulation, the government lifted the PMLA from the G&J sector in early October. The festival demand and the government's decision to remove PMLA regulation from jewellery and rural sentiments improved the demand but only at an average due to the continuing obstacle of GST.

Jewellery fabrication and consumption were strong until early November. Thereafter the markets moved back into a discount to trade two dollars lower than the landed price. Demand during Dhanteras, a day considered very auspicious, posted solid growth in the Southern and Western regions; these two regions together contribute 65% to 70% of total Indian demand. Year-on-year the sales for these provinces were higher by 20% to 30% where as in other regions they were in a range of negative 10% to 5% on a yearly comparison.[25] The momentum could not be sustained leading into November, a trend reflected in bullion imports, which slowed considerably. Fabrication was down by 10% to 15% compared to the same period of the previous year. However, with the fall in price from the fourth week of November demand started slowly returning in price range of Rs. 28,000 to Rs. 28,800 per 10 grams, and there was high volume of restocking or demand from retailers and consumers as well. This continued until mid-December when demand started tapering off at levels over Rs. 28, 800/- eventually moving the market to a discount of $5 by end of the quarter as against premia of $2 in early December.

1.4.2 Data Highlights

Jewellery Demand (tonnes)

	2016	2017		Year-on-year % change
World Total	**2,053.6**	**2,135.5**	▲	**4**
India	504.5	562.7	▲	12
China	630.4	646.9	▲	3

Source: World Gold Council: Gold Demand Trends Full Year 2017 Statistics

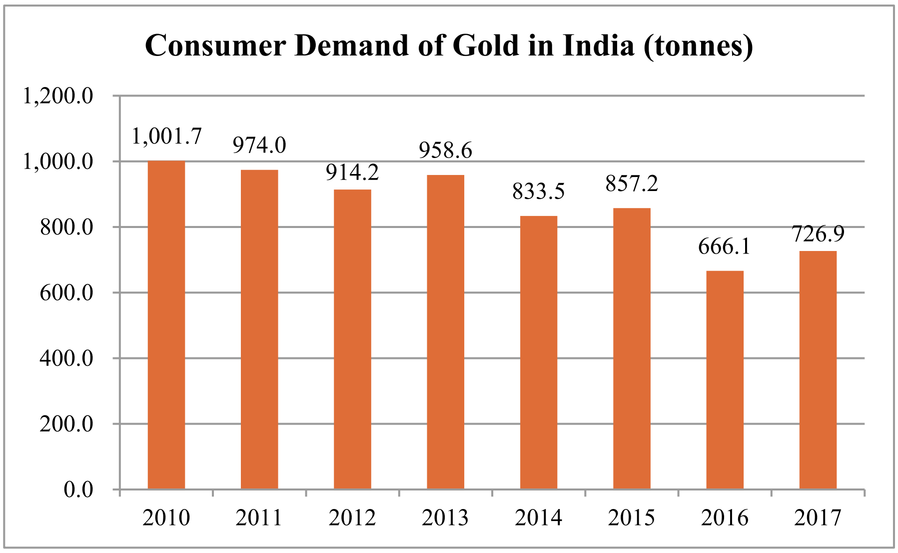
24 World Gold Council, Gold Demand Trends 2017 Q3, 2017, November 9

25 Gold Survey Report 2017 Q4 Update, p. 11

Investment Demand (tonnes)

	2016	2017		Year-on-year % change
World Total	**1,595.5**	**1,231.9**	▼	**-23**
Bar & Coin	1,048.7	1,029.2	▼	-2
India	161.6	164.2	▲	2
China	284.6	306.4	▲	8
Gold-backed ETFs	546.8	202.8	▼	-63

Source: World Gold Council: Gold Demand Trends Full Year 2017 Statistics



Source: WGC Report: Gold Demand Trends Full Year 2017 Statistics

Indian Supply Estimates (tonnes)

	2012	2013	2014	2015	2016	2017		Year-on-year % change
Gross Bullion imports	974.5	959.4	994.8	1,065.0	648.3	961.7	▲	48
of which doré[1]	23.2	36.9	84.1	229.0	141.9	245.7	▲	73
Net bullion imports	842.8	876.4	898.6	913.6	557.7	887.7	▲	59
Scrap	118.0	95.8	92.5	80.2	79.5	88.4	▲	11
Domestic supply from other sources[2]	10.0	9.6	9.9	9.2	9.9	8.8	▼	-11
Total supply[3]	**970.8**	**981.8**	**1,001.0**	**1,003.0**	**647.1**	**984.9**	▲	**52**

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: Metals Focus; World Gold Council Report: Gold Demand Trends Full Year 2017 Statistics

Source: World Gold Council: Gold Demand Trends Full Year 2017 Statistics

Trends in Demand and Supply of Gold in India: Last six years

	2012	2013	2014	2015	2016	2017
Consumer Demand	**914.2**	**958.6**	**833.5**	**857.2**	**666.1**	**726.9**
Jewellery demand	595.2	617.4	627.5	662.3	504.5	562.7
Investment Demand (Bars and Coins)	319.0	341.2	206.0	194.9	161.6	164.2
Total supply†	**970.8**	**981.8**	**1001.0**	**1003.0**	**647.1**	**984.9**
Net Bullion imports*	842.8	876.4	898.6	913.6	557.7	887.7
Scrap	118.0	95.8	92.5	80.2	79.5	88.4
Domestic supply from other sources#	10.0	9.6	9.9	9.2	9.9	8.8

† 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.

* Bullion + Fine gold contained in Dore

Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment.

Source: World Gold Council: Gold Demand Trends Full Year 2017 Statistics

India is the second largest gold market in the world, yet concerns about quality, price transparency, liquidity and regulation have persistently prevented the Indian market from realising its full potential. There has been a continuous push from policymakers and stakeholders in driving reforms to bring gold into the mainstream and to ensure that gold becomes a valued financial asset in India, both for the nation and its people. This will not only reform and integrate the fragmented gold industry, but also increase employment.

Past schemes of mobilizing gold being restrictive and prohibitive have elicited muted response except Gold Bond Scheme 1993 that mobilized a little over 40 t[26] and Previous GDS 1999 mobilized 15 t[27]. The Government of India in November 2015 launched 3 gold related schemes to bring down CAD (Current Account Deficit) dynamics, bring more gold into financial system and make the industry more transparent. However, the goals were only partially achieved since its launch. Current scheme target was revised to Rs. 5000Cr in 2017-18 from all schemes (approx. 2% of Indian gold consumption) from initial Rs 10000Cr.[28] *The current mobilization rates do not achieve the objectives of the schemes.* The relative lack of scale in the schemes can be deemed as non-alignment of incentives of different players in the system.

After their initial implementation shock, policies such as the demonetisation initiative and the new Goods and Services Tax (GST) began to have a positive impact on the economy. These policies are designed to improve transparency, broaden the tax base, and draw the informal, cash-based economy into the formal sector. The research shows that continued economic growth underpins gold demand. As incomes rise, demand for gold jewellery and gold-containing technology, such as smart phones and tablets rises.[29]

2.1 A Comprehensive Gold Policy

1. With the beginning of the new financial year 2017-18, where on one hand, the government was busy with the implementation details of the roll-out of the new GST rules, the Commerce Ministry, on the other hand, called for *a comprehensive gold policy* to bring domestic and foreign gold trade rules under one roof. The new gold policy is likely to suggest a gold board to oversee the gold and jewellery sector.[30] Simultaneously, the bullion industry also moved in the direction of self-regulation by forming three committees separately for a gold trade code, good delivery norms and a spot gold exchange. In a meeting held on 27 April 2017 participated by representatives from business chambers, World Gold Council, banks, India Bullion & Jewellers Association and the India Gold Policy Centre, IIM Ahmedabad, deliberations to formulate 'Precious Metals Code' and

[26] In fact: Glitter of 1993 gold scheme lay in its amnesty clause. (2017, April 05). Retrieved from http://indianexpress.com/article/explained/in-fact-glitter-of-1993-gold-scheme-lay-in-its-amnesty-clause/

[27] World Gold Council. (January 2017). India's Gold Market: evolution and Innovation, p. 76. Retrieved from https://www.gold.org/research/india-gold-market

[28] Govt eyes Rs 3,809 cr via gold schemes 2016-17, new bonds from Feb 27. (2017, February 23). Retrieved from https://www.hindustantimes.com/business-news/govt-eyes-rs-3-809-cr-via-gold-schemes-2017-18-new-bonds-from-feb-27/story-qEPPCGUmep0ULZGzBFNpmN.html

[29] Economic growth to boost gold demand: WGC. (2018, January 16). Retrieved from https://www.livemint.com/Money/gvelOYXSlXGdT4Asb1PO8L/Economic-growth-to-boost-gold-demand-WGC.html

[30] Comprehensive gold policy in offing; to bring domestic, foreign trade rules under one roof: Report. (2017, April 18). Retrieved from http://www.financialexpress.com/economy/comprehensive-gold-policy-in-offing-to-bring-domestic-foreign-trade-rules-under-one-roof-report/632012/

prepare a paper on 'India Goods Delivery Rules' for gold and silver bars were made along with discussions on 'Spot gold exchange'[31].

2. In September 2017, the Niti Aayog formed a panel to help revamp gold market. The policy think tank formed a **`Committee to Transform India's Gold Market'** under the chairmanship of Shri Ratan P. Watal,, Principal Advisor to devise ways on how India can leverage its status of a leading consumer of gold, analyse growth drivers of gold and industries related to it and explore methods to incentivise trade to fully report financial transactions, and explore the benefits of launching a bullion exchange where gold lying with households and residents can be sold to traders, thus reducing imports.[32] On 26 February 2018, the panel submitted its report on gold policy to the Ministry of Finance, titled ***Transforming India's Gold Market***y.[33] The committee of the NITI Aayog recommended cuts in taxes on gold and also proposed a more liberalised approach towards the yellow metal to increase its contribution to the gross domestic product (GDP) to 3 per cent by 2022. Key areas of report are as following:
    i. Cutting taxes: sharply reduce import duty and GST on gold
    ii. Make tax policies to enable MSME sector to become organised sector
    iii. Incentivise digital payments in gold sector
    iv. Include gold industry under Tier-I of Make in India initiative
    v. Promoting gold mining in India
    vi. Responsible sourcing and good delivery of dore (unrefined) gold
    vii. Making Indian standards for gold refined by Indian refineries
    viii. Setting up a Gold Board with statutory powers as a single-window agency to resolve all issues.
    ix. Replace sovereign gold bonds with gold savings account
    x. Revamp gold monetisation scheme
    xi. Set up domestic Gold Council in line with Export Promotion Council
    xii. Treat only investment buying of gold as non-productive
    xiii. Temples should hold gold in prescribed limit and deposit rest under GMS

3. In line with the thinking that gold should be looked upon as a currency than a commodity and to retain the attractiveness of gold as an investment vehicle, in October 2017, the government and the Reserve Bank of India (RBI) started considering gold-based savings products that are backed by gold but not held as physical gold.[34] The RBI and the government were looking at investment options such as gold recurring deposit scheme run by banks and post offices, gold insurance scheme in line with life insurance redeemable in gold, gold accumulation plan, similar to the one offered by jewellers, gold bank and gold ETFs being given flexibility to lend gold and give investors higher returns.

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31 Bullion trade panels on self-regulation, spot exchange. (2017, April 29). Business Standard, Mumbai, p. 6

32 Niti Aayog panel to help revamp gold market. (2017, September 01). Retrieved from https://economictimes.indiatimes.com/markets/stocks/news/niti-aayog-panel-to-help-revamp-gold-market/articleshow/60318297.cms

33 NITI Aayog panel recommends tax cuts on gold, revamping monetisation scheme. (2018, March 03). Retrieved from http://www.business-standard.com/article/economy-policy/niti-aayog-panel-recommends-tax-cuts-on-gold-monetisation-scheme-revamp-118030300009_1.html

34 Govt plans new schemes to add shine to gold savings. (2017, October 04). Retrieved from http://www.business-standard.com/article/economy-policy/govt-plans-new-schemes-to-add-shine-to-gold-savings-117100400107_1.html

4. In January 2018, before the presentation of Budget, the Bullion & Jewellery Industry also made representation to the government to resolve several issues relating gold import duty and other issues related to GST as listed below:[35]&[36]
    i. Allow inter-state supply of services by job workers (karigars) who are unregistered, that is, having turnover below 20 lakhs in a financial year under GST
    ii. Increase the invoice value to a minimum of 2,00,000 from the current Rs 50,000 for retail customers as they are reluctant to share their residence address
    iii. Increase the cash purchase limit to at least Rs 1,00,000, which is kept at Rs 10,000.
    iv. Enable jewellers to sell Ashoka Chakra Gold coins through their retail stores, which will increase the reach and generate more sales of the coins.
    v. Allow post offices to start gold accumulation scheme to facilitate rural depositors keep their affinity towards bullion intact with systematic deposit of small sum on a continuous basis.
    vi. Set up a bullion bank separately to deal exclusively with bullion import and jewellery exports. Apart from that, the bullion bank should maintain a gold account in "quantity" instead of "rupee" account.
    vii. Set up a domestic gold council to promote exports of bullion and artefacts of precious metals thereof
    viii. Re-open mining on domestic gold mines. Mining of gold to be opened up for private players who have the know-how, means and capacity to invest in such mining operations.
5. The Centre is now all set to announce a new gold policy by end of this March or first half of April to institutionalise and bring in more transparency in the trade.[37]

2.2 Compulsory Hallmarking

1. **Chaos in the jewellery sector:** A new Bureau of Indian Standards (BIS) Act 2016 which was notified on 22nd March, 2016, was brought into force with effect from 12th October, 2017. Enabling provisions have also been made for making hallmarking of the precious metal articles mandatory.[38] Making hallmarking of gold jewellery compulsory can have a big impact from the gold demand perspective as old jewellery will have to be converted to new compliant jewellery and its caratage will also have to be 14, 18 or 22, as mandated by the BIS Act, once it is implemented. Many big players started claiming they sell only hallmarked jewellery. However, those selling non-hallmarked jewellery prioritised sale of such jewellery and others are considering various options - selling before the implementation of the hallmarking rule; melt non-hallmarked or otherwise hallmarked jewellery; or self-certification of own-refined coins, till all jewellery is hallmarked[39] or

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35 Gems, jewellery urges govt to reduce gold duty to 4%. (2018, January 12). Retrieved from https://retail.economictimes.indiatimes.com/news/apparel-fashion/jewellery/gems-jewellery-urges-govt-to-reduce-gold-duty-to-4/62476306

36 Jewellers want post offices to introduce systematic gold deposit collection. (2018, January 13). Retrieved from http://www.business-standard.com/article/economy-policy/jewellers-want-post-offices-to-introduce-systematic-gold-deposit-collection-118011300608_1.html

37 Centre to roll out new gold policy by early next month. (2018, March 15). Retrieved from https://www.thehindubusinessline.com/markets/commodities/centre-to-roll-out-new-gold-policy-by-early-next-month/article23263375.ece

38 Press Information Bureau. (2017, October 14). Bureau of Indian standards (BIS) Act 2016 brought into force with effect from 12th October, 2017. Retrieved from http://pib.nic.in/newsite/mberel.aspx?relid=171705

39 Compulsory hallmarking: Worried jewellers await rules on self-certification. (2017, October 17). Retrieved from http://www.business-standard.com/article/markets/compulsory-hallmarking-worried-jewellers-await-rules-on-self-certification-117101600610_1.html

to urge the government to allow hallmarking of ornaments with gold purity of 19 carat, 20 carat, 23 carat and 24 carat also to suit rural customers' need. While media reports claimed mandatory hallmarking from 1 January 2018, the jewellers community remained unclear about the process (whether in phases or in one go across the country). They also opposed the proposed introduction of unique identification number (UID) to each piece of jewellery nor do they want to be held responsible for faulty hallmarking.[40]

2. **The WGC report:** The World Gold Council launched a report on **Mandatory hallmarking: Global practices and road map for India** on 7 December 2017. This report covers key stages in the hallmarking journey in order to ascertain what works best in other jurisdictions and how India can maximise the benefits of mandatory hallmarking.[41]

3. **Infrastructural and logistic challenges in rural areas:** In anticipation of mandatory hallmarking norm by the GoI, the gems and jewellery industry in March 2018 urged the Union Ministry of Consumer Affairs and Bureau of Indian Standards to set up more hallmarking centres in tier-2 and -3 cities, citing infrastructural and logistics challenges jewellers in small cities will face in the regime of mandatory hallmarking.[42] There are around 500 hallmarking centres across the country and 70 per cent of these are located in metropolitan cities.. The Union law Ministry has cleared the draft hallmarking rules submitted by the BIS and the matter now lies with Ministry of Consumer Affairs.[43]

2.3 Gold Reference Standard and India Good Delivery Standard

1. India Government Mint (IGM) in collaboration with Bhabha Atomic Research Centre, National Centre for Compositional Characterisation of Materials (Hyderabad), and Council of Scientific & Industrial Research-National Physical Laboratory developed its first home-grown high-purity gold reference standard, Bharatiya Nirdeshak Dravya (BND - 4201), which is verified by Perth Mint Australia.[44] This is the reference material for gold of '9999' fineness, which will be beneficial to consumers to ensure purity of gold.

   The World Gold Council (WGC) is also studying the creation of a global standard for gold kilobars so that they can be deployed as collateral in futures markets and potentially encourage demand.[45] The Kilobars —1 kilogram gold bars — dominate Asian trade but a lack of transparency about their origin and the absence of a global standard hinders their use on exchanges elsewhere globally.

2. In an effort to advocate ***responsible sourcing of precious metal***, a group was formed under the India Bullion and Jewellers Association (IBJA) to discuss and propose ***India Good Delivery Standard***. The Gems and Jewellery Export Promotion Council (GJEPC), the Gems and Jewellery

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40 Jewellers oppose proposed UID number to each piece of ornament. (2017, December 22). Retrieved from https://m.dailyhunt.in/news/india/english/financial+chronicle-epaper-finance/jewellers+oppose+proposed+uid+number+to+each+piece+of+ornament-newsid-78514350?ss=twt&s=dw

41 World Gold Council. (2017, December 07). Mandatory hallmarking: Global practices and road map for India. Retrieved from https://www.gold.org/research/mandatory-hallmarking-global-practices-and-road-map-india?utm_source=Janrain&utm_medium=Social&utm_campaign=Share-Block

42 Jewellers want more hallmarking centres in tier 2, 3 cities. (2018, March 10). Retrieved from http://www.financialexpress.com/industry/jewellers-want-more-hallmarking-ce+ntres-in-tier-2-3-cities/1094037/

43 Mandatory hallmarking of gold jewellery in phases, BIS rules to be notified. (2018, March 14). Retrieved from http://www.business-standard.com/article/markets/mandatory-hallmarking-of-gold-jewellery-in-phases-bis-rules-to-be-notified-118031300645_1.html

44 India gets its own gold reference standard. (2017, December 28). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/india-gets-its-own-gold-reference-standard/articleshow/62277716.cms

45 WGC probes standard for gold kilobars. (2018, January 23). Business Standard, Mumbai, p. 16.

Trade Federation (GJF), finance associations and banks were part of this group. The group held four rounds of discussions, with the Ministry of Commerce to prepare a mutually acceptable draft of the India good delivery system. India Gold Policy Centre was also invited for the first meeting of the group for good delivery standard. Meanwhile, the GJEPC has tied up with MMTC to set up an institute to train skilled and unskilled manpower in assaying.

Jewellers and bullion dealers are now set to get gold bars with 99.50 per cent purity as "India Good Delivery Standard" by March-end.[46] The stringent framework will also ensure responsible sourcing, assaying and certification for the jewellery value chain.

2.4 Gold Spot Exchange

The need to develop a trading market for gold in India is also felt by the policy makers. The establishment of an exchange will enhance price convergence and transparency, facilitate access to physical gold for players across the value chain and bring gold into the mainstream of the official financial sector. (**The World Gold Council |** 2017 Annual Review, p. 6)

In September 2017, the World Gold Council submitted a report to the Government on setting up a Gold Spot Exchange in India. A dedicated exchange for physical gold is expected to pave the way for standard gold pricing in India and build a whole ecosystem for the gold business apart from bringing in transparency in operations and improve tax accountability.[47]

In December 2017, the World Gold Council formed a steering committee — consisting of international bullion banks, the Indian Bullion Bank Association, the Indian Bullion and Jewellers Association, the All India Gem and Jewellery Trade Federation and the Gem and Jewellery Export Promotion Council — to prepare a blueprint for its roll out.[48]

2.5 Goods & Services Tax (GST)

Goods & Services Tax (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. The objective is to improve the supply chain in an organised manner. It is a tax on value addition of output. The Government aimed to implement a sustainable tax rate which enhances revenue through official channel and plugs tax evasion thereby escalating smuggling of gold. From tax policy perspective, government's focus was on removing all exemptions (whether positive or negative hitherto) causing least distortion to the existing tax system with respect to gold industry. In the pre-GST days, gold/gold products attracted effective duty/tax rates in the range of 12 to 13.5%; key recommendation was to keep GST rate on gold products at lower rate of 2% and rationalise the BCD (Basic Custom Duty) rate. Finally, GST on Gold and Gold Products was fixed at 3% and that on jewellery making charges was fixed at 5%.[49]

[46] Jewellers, bullion dealers are set to get gold bars with 99.50% purity. (2018, February 27). Retrieved from http://www.business-standard.com/article/markets/jewellers-bullion-dealers-are-set-to-get-gold-bars-with-99-50-purity-118022701225_1.html

[47] WGC proposes self-regulated gold spot exchange. (2017, September 29). Retrieved from http://www.business-standard.com/article/markets/wgc-proposes-self-regulated-gold-spot-exchange-117092900032_1.html

[48] How a spot gold exchange will lead to transparency in pricing. (2017, December 12). Retrieved from https://www.thehindubusinessline.com/markets/commodities/how-a-spot-gold-exchange-will-lead-to-transparency-in-pricing/article9990937.ece

[49] GST Council cuts tax rate on gold jewellery making charges to 5%. (2017, July 06). Retrieved from https://www.businesstoday.in/current/economy-politics/gst-on-gold-jewellery-making-charges-slashed-to-5-per-cent/story/254197.html

1. **Working capital cost for importers:** Until July 2017, Banks and nominated agencies imported gold on consignment basis and deducted 1 per cent VAT upon sale of consignment to bullion dealers. However, with commissioning of GST, they almost stopped importing gold on consignment basis as they felt margin pressure to pay 3 per cent to the government after paying 10 per cent import duty on the prevailing gold rate. Most import was happening as gold metal loans usually by banks. In the case of consignment import, an importer kept gold ready in stock and it was priced when sold. This was helpful as sudden demand helped banks to give virtual spot delivery. Banks were worried about gold prices (if prices fell while selling). Banks or importing agencies could recover the IGST from buyers, but this would block funds for a couple of weeks.

   In October 2017 government issued a notification allowing 36 banks and 5 canalising agencies, including MMTC and MSTC, to import gold without paying a 3 per cent integrated goods and services tax (IGST).[50] It was a big relief for financial institutions importing gold. Gold imports on a consignment basis, which had almost stopped after the implementation of the GST resumed again. The notification doesn't change anything for traders who will have to pay 10 per cent import duty and 3 per cent IGST and claim it as input credit. Gold refineries who import dore gold or unrefined gold, will have to pay the IGST and hence, they are at a disadvantage compared to refined gold importers.

2. **Dore Import and the refineries in Excise Free Zones:** In July 2017, with GST implementation, earlier countervailing duty on doré import was replaced by 9.35 per cent basic customs duty. For doré importers, the total tax outgo was 12.35 per cent while refined gold importers were to pay 13 per cent. Imports would be 0.65 per cent cheaper. This margin was enough to cover refiners' operational expenses. But, gold refiners feared competition from those operating in excise-free zones like Uttarakhand and Himachal Pradesh which were entitled to an IGST refund of 3 per cent of value addition. On the other hand, as the value addition of refineries in EFZ is negligible in percentage terms and they also lost the privilege of getting state-level sales tax benefits (a 0.75 per cent tax benefit for refineries in EFZ in the earlier tax regime which was subsumed in the current GST), this appeared unviable for Uttarakhand or other such area based gold refineries. Hence, the state is on the verge to lose the status of a gold refining hub. In a notification dated 5 October 2017, based on a revenue-sharing formula between the Centre and states, the Centre will refund 58 per cent of its share of the central GST, which is half the GST.[51]

3. **Old Gold Exchange:** The GST Council created a separate 3 per cent slab for gold after hectic parleys and industry representation. It also cut the making charges to 5 per cent from the 18 per cent on job work for jewellery sector.

   Huge confusion prevailed on the interpretation of rules regarding exchange of old gold ornaments for new ones and on ornament making charges from customers' own gold, which could end up in their having to bear a burden higher than the 3 per cent GST. While purchase of new ornaments will attract GST of 3 per cent, when a customer opts to exchange old jewellery for new, the jeweller at time of purchase has to pay a reverse charge of 3 per cent to the government, since the buyer is an unregistered dealer and GST is on supply. The jeweller will recover this from the customer.

   Say, if a customer wants to exchange an old, 10 gm necklace worth Rs 30,000 for a new one, the jeweller will first deduct 3 per cent on that when purchasing it from the customer. This will have to

[50] Government exempts IGST on gold imports. (2017, October 17). Retrieved from http://www.business-standard.com/article/economy-policy/government-exempts-igst-on-gold-imports-117101600657_1.html

[51] Uttarakhand to lose status of gold refining hub. (2017, October 28). Retrieved from http://www.business-standard.com/article/economy-policy/uttarakhand-to-lose-status-of-gold-refining-hub-117102700894_1.html

be deposited with the government. Then, a new necklace is made and sold to the customer for say Rs 33,000, the jeweller will once again apply a 3 per cent (Rs 990) GST to that. So, the customer will be burdened by double tax. The industry body hoped that Customers exchanging old gold be exempt from GST.[52] However, the very next day, the government clarified that even though the sale of old gold by an individual is for a consideration, it cannot be said to be in the course or furtherance of his business (as selling old gold jewellery is not the business of the said individual), and hence does not qualify to be supply per se. Accordingly, the sale of old jewellery by an individual to a jeweller will not attract the provisions of Section 9(4) and jeweller will not be liable to pay tax under reverse charge mechanism (RCM) on such purchases.[53] However, if an unregistered supplier of gold ornaments sells it to a registered supplier, GST will be applicable under the reverse charge mechanism.

4. **Unscrupulous import from ASEAN countries under Free Trade Agreement:** A number of traders started importing gold coins and allied items at zero duty from countries that are part of a Comprehensive Economic Partnership (CEP) or a Free Trade Agreement (FTA) with India, after the goods and services tax (GST) took effect on July 1.[54]

   The excise duty of 12.5 per cent (imposed in Mach 2016) on gold jewellery, which acted as a countervailing duty (CVD) on import of gold coins and jewellery from CEP and FTA countries, was subsumed under GST, therefore, the 3 per cent GST on gold is also applicable on gold import in any form. Import of gold items and coins from nations that are not part of a CEP or FTA will still attract 10 per cent basic Customs duty. The conditions under CEP had permitted import of gold in any form at a lower rate of duty, which gets reduced to zero after seven years. Industry experts expressed their concern and requested the government to impose 12% cess on all such gold imports.

5. **Movement of goods for approval-based sale:** In a circular issued on 18 October 2017, the government clarified that the goods taken for supply on an approval basis could be moved from the place of business of the registered person to another place within the same state or outside the state under the cover of a delivery challan.[55] Such movements take place even for business exhibitions and such events where actual sale may or may not happen. The move was seen as a big relief for jewellers who earlier faced many issues in sending their products through marketing or sales representatives on an approval basis.

6. **GST on monthly gold savings deposit schemes:** Jewellers were finding it difficult to convince their customers in small towns and villages in particular that the advance amount paid by them was subject to 3% GST. After representations by jewellers, the GST Council gave its decision to allow customers to pay 3% Goods and Services Tax (GST) on monthly gold savings deposit schemes

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52 Confusion over tax on old gold exchange. (2017, July 03). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/confusion-over-tax-on-old-gold-exchange/articleshow/59418254.cms

53 No GST on sale of old gold jewellery, vehicles by individuals. (2017, July 14). Retrieved from http://indianexpress.com/article/business/economy/no-gst-on-sale-of-old-gold-jewellery-vehicles-by-individuals-4749629/

54 GST impact: Experts caution against zero-duty gold imports from South Korea. (2017, July 18). Retrieved from http://www.business-standard.com/article/economy-policy/gst-impact-experts-caution-against-zero-duty-gold-imports-from-south-korea-117071700459_1.html

55 GST rules eased for goods movement for approval-based sale, jewellers cheer. (2017, October 19). Retrieved from http://www.business-standard.com/article/economy-policy/gst-rules-eased-for-goods-movement-for-approval-based-sale-jewellers-cheer-117101900151_1.html

only when they redeem their investments instead of paying the levy on each instalment.[56] Under the gold savings schemes, the jeweller collects monthly instalments from customers for 11 months. The 12th month instalment is paid by the jeweller and the accumulated amount can be redeemed against gold jewellery by the customer.

7. **Blocked working capital for exporters under GST:** The GJEPC sought Government support for the industry as GST on exporters had led to Rs 4,000 crore getting stuck for gold jewellery exporters as working capital and called for a single gold authority or regulator to monitor the industry instead of multiple agencies like DGFT, RBI or finance ministry who are governing the sector.[57] The India Bullion Bankers Association (IBBA) appealed to the government to exempt gold and studded gold jewellery and articles' exporters from paying 3 per cent IGST on bullion at the time of imports in order to help boost export growth by unblocking funds, which is a cost for the exporter.[58]

   The Union Ministry of Finance in a notification on 29 November 2017 replaced the period of execution of jewellery export orders to 90 days from the prevalent 120 days.[59] This meant star trading houses could execute export orders within 90 days from the date of their gold import depending upon the requirement of overseas importers. The cut in the period of jewellery exports, popularly known as **working cycle** in trade parlance, is set to speed up execution of overseas orders and reduce, thereby, interest cost on Indian jewellery manufacturers in terms of both working capital and stocks held for sale in future.

8. **Gold jewellery purchase by foreign tourists and NRIs:** Foreign tourists and NRIs visiting India are not investing in gold jewellery like before as there is no mechanism to refund the GST on their purchase which they are otherwise entitled to claim.[60]

2.6 Sovereign Gold Bonds (SGB)

1. Government of India opened the windows of Sovereign Gold Bonds 2017-18 – Series I & Series II during 24 - 28 April 2017[61] and during 10-14 July 2017[62] respectively. The Bonds were issued on May 12, 2017 and 28 July 2017 respectively. The issue price of the Gold Bonds was Rs.50 per gram less than prevailing price of physical gold. The investors were to be compensated at a fixed rate of 2.50 per cent per annum payable semi-annually on the nominal value.

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56 Jewellers hail revision of GST rule for gold savings schemes. (2017, November 21). Retrieved from https://economictimes.indiatimes.com/news/economy/policy/jewellers-hail-revision-of-gst-rule-for-gold-savings-schemes/articleshow/61731381.cms

57 GJEPC says GST locks Rs 8000 cr for industry. (2017, August 29). Retrieved from http://www.business-standard.com/article/pti-stories/gjepc-says-gst-locks-rs-8000-cr-for-industry-117082901047_1.html

58 Cut 3% IGST for bullion jewellery exporters: IBBA. (2017, September 20). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/cut-3-igst-for-bullion-jewellery-exporters-ibba/articleshow/60760607.cms

59 Working cycle for jewellery exports cut by a fourth. (2017, November 30). Retrieved from http://www.business-standard.com/article/markets/working-cycle-for-jewellery-exports-cut-by-a-fourth-117113000048_1.html

60 Absence of GST refund mechanism hits gold demand from tourists, NRIs. (2018, March 19). https://economictimes.indiatimes.com/news/economy/policy/absence-of-gst-refund-mechanism-hits-gold-demand-from-tourists-nris/articleshow/63372101.cms

61 Government of India to issue Sovereign Gold Bonds 2017-18 – Series I. (2017, April 20). Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=161181

62 Government of India in consultation with RBI decides to issue Sovereign Gold Bond Scheme 2017-18– Series II; Applications for the bond will be accepted from July 10, 2017 to July 14, 2017; The Bonds will be issued on July 28, 2017. (2017, July 06). Retrieved from http://pib.nic.in/PressReleseDetail.aspx?PRID=1494762

Source: https://twitter.com/PIB_India/status/920220869250523136 (October 17, 2017)

2. Sovereign Gold Bonds 2017-18 Series III were issued between Oct 9-Dec 27, 2017, first time after the liberalisation of SGB schemes in July 2017.[63] While the 2.5 per cent interest rate was retained, the pricing formula was re-aligned with the market price and the bonds' tenure was expanded, as against the previously followed practice. Even the investment limit per individual was increased to 4 kg from 500 grams. For members of the Hindu Undivided Family (HUF), the limit was fixed at 4 kg, while for trusts and similar entities a cap of 20 kg was set for each financial year. A discount of Rs 50 was exclusively offered to online/ digital investors.[64]

   So far, the Reserve Bank of India, in consultation with the Government of India, has issued twenty one tranches of Sovereign Gold Bonds for a total value of approximately ₹ 6650 crores till 4 January 2018.[65]

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[63] Cabinet approves revision of guidelines of Sovereign Gold Bonds Scheme. (2017, July 26). Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=169103

[64] Sovereign Gold Bond Scheme 2017 -18– Series-III. (2017, October 06). Retrieved from http://pib.nic.in/newsite/PrintRelease.aspx?relid=171468

[65] Reserve Bank of India. (2018, January 04). Sovereign Gold Bonds – Dematerialisation. Retrieved from https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42769

Data on Outstanding of Sovereign Gold Bonds (Tranche-wise) as on 01/01/2018				
S. No.	Series	Issue Date	Issue Price/ Unit	Number of Units
1	2015-I	26 November 2015	2684	913571
2	2016-I	08 February 2016	2600	2870808
3	2016-II	29 March 2016	2916	1121123
4	2016-17 Series I	05 August 2016	3119	2953025
5	2016-17 Series II	30 September 2016	3150	2616286
6	2016-17 Series III	17 November 2016	2957	3658940
7	2016-17 Series IV	17 March 2017	2893	2220885
8	2017-18 Series I	12 May 2017	2901	2027695
9	2017-18 Series II	28 July 2017	2780	2349953
10	2017-18 Series III	16 October 2017	2956	264815
11	2017-18 Series IV	23 October 2017	2987	378985
12	2017-18 Series V	30 October 2017	2971	174024
13	2017-18 Series VI	06 November 2017	2945	153356
14	2017-18 Series VII	13 November 2017	2934	175121
15	2017-18 Series VIII	20 November 2017	2961	135666
16	2017-18 Series IX	27 November 2017	2964	105512
17	2017-18 Series X	04 December 2017	2961	107380
18	2017-18 Series XI	11 December 2017	2952	81614
19	2017-18 Series XII	18 December 2017	2890	111218
20	2017-18 Series XIII	25 December 2017	2866	132158
21	2017-18 Series XIV	01 January 2018	2881	327434
	TOTAL			**22879569**
Source: http://rbidocs.rbi.org.in/rdocs/Content/DOCs/SOVERIGNGOLDBONDS.xlsx accessed 2018, March 27				

2.7 Gold Monetisation Scheme

Efforts are on to revive the government's Gold Monetisation Scheme (GMS), a proven failure in the two years since its launch. The aim of the GMS was to mobilise the gold lying idle with households, estimated by the World Gold Council to be about 25,000 tonnes or almost half the country's gross domestic product. However, the scheme hasn't even been able to attract 10 tonnes since its launch by the Prime Minister in November 2015[66] and most of the deposits were from temples rather than household consumers. Even depositing temples, in most cases, had only renewed deposits maturing under the earlier scheme of the year 2000, and had made only nominal fresh deposits.

1. In FY 207-18, Aarasuri Ambaji Mata Devasthan Trust (SAAMDT) at Ambaji in Banaskantha has deposited 13.1kg in April 2017[67] and the Tirumala Tirupati Devasthanams (TTD), which manages one of the world's richest temples at Tirupathi, has deposited 2,780 Kg of gold with the State Bank

66 Niti Aayog panel mulls ways to revive failed gold monetisation scheme. (2017, September 13). Retrieved from http://www.business-standard.com/article/economy-policy/niti-aayog-panel-mulls-ways-to-revive-failed-gold-monetisation-scheme-117091300705_1.html

67 Centre's scheme: Ambaji temple deposits 13.1kg gold. (2017, April 08). Retrieved from http://timesofindia.indiatimes.com/city/rajkot/centres-scheme-ambaji-temple-deposits-13-1kg-gold/articleshow/58087028.cms

of India under the Long Term Gold Deposit Scheme in August 2017.[68] Major part of the deposit from TTD was an outcome of a conversion of Short Term Gold Deposit to Long Term Gold Deposit.

2. In July 2017, Finance Ministry cleared auction policy under Gold monetisation scheme to deploy stock deposited by people that were lying idle.[69] According to the policy, the gold received from people for medium and long-term deposits will be auctioned by the agencies notified by the government and the sale proceeds will be credited to the government's account held with the Reserve Bank of India (RBI). When the gold stocks are sold to jewellers through auctions, imports may ease proportionately. As of media reports in March 2018, MMTC was to hold first auction of 12 tonnes of total 21 tonnes deposited gold under GMS in the next 3-6 months.[70]

3. The government is also considering allowing non-banking financial companies (NBFCs) and some other financial institutions to take gold deposits to boost the performance of the gold monetisation scheme.[71] Any such move could facilitate the participation of major players like Muthoot Finance and Manappuram Finance, which have been major players in the gold loan segment for decades and have a solid base of customers, in the monetisation scheme. Thus, with their entry, the infrastructure will also improve, and so will awareness among people about the scheme.

4. In September 2017, Niti Aayog formed a panel of industry bodies and institutional set ups to take their inputs to revive the scheme. The issues in discussion include involving jewellers as collection centres, using domestically available gold for giving metal loans to jewellers for domestic sales, feasibility of interest rates in case the same gold being lent back to jewellers vis-à-vis loans available from international sources and other issues faced by banks.[72]

5. In October 2017, the Reserve Bank of India (RBI) asked banks to "immediately" pay interest due on the gold deposited by individuals and institution under the gold monetisation scheme (GMS) launched in 2015.[73] After making payments, the banks may raise claim to government through the Reserve Bank of India (RBI).

6. As of 9 March 2018, the Government of India has mobilised about 21 tonnes of gold under the scheme. Of this, 12 tonnes is aimed to be sold through auction by MMTC in the next three to six months.[74]

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68 Richest Hindu temple Tirupathi Balaji deposits 2,780 Kg of gold with SBI. (2017, August 29). Retrieved from http://www.business-standard.com/article/current-affairs/richest-hindu-temple-tirupathi-balaji-deposits-2-780-kg-of-gold-with-sbi-117082900212_1.html

69 Gold monetisation scheme: FinMin clears auction policy to deploy stock deposited by people that were lying idle. (2017, July 18). Retrieved from http://www.financialexpress.com/economy/gold-monetisation-scheme-finmin-clears-auction-policy-to-deploy-stock-deposited-by-people-that-were-lying-idle/767538/

70 MMTC to auction 12 tonnes of gold from GMS in next 10 days. (2018, March 09). Retrieved from http://www.business-standard.com/article/markets/mmtc-to-auction-12-tonnes-of-gold-from-gms-in-next-10-days-118030900037_1.html

71 Gold monetisation scheme: Centre eyes allowing NBFCs, FIs to take deposits; may benefit Muthoot Finance, Manappuram Finance. (2017, July 15). Retrieved from http://www.financialexpress.com/india-news/gold-monetisation-scheme-centre-eyes-allowing-nbfcs-fis-to-take-deposits-may-benefit-muthoot-finance-manappuram-finance/764111/

72 Niti Aayog panel mulls ways to revive failed gold monetisation scheme. (2017, September 13). Retrieved from http://www.business-standard.com/article/economy-policy/niti-aayog-panel-mulls-ways-to-revive-failed-gold-monetisation-scheme-117091300705_1.html

73 Gold monetisation scheme: Make interest payments now, RBI tells banks. (2017, October 17). Retrieved from http://www.livemint.com/Industry/eZNG2PIG1mesDOfwdBz6sI/Gold-monetisation-scheme-Make-interest-payments-now-RBI-te.html

74 MMTC to auction 12 tonnes of gold from GMS in next 10 days. (2018, March 09). Retrieved from http://www.business-standard.com/article/markets/mmtc-to-auction-12-tonnes-of-gold-from-gms-in-next-10-days-118030900037_1.html

2.8 Indian Gold Coin

MMTC has reported sale of 80,000 gold coins and plans to sell 150,000 gold coins by the end of 2018-19. Apart from MMTC's own offices, it has agreements with banks to sell the coins through 400 branches across the country, to be expanded to 700 branches. Also, the launch of online sale of Indian Gold Coins is on cards.[75]

2.9 Money Laundering in Jewellery Sector

1. **G&J Industry under Prevention of Money-laundering Act (PMLA), 2002:** Soon after the government had banned gold coins and articles coming from South Korea at zero duty under FTA, the government notified (issued in the Gazette of India on August 23, 2017) that the provisions of the Prevention of Money-laundering Act (PMLA), 2002, will apply to the gems & jewellery sector with immediate effect.[76] According to the notification, any dealer of precious metals, precious stones, and other high-value goods with a turnover of Rs 2 crore or more in a financial year will be covered by the Act. The Rs 2-crore limit will be calculated on the basis of the previous year's turnover. The norms of PMLA restrict sales in any format to Rs 50,000 without proof of PAN, Aadhaar, driving licence or passport copy. However, with the festive demand returning to the market, customers were not willing to comply with the PMLA rule and preferred barter deals, to avoid giving their identity details for jewellery buying above Rs 50,000 — required since last month under the Prevention of Money Laundering Act (PMLA) provisions. Jewellers were selling by showing gold as provided by customers for conversion to jewellery. As a result, buyers were able to circumvent the identification rule. Jewellers were happy as by this method, buyer and wedding jewellery enquiries were alive after the business drop due to GST and implementation of the new KYC (Know Your Customer) and PMLA norms.[77] As a result, gold sales during Navratri and Dussehra season halved in 2017.[78]

   Consequently, the All India Gems and Jewellery Trade Federation (GJF), the nodal trade body for the promotion and growth of trade in gems and jewellery across India, made a series of representations highlighting the various concerns of the industry. Finally, G & J sector was removed from the ambit of the Prevention of Money Laundering Act (PMLA).[79] The move brought a boost to gold demand in the subsequent festival season of Diwali and gold import started moving up.[80]

2. **The Panel on Household Finance:** With a view to curb tax evasion, a panel of financial regulators proposed making PAN card mandatory for all gold transactions made by jewellers, and not just for

[75] MMTC to auction 12 tonnes of gold from GMS in next 10 days. (2018, March 09). Retrieved from http://www.business-standard.com/article/markets/mmtc-to-auction-12-tonnes-of-gold-from-gms-in-next-10-days-118030900037_1.html
[76] PMLA rules to apply to gem & jewellery sector with immediate effect: Govt. (2017, August 28). Retrieved from http://www.business-standard.com/article/economy-policy/pmla-rules-to-apply-on-gem-jewellery-sector-with-immediate-effect-govt-117082800771_1.html
[77] PMLA scare changes jewellery business, customers prefer barter. (2017, October 2). Retrieved from http://www.business-standard.com/article/markets/pmla-scare-changes-jewellery-business-customers-prefers-barter-117092900541_1.html
[78] Gold sales halve this year during Navratri, Dussehra on fear of taxman's scrutiny. (2017, October 03). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/gold-sales-halve-this-year-during-navratri-dussehra-on-fear-of-taxmans-scrutiny/articleshow/60917262.cms
[79] Jewellery sector hails exemption from money-laundering law. (2017, October 08). Retrieved from https://www.thehindubusinessline.com/economy/policy/jewellery-sector-hails-exemption-from-moneylaundering-law/article9893222.ece
[80] Gold imports surge on withdrawal of PMLA rule. (2017, October 10). Retrieved from http://www.business-standard.com/article/markets/gold-imports-surge-on-withdrawal-of-pmla-rule-117101000038_1.html

transactions above Rs2 lakh.[81] The panel was set up to look at various facets of household finance in India. The panel chaired by Tarun Ramadorai, Professor of Financial Economics, Imperial College, London, had representation from all the financial sector regulators, RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA). The committee had noted that gold holdings in India appeared to be high compared with other parts of the world, and that Indian households could achieve higher rates of return from reallocating some portion of these gold holdings towards financial assets.

The panel has recommended a variant of gold bonds currently in operation be introduced, which have default inheritance features such as matrilineal inheritance unless the woman has no daughters in which case sons can inherit. The committee also proposed a new variant on the RBI sovereign gold bonds currently in circulation be introduced that could be physically redeemed if households wish and not just redeemed in cash upon maturity.

2.10 Exports

1. **Round tripping:** Round tripping is making imports and re-exporting them without major changes. It has been a major menace in the area of gold jewellery exports. According to the Thomson Reuters GFMS Gold Survey report for 2017 H1, round tripping volumes recorded a sharp rise for the period with estimates pegging such exports to stand at 89 tonnes in the first half of 2017, up from 53 tonnes in the same period last year[82]. In August 2017, export of gold ornaments, medallions or any other articles with gold content beyond 22 carats was banned by the Government. This was done to stop low-value addition exports or round tripping. The industry gave a mix response to the decision. While the government's current decision would restrict round tripping of gold which many jewellers were engaged in (many jewellers were round tripping gold coins and medallions imported from South Korea under FTA (Free Trade Agreement) at nil import duty and subsequently exporting it after minimal value additions. There was hardly any room for value addition in 23 and 24 carat gold jewellery and medallions through imported gold coins), it would also hit India's exports around 170 tonnes of jewellery and medallions made of, or studded with, gold. Ornaments made of 24-carat gold contribute nearly 15 per cent of this[83]. Some jewellers were of the view that such demand for jewellery with high content of gold is very low in the global market; hence the decision would not have any impact on Indian export.

2. **Exporters to import gold on loan basis from banks and nominated agencies instead of direct import:** After banning export of 22 carat jewellery in August 2017, the Union Govt started considering more measures to stop malpractices in exports of gold jewellery. On 23 August 2017, the Noida Export Promotion Zone customs collector issued a trade notice asking gem and jewellery exporters not to directly import gold on a loan basis.[84] Commerce ministry and development commissioners of special economic zones (SEZs) were also working to make improvements on the

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[81] Plan to make PAN card must for all transactions in gold. (2017, August 27). Retrieved from https://timesofindia.indiatimes.com/business/india-business/plan-to-make-pan-card-must-for-all-transactions-in-gold/articleshow/60240119.cms

[82] Govt tightens norms for gold jewellery exporters to curb misuse. (2017, August 26). Retrieved from http://www.business-standard.com/article/economy-policy/govt-tightens-norms-for-gold-jewellery-exporters-to-curb-misuse-117082400731_1.html

[83] Export of jewellery with gold content beyond 22 carats banned. (2017, August 16). Retrieved from http://www.business-standard.com/article/markets/govt-bans-pure-gold-jewellery-exports-from-india-117081500580_1.html

[84] Govt tightens norms for gold jewellery exporters to curb misuse. (2017, August 26). Retrieved from http://www.business-standard.com/article/economy-policy/govt-tightens-norms-for-gold-jewellery-exporters-to-curb-misuse-117082400731_1.html

export front, while discouraging malpractices on the part of the exporters. They would now have to take gold on loan only from nominated agencies and banks. SEZ units are usually allowed to import freely but so far, as importing gold on loan is concerned, it's a banking transaction where interest is paid and hence, banking transactions for gold exports like taking gold on loan shall be done in India and hence direct import of gold on loan is disallowed.

3. **Blocked working capital for exporters under GST:** The GJEPC sought Government support for the industry as GST on exporters had led to Rs 4,000 crore getting stuck for gold jewellery exporters as working capital and called for a single gold authority or regulator to monitor the industry instead of multiple agencies like DGFT, RBI or finance ministry who are governing the sector.[85] The India Bullion Bankers Association (IBBA) appealed to the government to exempt gold and studded gold jewellery and articles' exporters from paying 3 per cent IGST on bullion at the time of imports in order to help boost export growth by unblocking funds, which is a cost for the exporter.[86]

4. **Common Facility Centre (CFC) in Thrissur, Kerala by GJEPC:** In order to realise the set vision of US$ 60 billion gem & jewellery exports by 2022, Gems & Jewellery Export Promotion Council (GJEPC) set up a Common Facility Centre (CFC) in Thrissur, Kerala to provide the industry with the best possible infrastructure and modern facilities which would be beneficial especially to small units across the south region of the country.[87]

5. **Cut in working cycle of jewellery exports:** The Union Ministry of Finance in a notification on 29 November 2017 replaced the period of execution of jewellery export orders to 90 days from the prevalent 120 days.[88] This meant star trading houses could execute export orders within 90 days from the date of their gold import. While it is not mandatory to stretch shipping of jewellery up to 90 days if ornaments are ready for exports, Indian jewellers can export even within seven days from the day of their gold import. Earlier, they used to execute orders within the stipulated limit of 120 days depending upon the requirement of overseas importers. The cut in the period of jewellery exports, popularly known as **working cycle** in trade parlance, is set to speed up execution of overseas orders and reduce, thereby, interest cost on Indian jewellery manufacturers in terms of both working capital and stocks held for sale in future.

6. **Impact of 5 per cent Value Added Tax (VAT) by UAE:** Indian Jewellers' business in UAE took a massive hit ever since the 5 per cent value added tax (VAT) imposed by the government came into force on 1 January 2018.[89] After the levy, gold price in Dubai came close to the prices in India. So, exporters targeting markets abroad, including non-resident Indians, were finding it pricey to go through Dubai. The authorities, however, are now considering removing the VAT on business-to-

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[85] GJEPC says GST locks Rs 8000 cr for industry. (2017, August 29). Retrieved from http://www.business-standard.com/article/pti-stories/gjepc-says-gst-locks-rs-8000-cr-for-industry-117082901047_1.html

[86] Cut 3% IGST for bullion jewellery exporters: IBBA. (2017, September 20). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/cut-3-igst-for-bullion-jewellery-exporters-ibba/articleshow/60760607.cms

[87] Gem & Jewellery Export Promotion Council to set Common Facility Center. (2017, October 31). Retrieved from https://economictimes.indiatimes.com/industry/cons-products/fashion-/-cosmetics-/-jewellery/gem-jewellery-export-promotion-council-to-set-common-facility-center/articleshow/61357871.cms

[88] Working cycle for jewellery exports cut by a fourth. (2017, November 30). Retrieved from http://www.business-standard.com/article/markets/working-cycle-for-jewellery-exports-cut-by-a-fourth-117113000048_1.html

[89] VAT on gold jewels takes shine off Dubai shopping festival. (2017, January 10). Retrieved from https://economictimes.indiatimes.com/markets/commodities/vat-on-gold-jewels-takes-shine-off-dubai-shopping-festival/articleshow/62441465.cms

business (B2B) and business-to-consumer (B2C) sales, as well as on gold. The levy will, however, remain on jewellery-making charges.[90]

7. **Proposal to develop a gems & jewellery park in Navi Mumbai:** The state and the Gems and Jewellery Export Promotion Council (GJEPC) signed an MoU on 19 February 2018 at the ongoing Magnetic Maharashtra summit to develop a 25-acre gems and jewellery park at a cost of Rs 13,500 crore. The park likely to come up in Navi Mumbai is intended to house nearly 4,500 units and will employ 90,000-1 lakh people. The government also plans to provide housing to craftsmen on the premises. However, artisans and craftsmen do not find the viability of the plan.[91]
8. **G&J Exports in FY 2018:** Figures from Gem & Jewellery Export Promotion Council show that overall exports from April to January of FY18 was worth 2,18,411.66 crore, a marginal drop of 3 per cent over the same period last fiscal. [92]

2.11 Imports

1. **India's gold imports** had declined by about 13.5 per cent to $27.4 billion in 2016-17.[93] It surged 67 percent in CY2017 from the previous year to 855 tonnes as jewellers replenished inventory amid a rebound in retail demand, provisional data from precious metals consultancy GFMS.[94] As of March 2018 the government was not in favour of any change in import duty as inbound shipment of the metal remained high in FY 2017-18. [95]
2. **Proposal of cut import duty by the Commerce Ministry:** The Commerce Ministry was keen on 2percentage point cut in gold import duty, either in phases, or in one go while backing demands by gold traders. In August 2017, the Finance Ministry turned down the Commerce Ministry's pitch for a reduction in import duty on gold, citing improved data in respect of the current account deficit (CAD).[96]
3. **Gold import from countries under FTA with India:** 10 per cent duty on imported gold is not applicable to countries with which India has signed free trade agreements, including South Korea. To discourage duty-free gold imports from such countries, India had previously imposed a 12.5 per cent excise duty on gold jewellery, which was scrapped along with other local taxes when the Goods & Services Tax was introduced. Hence, the imports from FTA countries now attract only 3%

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[90] Relief for Indian exporters as Dubai mulls VAT breather for B2B gold sales. (2017, March 28). Retrieved from http://www.business-standard.com/article/markets/relief-for-indian-exporters-as-dubai-mulls-vat-breather-for-b2b-gold-sales-118032801213_1.html

[91] Navi Mumbai to house India's first gem, jewellery park. (2018, February 20). Retrieved from https://economictimes.indiatimes.com/industry/cons-products/fashion-/-cosmetics-/-jewellery/navi-mumbai-to-house-indias-first-gem-jewellery-park/articleshow/62994415.cms

[92] Banks shut doors on small jewellers post PNB scam. (2018, March 14). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/banks-shut-doors-on-small-jewellers-post-pnb-scam/articleshow/63296065.cms

[93] Gold imports shrink 13.5 per cent to $27.4 bn in FY17. (2017, May 30). Retrieved from https://economictimes.indiatimes.com/news/economy/foreign-trade/gold-imports-shrink-13-5-per-cent-to-27-4-bn-in-fy17/articleshow/58913486.cms

[94] India gold imports surge 67 percent in 2017 on restocking, retail demand – GFMS. (2018, Jan 02). Retrieved from https://in.reuters.com/article/india-gold-imports/india-gold-imports-surge-67-percent-in-2017-on-restocking-retail-demand-gfms-idINKBN1ER0PJ

[95] No proposal to review gold import policy, says government. (2018, March 19). Retrieved from https://economictimes.indiatimes.com/news/economy/policy/no-proposal-to-review-gold-import-policy-says-government/articleshow/63368155.cms

[96] FinMin rejects Commerce Ministry pitch for lower gold import duty. (2017, August 06). Retrieved from https://www.thehindubusinessline.com/markets/gold/finmin-rejects-commerce-ministry-pitch-for-lower-gold-import-duty/article9804797.ece

integrated GST. Outside the free trade agreement, gold imports attract 10% customs duty. This encouraged duty-free imports of gold coins and medallions from South Korea of around 21 tonnes between July 1 and August 21[97] and had put pressure on prices. Though such imports at zero duty themselves were not illegal, the misuse took place as certain traders began melting coins and jewellery into bullion, against the rules of the CEPA that goods should not change their form. Gold was sold in the local markets at a discount of $10 per troy ounce. The government lost more than a $1 billion worth gold imports from South Korea between 1 July & 21 August, 2017.

To curb surging gold and silver imports from South Korea, the government decided to put these items in the restricted category on 25 August 2017, wherein importers would need permission from the government before importing them.[98] Less than three weeks after the government placed curbs on the import of gold under a free trade agreement with South Korea, Indonesia was the new source market, which has a similar accord with India.[99]

With soaring imports of gold from countries with FTA with India, the issue was discussed between the ministries of finance and commerce and industry, the nodal ministry for negotiating trade agreements and was opined by the finance ministry that gold should be kept out of free-trade agreements (FTA) India negotiates in future.[100] Korea objected to curbs on gold imports saying it was not compliant with the norms and that India should have discussed the issue first instead of unilaterally taking the decision while India reasoned that the move is justified as South Korea does not produce gold but was being used only to circumvent import duty on the metal.[101] However, in December 2017, India assured South Korea that the restrictions on duty free gold imports from the country allowed under the existing bilateral free trade agreement (FTA) were a temporary measure to discourage importers from flouting norms and would be eventually removed.[102]

In January 2018, the India Bullion & Jewellers Association (IBJA) urged the Government to impose an import clearance tax on inbound shipments from ASEAN before re-opening purchases under the comprehensive economic partnership pact and free trade agreements. The tax, equal to the 10% gold import duty, would prevent traders from exploiting any tax arbitrage.[103]

4. **Tightened norms for import of gold by Four-Star and Five-Star Export Houses with Nominated Agency Certificate:** Aiming at curbing the round-tripping, the Directorate General of

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97 Trade hails ban on gold imports from South Korea. (2017, August 26). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/trade-hails-ban-on-gold-imports-from-south-korea/articleshow/60231614.cms

98 Gold & silver put in restricted list to curb rising imports from Korea. (2017, August 26). Retrieved from https://economictimes.indiatimes.com/news/economy/policy/government-bans-gold-imports-from-south-korea-traders-welcome-move/articleshow/60226017.cms

99 Indonesia is the new gold route to India. (2017, September 15). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/indonesia-is-the-new-gold-route-to-india/articleshow/60525079.cms

100 Gold may be kept out of future trade pacts. (2017, September 17). Retrieved from https://economictimes.indiatimes.com/news/economy/policy/gold-may-be-kept-out-of-future-trade-pacts/articleshow/60724262.cms

101 Korea objects to curbs on gold imports. (2017, September 20). Retrieved from https://economictimes.indiatimes.com/news/economy/foreign-trade/korea-objects-to-curbs-on-gold-imports/articleshow/60757692.cms

102 Gold-import curbs temporary, India assures Korea. (2017, December 28). Retrieved from https://www.thehindubusinessline.com/economy/policy/goldimport-curbs-temporary-india-assures-korea/article10004777.ece

103 IBJA wants clearance tax on Asean gold imports. (2018, January 26). Retrieved from https://economictimes.indiatimes.com/markets/commodities/news/ibja-wants-clearance-tax-on-asean-gold-imports/articleshow/62661762.cms

Foreign Trade (DGFT), through notification 34, issued on 18 October 2017 amending the rules, effectively barred four-star and five-star export houses with Nominated Agency Certificate from importing for domestic consumption.[104] The body barred these export houses from getting issued or renewed a nominated agency certificate. Import of gold by these houses with existing nominated agency certificate was made subject to actual user condition. They were permitted to import gold as input only for the purpose of manufacture and export by themselves during the remaining validity period of the nominated agency certificate. The Regional Authorities of DGFT were also barred from the power to issue/renew Nominated Agency Certificates. The decision came in the light of some export houses inflating the amount of exports for which they were exporting gold, virtually without value addition, and retaining their export house status. This was helping them import gold and sell 25 per cent of that in the domestic market and earn a premium, as well as a marginal profit that banks importing gold for domestic markets would otherwise earn. Now, only those export houses are permitted to import gold which are bringing them as input for the manufacture and export by themselves during the remaining validity of their Nominated Agency certificate.

2.12 Gold Refineries and Doré Import

1. **Mandatory certification by BIS:** The Director General of Foreign Trade in April 2017, made it mandatory for gold refineries to obtain certification from the Bureau of Indian Standards (BIS) for import of doré gold.[105] BIS had nearly a year ago developed standards for gold refining but these were not mandatory. India has 32 doré gold refineries, with annual refining capacity of 1,470 tonnes. However, lack of doré availability and business viability has kept only 18 active, of which, seven or eight[106] have been certified by the BIS.
2. **Agency under BIS to monitor compliance to good delivery norms for doré refining:** In July 2017, when the bullion industry presented to the finance ministry the draft Indian good delivery norms for gold refined in India that are in sync with globally acceptable London Bullion Market Association (LBMA) standards, India's quality specification and regulating agency, the Bureau of Indian Standards proposed to have an independent agency under its purview to monitor compliance to the standards.[107] Currently, only LBMA good delivery norms are acceptable even for deliveries on commodity exchanges in India and only bullion that met LBMA norms was imported. Good delivery norms have become important for Indian bullion refineries with dore refining facilities, considering that over the past few years dore import has increased. In the Indian environment, not all refineries are in a position to implement LBMA standards and hence Indian-refined gold is generally not considered good delivery.
3. **Extension of deadline to mandatory BIS registration for refineries:** On 24 August 2017, deadline for mandatory registration of refineries to BIS was extended from June 2017 to June 2018. This means that from June 2018 onwards, bullion refineries wanting to import or refine ore or

[104] Govt imposes more gold import curbs on star houses to check round-tripping. (2017, October 19). Retrieved from http://www.business-standard.com/article/economy-policy/govt-imposes-more-gold-import-curbs-on-star-houses-to-check-round-tripping-117101900150_1.html
[105] From June, only BIS certified gold refineries can import dore. (2017, April 22). Retrieved from http://www.business-standard.com/article/markets/from-june-only-bis-certified-gold-refineries-can-import-dore-117042101452_1.html
[106] As per BIS website http://www.bis.org.in/cert/List_Refineries_GMS.pdf accessed (2018, March 28) 14 refineries are licensed by BIS
[107] New good delivery norms for gold: BIS wants independent monitoring body. (2017, July 25). Retrieved from http://www.business-standard.com/article/markets/new-good-delivery-norms-for-gold-bis-wants-independent-monitoring-body-117072400636_1.html

unrefined gold shall require BIS registration and license.[108] At the time of announcement, there were around seven-eight refineries, out of two dozen, that met BIS norms on quality.

4. **Indian Responsible Mineral Sourcing guidelines:** In December 2017, a working committee was formed by Indian industry representatives to set its own standards for gold refiners. IGPC is a neutral observer in the committee on IRMS and has participated in both the meetings. Known as Indian Responsible Mineral Sourcing guidelines, these are being worked out on the lines of rules set out by the Organisation for Economic Co-operation and Development (OECD). Aligning with the OECD due diligence guidance, the international benchmark will ensure that the Indian responsible mineral sourcing guidelines are recognised in other markets and meet the expectations of banks, customers, and clients based overseas and refineries importing gold will be audited by auditors trained by experts.[109]

5. **Doré import in 2017**: As per estimates of GFMS Thomson Reuters, India's import of unrefined gold (doré) rose in 2017 by 80 per cent from the previous year to 213 tonnes.[110] A large part of the total doré import in 2017 happened three to four months ahead of implementation of the Goods and Services Tax (GST), which was expected to take away state-specific excise exemptions. July onwards, duty benefits to all refineries from the domestic area were equal. To meet its growing demand for gold doré bars, India has also increased its buying from Latin American countries. Private players refine raw gold in facilities dedicated to the process as it costs less.[111]

2.13 Options Trading in Gold

Capital and commodity market regulator SEBI had allowed MCX, the country's largest commodity exchange, to launch options trading in gold[112] in anticipation to allow investors and hedgers to minimise their price risk at a fraction of cost compared to currently available futures trading. On 17 October 2017, Finance Minister Shri Arun Jaitley launched the first gold options security for trading on Multi Commodity Exchange Ltd (MCX). The gold options contract allows trading in 1kg gold. The lot size for gold commodity options would be Rs 30 lakh. [113] But, the gold options contracts did not take off well. Their daily average turnover declined to Rs 130 crore in November 2017 from Rs 297 crore in October 2017. The daily average turnover of gold futures contracts on the exchange was Rs 2,054 crore and Rs 2,297 in October and November, respectively. MCX later sought permission from SEBI to launch liquidity enhancement schemes to boost volumes.

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108 Gold refineries get year-long deadline extension for BIS registration. (2017, August 26). Retrieved from http://www.business-standard.com/article/economy-policy/gold-refineries-get-year-long-deadline-extension-for-bis-registration-117082500589_1.html

109 India to have gold sourcing standards for refiners. (2017, December 05). Retrieved from http://www.business-standard.com/article/markets/india-to-have-gold-sourcing-standards-for-refiners-117120500052_1.html

110 Unrefined gold imports rise to a record high in 2017, up 80% to 213 tonnes. (2018, January 16). Retrieved from http://www.business-standard.com/article/markets/unrefined-gold-imports-rise-to-a-record-high-in-2017-up-80-to-213-tonnes-118011500489_1.html

111 Gold imports from LatAm rising. (2018, March 07). Retrieved from http://www.financialexpress.com/economy/gold-imports-from-latam-rising/1090313/

112 SEBI allows MCX to launch gold options. (2017, August 09). Retrieved from https://www.thehindubusinessline.com/markets/commodities/sebi-allows-mcx-to-launch-gold-options/article9809444.ece

113 Gold options will formalise gold trading in India: Arun Jaitley. (2017, October 18). Retrieved from http://www.livemint.com/Money/Euu2qPVJzFHPcRRi1RxntL/Options-trading-to-help-formalise-gold-trade-says-Arun-Jait.html

2.14 Online Gold Sale

Leading broking firm Motilal Oswal Securities tied up with MMTC-PAMP India, the country's only LBMA (London Bullion Market Association) certified gold refinery, to sell gold coins through its mobile and online platform Me-Gold.[114] Gold price on the platform is linked to the international spot prices and is updated in rupees live including the 10 per cent import duty. Investors need not open a demat account with Motilal Oswal to buy gold through Me-Gold but have to comply with the KYC (know your customer) norms. Though the minimum quantity delivered is of one gram (of 24 kt) worth about 3,000, investors can accumulate it in small quantity with investment of 1,000 a month. They can also start systematic investment plan to accumulate gold.

2.15 Mining

India has a long history of gold mining, but current production levels are very low. In 2015 India mined less than 2t.[115] The industry does, however, have potential. Mineral reserves and resources total 71.9t and 574.3t respectively (Ministry of Mines, Government of India – Annual Report 2014–15)[116] in terms of gold metal content.

Given that India is one of the world's largest gold consuming countries, it makes sense for it to develop mining capacity. Over 99% of gold mineral reserves are located in the state of Karnataka. But the industry faces significant challenges. For mining to develop in India regulations need to be reviewed and the industry needs investment.

Despite India being one of the world's largest consumers of gold, until recently there had been no real policy push to promote domestic mining. As per World Gold Council's report India's Gold Market: evolution and innovation, a few private and locally-listed companies started up after legislation was passed in 2003 allowing private organisations to apply for mining leases. But it is not an easy market to enter: in some cases, companies have been waiting more than five years for permit approval. As a result, there has been limited investment in gold exploration over the past decade, particularly from the private sector.

As of March 2013, there were 13 mining leases (Ministry of Mines, Government of India – Annual Report 2014–15) granted for gold across the whole of India: eight in Karnataka, three in Andhra Pradesh, one in Jharkhand and one in Rajasthan. In 2014, however, mining was only undertaken within three of these permit areas: Hutti, Uti and Hira-Buddinni, all located in Karnataka and operated by Hutti Gold Mines.

While the industry is small, it still has potential to grow as is also clear from the 12th five-year plan (2012–17) formulated in 2011 where a government of India working group outlined that adequate investment could lead to substantial annual production. Government has made some progress recently in helping the industry to grow by introducing ways to facilitate 'ease of doing business' such as following and the like:

- E-auctions as mandated by Mines and Minerals (Development and Regulation) Amendment Act, 2015 for ensuring greater transparency and limiting discretion in the grant process

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114 Motilal Oswal ties up with MMTC-PAMP for online gold sale. (2017, October 12). Retrieved from https://www.thehindubusinessline.com/companies/motilal-oswal-ties-up-with-mmtcpamp-for-online-gold-sale/article9901832.ece

115 World Gold Council. (January 2017). India's Gold Market: Evolution and Innovation. Retrieved from https://www.gold.org/research/india-gold-market

116 World Gold Council. (January 2017). India's Gold Market: Evolution and Innovation. Retrieved from https://www.gold.org/research/india-gold-market

- Constitution of IMG (Inter-Ministerial Group) i.e. Post-Auction Mining Clearances and Approvals Facilitator (PAMCAF) to facilitate and expedite various clearances / approvals required after the mineral block is allocated by Ministry of Mines
- Conceptualisation of a web based portal and Mobile APP under PAMCAF, "TAMRA" which stands for Transparency, Auction Monitoring and Resource Augmentation to provide the status of mining block auctioned/ to be auctioned in India to the public in a 'transparent' manner. This would facilitate the preferred bidders and other stakeholders including States/ Ministry of Mines to 'monitor' the status of statutory clearances associated with the mineral blocks to expedite production from the mineral blocks, resulting in 'resource augmentation' and addition to the fiscal resource base of the States.

Gold mining can provide significant sustainable socio-economic development to India. This is not just through the investment required to explore and mine for gold, but also through the legacy of creating a skilled workforce. Furthermore, mining helps bring infrastructure investment to a region, and helps initiate and support associated service industries, all of which often persist long beyond the working life of the mine. Mining can provide significant employment opportunities to rural areas. Currently, Hutti Gold Mines employs 5,000 skilled workers and contractors, and it is estimated that each of those workers supports around five dependants. WGC report, The social and economic impacts of gold mining, published in 2015, showed that 70% of total expenditure by gold producing companies was via payments to local suppliers and contractors, as well as wages to employees. This highlights the important impact even a small gold operation can have on its community.

In December 2017, Panthera Resources has cleared the toughest administrative stages, winning approval from the government of Rajasthan, which should make a prospecting licence for the at least 6 million ounce Bhukia Project a formality.[117]

2.16 Budget 2018-19

In the Union Budget 2018, Finance Minister Arun Jailtley announced the government's intention to formulate a comprehensive gold policy, to develop gold as an asset class. In his speech, the minister said that the government will establish a system of consumer-friendly and trade-efficient and regulated gold exchanges in the country.[118]

The Budget 2018-19 positively focused on the rural economy and estimated growth of GDP to 7.2-7.5 per cent will boost the demand. The revamp the 'Gold Monetisation Scheme' and establishment of a consumer friendly and trade efficient system of regulated gold exchanges in the country was also emphasised. However, Jewellers were disappointed of no announcement in reduction of import duty on bullion.[119]

2.17 The PNB Scam

1. The G&J Industry came under pressure when Delhi-based Punjab National Bank (PNB) in mid-February 2018 declared that it had been defrauded of about Rs 114 billion (which later in the course of investigation rose upto Rs 12,600 crore) by jeweller Nirav Modi, his maternal uncle Mehul

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117 Mining listings bring Indian gold and Irish zinc to London. (2017, December 2017). Retrieved from http://www.business-standard.com/article/reuters/mining-listings-bring-indian-gold-and-irish-zinc-to-london-117122001160_1.html

118 The government gets ready to accept gold as an asset class. (2018, February 05). Retrieved from https://www.livemint.com/Money/5exu2ZxyJjC6nHbReoDi3L/The-government-gets-ready-to-accept-gold-as-an-asset-class.html

119 Jewellers laud rural focus; rue no reduction in import duty. (2018, February 01). Retrieved from https://economictimes.indiatimes.com/industry/cons-products/fashion-/-cosmetics-/-jewellery/jewellers-laud-rural-focus-rue-no-reduction-in-import-duty/articleshow/62743483.cms

Chinubhai Choksi, and other relatives through a clutch of companies they own.[120] Sale of gold jewellery dropped 15-20% post Modi, Choksi fraud.[121]

2. In the backdrop of the □12,600-crore letter of undertaking (LoU) scam at Punjab National Bank involving fraudulent issue of LoUs by a couple of officials in one of its Mumbai branches in favour of companies in the gems and jewellery trade, the Reserve Bank of India has revised its directions on 'Hedging of Commodity Price Risk and Freight Risk in Overseas Markets', whereby it has excluded gold, gems and precious stones from the list of commodities whose price risk can be hedged.[122]

3. The State Bank of India, India's largest lender, then tightened the noose around borrowers in the gems and jewellery sector by telling them to either bring in more collateral to back the existing borrowings or reduce the size of it in a time-bound manner. [123]

   The Reserve Bank of India in a notification on 13 March 2018 decided to "discontinue the practice of issuance of LoUs/ LoCs for Trade Credits for imports into India by AD Category–I banks with immediate effect"[124], which, the industry experts said, would not impact majority of imports (as alternative instruments like bank guarantees and letter of credit are available) except a few bulk importers but Bank finance to small and medium jewellers, who constitute more than 80 per cent of the gold trade, has dried up. Banks are asking for BBB or A credit rating from jewellers for considering funding proposal. Now, gems and jewellery businesses are burning extra cash by turning to costlier funding options, such as letters of credit (LCs) or making payments upfront, thereby squeezing their liquidity further.[125]

2.18 The 80:20 Rule scam

The 80:20 bullion rule has been in the news in recent days. The government is set to examine the circumstances as to why star trading houses (STHs) and premier trading houses (PTHs) were benefitted by allowing to import gold under 20:80 scheme by the previous government when the government was in transition, apparently responsible for 'windfall gains' to private parties by allowing import of gold under the 20:80 scheme in the last few days of the previous UPA government in 2014. The change

120 PNB names Nirav Modi and Gitanjali Gems in the mega Rs 114-bn fraud. (2018, February 16). Retrieved from http://www.business-standard.com/article/current-affairs/nirav-modi-punches-rs-113-bn-hole-in-pnb-through-fraudulent-transactions-118021401298_1.html

121 Ornaments losing sheen for cautious buyers. (2018, March 09). Retrieved from https://economictimes.indiatimes.com/industry/cons-products/fashion-/-cosmetics-/-jewellery/ornaments-losing-sheen-for-cautious-buyers/articleshow/63226553.cms

122 RBI disallows hedging of price risk in gold, gems and precious stones. (2018, March 12). Retrieved from https://www.thehindubusinessline.com/money-and-banking/rbi-disallows-hedging-of-price-risk-in-gold-gems-and-precious-stones/article23163169.ece

123 SBI tightens noose around borrowers in jewellery sector. (2018, March 11). Retrieved from https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-tightens-noose-around-borrowers-in-jewellery-sector/articleshow/63260056.cms

124 Ban On Letters Of Undertaking: Bulk gold, diamond importers to be hit. (2018, March 14). Retrieved from https://economictimes.indiatimes.com/ban-on-letters-of-undertaking-bulk-gold-diamond-importers-to-be-hit/articleshow/63292540.cms

125 Jewellers, diamantaires burn more cash to get import credit. (2017, March 22). Retrieved from https://www.thehindubusinessline.com/money-and-banking/jewellers-diamantaires-burn-more-cash-to-get-import-credit/article23325749.ece

resulted in a spike in gold imports. It pegged the benefit to private parties under the scheme at Rs 4,500 crore. Of these imports, almost 60% was accounted for by 13 PTHs and STHs.[126]

The UPA government had imposed higher import duty on gold and restricted imports following alarming deterioration in the current account deficit in FY13. In two instalments — first on July 22, 2013 and again on August 14, 2013 — the restrictions were modified to introduce the 80:20 scheme. Under this scheme, only banks and PSUs like MMTC, STC, etc. were allowed to import gold for domestic use following 80:20 formula. The scheme was modified in April 2014 to allow STHs and PTHs also access to the scheme effective May 21, 2014. The modified scheme was approved on May 13 even though the model code of conduct was in place since March 5. The counting was due on May 16, 2014.

The CAG data showed 282.77 MTs of gold imports by 13 trading houses during June 2014 to November 2014 to calculate a gain of Rs 4,500 crore to these agencies, assuming a premium of Rs 2 lakh per kg and 80% of imported gold supplied to domestic market earning the premium.[127]

The Indian Bullion and Jewellers Association cried foul at the change in policy which, it alleged in a July 26, 2014 letter to the RBI, helped only large private trading houses and conglomerates, many of which had no history of gold imports, and were not interested in promoting the jewellery business. "(They) do not have a mechanism to ensure the end use of gold sold," the letter said — as 20% would have to be re-exported — and they "are engaged in circular/fictitious export".[128] The NDA subsequently (towards the end of 2014) scrapped the August, 2014 change.

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126 PNB fraud: The 80:20 gold import controversy. (2018, March 09). Retrieved from https://www.hindustantimes.com/business-news/pnb-fraud-the-80-20-gold-import-controversy/story-IU4esuxKilmqqowbm0DNQP.html

127 Government set to corner P Chidambaram over 20:80 gold import scheme. (2018, March 13). Retrieved from https://economictimes.indiatimes.com/news/politics-and-nation/government-says-will-take-action-on-p-chidambaram-relaxing-gold-import-norm/articleshow/63272193.cms

128 PNB fraud: The 80:20 gold import controversy. (2018, March 09). Retrieved from https://www.hindustantimes.com/business-news/pnb-fraud-the-80-20-gold-import-controversy/story-IU4esuxKilmqqowbm0DNQP.html

Engagement with Industry Stakeholders and Policy Makers

03
Chapter

3.1 Events by India Gold Policy Centre

1. Launch of IFMR Study & IIMA Working Paper, 15 May 2017

i. Gold as a Financial Inclusion Tool (IGPC-IFMR Study: 15 May 2017)

ii. Turning Over a Golden Leaf? Global Liquidity and Emerging Market Central Banks' Demand for Gold after the Financial Crisis (IIMA Working Paper: 15 May 2017)

IGPC shared two important research studies on gold as a tool for Financial Inclusion and gold as a strategic tool used by various central banks globally. It was addressed by Prof. Arvind Sahay, Head, IGPC, IIMA; Mr. Balagopal Gopalakrishnan (FPM Student at IIMA) Ms. Misha Sharma, Ms. Shambhavi Srivastava and Mr. Govind Singh from Institute for Financial Management Research (IFMR) Lead.

Prof. Arvind Sahay, Head IGPC with researchers from IFMR addressing the media at the dissemination of two research studies.

L to R: Ms. Ruchi Agarwal-Manager IGPC, Mr Balagopal Gopalakrishnan-FPM student, Prof. Sahay-Head IGPC, Ms Misha Sharma, Ms. Shambhavi Srivastava and Mr Govind Singh, Researchers from IFMR Chennai

In an exhaustive study done sampling a thousand gold consumers across four districts from four states in urban and rural India, it is revealed that gold is an important tool for financial inclusion among Indians. The study was conducted by researchers Misha Sharma, Shambhavi Srivastava and Govind Singh from IFMR Lead and funded by India Gold Policy Centre (IGPC) Indian Institute of Management, Ahmedabad. The study participants were active consumers of gold who use gold beyond mere ornamental purposes.

Gold loan was the most popular gold based financial product and informal gold loans constituted a large pie of the market share offering lower gold loan amounts at higher interest rates compared to formal gold loan providers offering higher gold loan amounts at lower interest rates. Additionally, it was also found that gold loans were primarily being used for smoothening household consumption and for repaying previous debts, although, it must be pointed out that half of the sample also mentioned using it for productive purposes such as investment in business, education and household improvement and repairs. The study had 1000 respondent across four districts (Coimbatore, Kolhapur, Hooghly and Saharanpur) with the sample split evenly across rural and peri-urban areas and with 83% respondents being male.

Some key findings are as under:

- More than 70% of study respondents in Coimbatore and Kolhapur responded as having little preference to sell their gold. Hooghly followed a normal distribution and generated a mix of responses from 1 to 10 where 10 represents a high willingness to sell gold. In Saharanpur, people don’t seem to have a very high sentimental value for the gold they possess and more than 90% of respondents assigned scores between 6 to 10, representing high willingness to sell their gold.

- 44.37% of the total households approached confirmed having taken a gold loan. The average gold loan amount acquired by the study sample across all four districts was 31,387 INR at an average annual interest rate of 20 percent. Hooghly and Coimbatore people were against parting with their gold. Specifically in Kolhapur, respondents revealed that they prefer other investments as opposed to one which uses gold as collateral such as land based as it does not require them to physically part with an asset. In Coimbatore most of the loans were acquired from commercial banks followed by pawn brokers. Similarly, formal financial institutions such as NBFCs and commercial banks seemed to be the most popular sources of credit in Kolhapur. In contrast to this, gold loans in Saharanpur and Hooghly were mostly acquired from informal sources such as pawn broker and shopkeepers.
- Major uses of gold loans as reported by respondents were debt repayment, health expenditures and smoothening immediate cash flow problems in businesses and households. Thus, gold loans, seems to provide 'quick fixes' to liquidity constraint and unlike most other loans are not primarily used for large planned expenditures such as purchase of new house or financing education.

Prof. Arvind Sahay, Head IGPC being interviewed by a media journalist

Mr Balagopal Gopalakrishnan interacting with media about the research paper on gold reserve by central banks

Researchers from IFMR addressing the media about their research study on gold as financial inclusion

Elaborating on the research study, Prof. Arvind Sahay, Head India Gold Policy Centre said, "Gold could be classified as an alternate tool for financial inclusion among low income households. This is more so true for the rural economy that constitutes 70% of the total population and pre-dominantly engages in agricultural activities as their primary source of income. With income from agriculture being uncertain and some lack of institutional credit for farming activities, the agrarian population relies heavily on gold (in the form of gold loan or selling gold) to meet their agricultural expenses".

The study also observed that the relative lack of success of government schemes such as Gold Monetization Scheme, Sovereign Gold Bond and Indian Gold Coin Scheme can be attributed to people not being aware of these schemes. Respondents did express willingness to invest in these schemes if they got adequate information about the product, indicating the potential of the scheme with better targeting and promotion.

A separate research project conducted by Balagopal Gopalakrishnan and Sanket Mohapatra, found that the quantity of gold reserve held by central banks in Emerging Market and Developing Economies (EMDEs) has risen sharply following the global financial crisis in 2008; that, on average, the percentage of foreign exchange held by central banks in EMDEs in the form of G4 (dollar, yen, pound and Euro) decreased from 84% to 74% with much of that decrease being compensated for by an increase in the holding of gold. Large increases in gold holding were seen in Russia, China and Brazil, but not India – a point perhaps to be noted by the Reserve Bank of India. The research paper examines factors driving holding of gold by central banks in 50 EMDEs, with a focus on post-crisis developments. The researchers argue that the unprecedented monetary expansion in advanced economies has resulted in a shift in EMDE reserve asset holding strategy, resulting in continued accumulation of gold reserves even after the peak of the financial crisis.

Increase in EMDE gold holdings in the post-crisis period was strongly associated with the large expansion in liquidity and increase in central bank balance sheets in the advanced economies. This post-crisis effect holds even after controlling for a range of country-specific factors, international gold prices, and global risk indicator, and is robust to alternative measures of global liquidity, sub-samples excluding the BRICS countries, alternative specifications, and the inclusion of additional controls. The authors point out that US monetary policy is the primary driver of the global financial cycles and questions the level of independence enjoyed by other central banks, even those with flexible exchange rates such as the UK or the ECB. Therefore, the massive monetary easing conducted by the advanced economy central banks, led by the US Fed, have increased the vulnerabilities of the EMDE central banks given the spill over effects the monetary easing has had in the EMDE countries.

The paper also investigates whether global factors such as excessive monetary easing by the central banks in the advanced economies and changes in the global risk environment can explain this increase in EMDE gold reserves, after controlling for domestic factors. It concluded that monetary expansion in advanced economies is robustly related to the post-crisis increase in EMDE gold reserves.

Professor Ashish Nanda, Director IIMA opined that "The global gold ecosystem is undergoing transformation owing to geopolitical changes and economic dynamics. The gold market is shifting East, with India and China constituting more than fifty percent of the global demand and China becoming leading gold supplier as well. In times of transition such as this, empirical research based policies and coordination along the value chain become critical. IGPC aims to address these needs and thereby impact policy and practice related to the gold industry in India and internationally".

2. Research & Publications Seminar by Prof. Anindita Chakrabarti at IIMA, 13 September 2017

Prof. Anindita Chakrabarti Associate Professor of sociology at the Department of Humanities and Social Sciences, IIT Kanpur., presented a Research Seminar on ‘Who Are Goldsmiths? Migrant Artisans’ Guilds and the Changing Contours of Goldsmithing in India’. The seminar was attended by faculty, fellow students, officers and research staff.

Abstract of Seminar Presentation: In India, while gold is a highly regulated and monitored commodity, goldsmithing has been primarily an unregulated economic activity. The paper described how goldsmithing, which was once a caste-based occupation, gradually shifted towards an occupation based on village networks and regional ties. The study showed that the bulk of goldsmiths in India belonged to certain districts of West Bengal. The multi-sited fieldwork in three states of India suggested that while migration had started from West Bengal in the 1980s after the devastating flood of 1978, large-scale migration for ‘gold work’ began in the 1990s. With the repeal of the Gold (Control) Act of 1968 in 1990, the gold industry expanded and provided an opportunity to these ‘new goldsmiths’ to join the work-force. Liberalization, economic restructuring and institutional reforms further impacted the informal goldsmithing economy. In this context, the ‘new goldsmiths’ from Bengal developed a network of artisans who travelled to different states within India as well as to Nepal and Bangladesh. Referred to as ‘gold engineers’ in their villages, they brought in remittance, hopes of upward mobility and a new identity. Their work reveals an interesting collocation of traditional guild-like work structure on one hand and introduction of new technology on the other. There has also been a dispute whether goldsmithing was a craft or an industry. The paper also touched upon the relation between the informal goldsmithing sector and gold consumption patterns in India.

3. IIMA-Alumni Association-Ahmedabad Chapter Study Circle talk by Prof. Arvind Sahay, the Head of Gold Policy Centre at IIM-A, on "An Overview of the Gold Industry and a Policy for India.”, 06 October 2017

Prof. Arvind Sahay, Head IGPC addressing Alumni of Ahmedabad Chapter

An IIMA alumnus delivering welcome note at the seminar by Prof. Arvind Sahay, Head IGPC

Prof. Arvind Sahay briefly touched upon the structure of the gold industry and policy for India. Gold demand in India accounts for 25% of global gold demand. India is the second largest importer of Gold after China and imports 800-1000t annually. The demand is majorly impacted by household income levels, price changes, inflation, rainfall, wedding and festival seasons and tax policies. Gold ownership is higher in rural India and varies with income levels. Whereas the demand for gold is ever increasing irrespective of international prices, supply/production of gold within India is minimal. India mined less than 2t of gold in 2015 and combined refining capacity together by 30 refineries in the country is underutilised. The continuous rise of gold demand in India has badly impacted the Current Account Deficit (CAD) of the country.

Prof. Sahay briefly discussed about the gold supply chain that includes Bullion Banks, Bullion Import Agencies, Bullion Traders, Jewellers, Manufacturers, Artisans, Retailers and consumers. He also explained how government has been trying hard to bring the household gold under the mattresses to the financial system in the past through several policy measures but has not succeeded yet. Putting a curb on one section of the supply chain leads to untoward impacts on the other section. e.g. 1% excise duty on jewellery manufacturers led to a month and a half long jewellers strike in 2016 and distorted the jewellery business across the county. Curbing imports by increasing import duty leads to increased smuggling of gold into the country. The three gold schemes – Gold Monetisation Scheme, Sovereign Gold Bond and Indian Gold Coin- were launched in November 2015 with an idea to reduce the burden of increasing CAD on Indian economy of which GMS has not taken well off with just 7-8 tonnes accrued as of July 2017[129] and 9 Tranches of SGB floated till July 2017. Bonds worth Rs 6030Cr subscribed till 9th tranche[130].

129 Gold monetisation scheme: Centre eyes allowing NBFCs, FIs to take deposits; may benefit Muthoot Finance, Manappuram Finance. (2017, July 15). Retrieved from http://www.financialexpress.com/india-news/gold-monetisation-scheme-centre-eyes-allowing-nbfcs-fis-to-take-deposits-may-benefit-muthoot-finance-manappuram-finance/764111/

130 Sovereign gold bonds have attracted Rs6,030 crore so far. (2017, August 08). Retrieved from http://www.livemint.com/Money/k2ceEcy9wieQ0kOMGDqxMN/Sovereign-gold-bonds-have-attracted-Rs6030-crore-so-far.html

From a generic policy perspective - gold held by household & institutions including temples should be mobilised by incentivising banks. Gems & Jewellery sector can be provided a fillip by making gold available as raw material from banks as it accounts for 15% exports; and recycling can be boosted and India's reliance on imports be reduced to meet domestic demand. Govt. is in the process of exploring establishing a Gold Spot Exchange through NCDEX, MCX and Jewellers' Associations.

4. Conference on Gold and Gold Markets, IIM Ahmedabad, 12 January 2018

India Gold Policy Center (IGPC) at IIMA hosted a Conference on policy-relevant research on gold related issues on January 12, 2018. The Conference focused on a range of topics, from motives of households to invest in gold, the structure of gold markets, to macroeconomic policies relating to gold. The Conference facilitated interaction among academia, policy makers, and other key stakeholders.

The conference featured an inaugural session on key issues for gold and gold markets, a presentation on the global gold scenario, and a panel discussion on "Designing an effective policy and regulatory framework for gold in India". The panel discussion included senior policy makers, industry experts and key stakeholders. This was followed by a brief interaction with media representatives.

The rest of the sessions comprised technical presentations on a range of research themes related to gold. Fourteen research papers were presented by academics in Indian and international institutions. (see Annexure for a list). Four research studies funded by the IGPC by IIMA faculty and doctoral students were presented at the conference. The conference also included two papers presented by researchers from industry. The conference witnessed participation by about fifty delegates from academia and industry and few journalists from media.

Invitees and key participants

Guest of Honor: Shri Govind Mohan, Joint Secretary (IER & Investment), DEA (Dept. of Economic Affairs), Ministry of Finance, GoI

Special Invitee: Mr John Reade, Chief Market Strategist, World Gold Council

Conference Mentors: Prof. Arvind Sahay, Head IGPC, and Prof. Errol D'Souza, Director, IIMA

Conference Committee Members: Prof. Dirk Baur (University of Western Australia); Mr. Mrugank Paranjape, (MD & CEO, MCX of India Ltd.); Prof. Charan Singh (IIM Bangalore); Prof. Gourav Vallabh (XLRI); and Prof. Jayanth R. Varma (IIMA); Prof. Kavita Rao (NIPFP)

Moderator of Policy Panel: Mr Sudheesh Nambiath, Precious Metals Demand, GFMS South Asia & UAE Supply Chain & Commodities Research, Thomson Reuters

Faculty Coordinators: Prof. Joshy Jacob and Prof. Sanket Mohapatra (IIMA)

Annexure-List of papers presented at the conference

S. No.	Title	Authors and Affiliation
1.	Gold Monetization in India as a Transformative Policy: A Mixed Method Analysis (WP)	Priya Narayanan, Balagopal Gopalakrishnan, Arvind Sahay, IIMA
2.	Distribution of Durable Assets Across Households and Generations: A Mathematical Model	Anindya Chakrabarti, IIMA
3.	Impact of CTT on Gold Derivatives Markets: Analysis based on Ultra-High Frequency Order Flow and Trade Data	Joshy Jacob, Jayanth R. Varma, IIMA
4.	Gold in Central Bank Reserves: Role of Gobal Risk and Liquidity	Balagopal Gopalakrishnan, Sanket Mohapatra, IIMA
5.	Gold and Geopolitical Risk	Dirk Baur, UWA, Perth
6.	A Study of Excess Volatility of Gold and Silver	Parthajit Kayal, S. Maheswaran IFMR, Chennai
7.	Does Information Spillover And Leverage Effect Exist In World Gold Markets?	S. Maria Immanuvel, D. Lazar SJIM Bangalore & School of Management, Pondicherry
8.	Estimating Elasticity of Import Demand for Gold in India	Paramita Mukherjee, Vivekananda Mukherjee, Debasmita Das, IMI Kolkata & Jadavpur University
9.	Gold, Gold mining Stocks and Equities – Exploring their Hedge, Diversifier and Safe Haven Properties in Developed Markets	Arif Billah Dar, Manas Paul, Niyati Bhanja, IMT Ghaziabad
10.	Investigation of Price Discovery for Gold Future Market Prices	Samna. M, Sadar. A. R., Dept. of Commerce University of Kerala & Dept. of Commerce, M.S.U. Tamil Nadu
11.	Multifractal Modeling of the Indian Gold Market	P. Mali, Dept. of Physics, Univ. of North Bengal, Darjeeling
12.	Relationship between Gold and other Markets: A Cointegration Approach with Structural Breaks	Shivani Inder Chopra, Chitkara Business School, Chitkara University, Punjab
13.	Return and Volatility Spillovers: An Evaluation of India's Demonetization Policy	Shubhasis Dey, Aravind Sampath, IIM Kozikode
14.	Sources of Uncertainty and the Indian Economy	Shubhasis Dey, IIM Kozikode
15.	Indian Gold Demand and Consumer Buying Pattern: An Industry Perspective	Vaibhav Aggarwal, MMTC Ltd.
16.	A Curious Contract – Exploring the Nuances of Gold Backed Pension Products	Saket Hishikar, SBI

All the papers are published on IGPC IIMA website and can be accessed at https://www.iima.ac.in/web/areas-and-centres/research-centers/igpc/conference-on-gold-and-gold-markets-2018/agenda

Prof. Errol D'Souza, Director IIMA addressing the dignitaries and delegates at the conference

Prof. Arvind Sahay, Head IGPC addressing researchers and delegates

L to R: Mr Somasundaram PR, MD India WGC, Prof. Errol D'Souza, Director IIMA and Prof. Arvind Sahay, Head IGPC interacting on the margins of the conference

Dignitaries at the dais: L to R-Prof. Sahay-Head IGPC, Prof. Errol-Director IIMA, Mr. John Reade-Chief Market Strategist and Mr Somasundaram PR-MD (India) WGC

Mr John Reade, Chief Market Strategist, WGC delivering key note address on Global Gold scenario

Prof. Arvind Sahay, Head IGPC felicitating Mr. John Reade, Chief Market Strategist, WGC

L to R: Prof. Arvind Sahay-Head IGPC, Prof. Sanket Mohapatra and Prof. Joshy Jacob interacting with the media

Prof. Joshy Jacob chairing a technical session and presenting a paper Impact of CTT on Gold Derivatives Markets: Analysis based on Ultra-High Frequency Order Flow and Trade Data at the conference

Prof. Sanket Mohapatra, IIMA chairing a technical session and presenting a paper on ‘Gold in Central Bank Reserves: Role of Global Risk and Liquidity’ at the conference

Prof. Anindya Chakrabarti, IIMA presenting a paper on ‘Distribution of Durable Assets Across Households and Generations: A Mathematical Model’ at the conference

Prof. Dirk Baur, University of Western Australia presenting a paper on Gold and Geopolitical risk at the conference

Panel on Gold Policy moderated by Mr. Sudheesh Nambiath, Lead Analyst- Precious Metals Demand, GFMS South Asia & UAE. L to R at the head table: Mr. Mrugank Paranjpe, MD, MCX of India Ltd; Prof. Gourav Vallabh, XLRI; Prof. Arvind Sahay, Head IGPC; Mr. Dipesh Shah, Head IFSC GIFT City; Mr Raghav Singhal, ICICI Bank; Mr. PR Somasundaram, MD (India) WGC; Mr. Rajesh Khosla, Chairman Emeritus, MMTC Pamp.

L to R: Mr. Mrugank Paranjpe, MD MCX of India Ltd, Prof. Gourav Vallabh, XLRI and Prof. Arvind Sahay, Head IGPC in the panel discussion on gold policy

Mr Somasundaram PR, MD (India) WGC sharing his views on gold policy. Mr Raghav Singhal, ICICI bank was also on the panel

Prof. Arvind Sahay, Head IGPC interacting with the media

Delegates at the registration desk of the conference venue at KLMDC, Heritage Campus, IIMA

Ms. Priya Narayanan, FPM Student presenting a paper Gold Monetization in India as a Transformative Policy: A Mixed Method Analysis at the conference

Mr Rajesh Khosla, Chairman Emeritus MMTC PAMP sharing his views on gold policy in the panel discussion

L to R: Mr. Samir Hosangady, MD, Brink's India Ltd, Mr. Sudheesh Nambiath, Lead Analyst GFMS and Prof. Sanket Mohapatra, IGPC member interacting on the margins of the conference.

Prof. Joshy Jacob and Prof. Sanket Mohapatra members IGPC and faculty co-ordinators of the conference

Prof. Shubhasis Dey from IIM Kozikode presenting a paper on ‘Sources of Uncertainty and the Indian Economy’ at the conference

Mr. Saket Hishikar, SBI presenting a paper titled -A Curious Contract – Exploring the Nuances of Gold Backed Pension Products at the conference

L to R: Mr Samir Patil, Head Commodities BSE, Mr Haresh Acharya, Parker Bullion and Secretary Bullion Federation and Mr Kansara, Director Gujarat Gold Refinery as delegates at the conference

Researchers and delegates at the conference on Gold and Gold Markets

Researchers and delegates from various institutions at the conference

Ms Ruchi Agarwal, Manager IGPC as emcee at the conference

IIMA logistics team at the conference. L to R: IGPC Staff: Ms. Richa Srivastava, Research Associate IGPC, Ms. Tara Tiwari, Academic Associate and Ms Manasi Deo, Executive Communications and Ms. Ruchi Agarwal, Manager IGPC

3.2 IGPC's Active participation at Gold Industry Events

1. Meeting by IBJA on the proposed "Precious Metals Code"and how it contributes to and detracts from setting up a robust, transparent, efficient gold ecosystem in India from a policy and implementation viewpoint

Venue: Hotel Star Sahara, Near Airport, Mumbai

Date: 27 April 2017

Participants at the meeting from Industry:

1. Mr. Mukesh Mehta, President IBJA
2. Mr. Surendra Mehta, Secretary IBJA
3. Mr. Rajesh Khosla, Director, MMTC Pamp
4. Mr. P.R. Somasundaram, MD India WGC
5. Mr. Shekhar Bhandari, SVP, Kotak Commodities
6. Mr. Sanjeev Agarwal, CEO, Gitanjali Group
7. Mr. Sameer Patil, Senior GM Commodities, BSE India
8. Mr. Shivanshu Mehta, Vice President, MCX India
9. Mr. P. Kothari, MD, RSBL
10. Ms. Ruchi Agarwal, Manager IGPC, IIMA

A meeting to discuss the following agenda items was called by IBJA (India Bullion & Jewellery Association) on 27 April 2017 at Mumbai to discuss the following agenda items summarised below:

Agenda Item 1: The Precious Metals Code, LBMA and proposition to design IBJA's own Precious Code by a committee constituted at the meeting

Global principles of good practice in the Precious Metals market is intended to provide a common set of guidance to the market to promote integrity of the wholesale precious market. It is intended to promote a robust, fair, effective and transparent market in which diverse stakeholders supported by resilient infrastructure are able to transact confidently at competitive prices that conform to acceptable standards. The code has a proportional approach and is developed around the four principles of Ethics, Governance and Risk Management Compliance, Information sharing and Business conduct pre and post trade and more. The code would apply to extraction miners, refiners, transport agencies, financers, bullion traders, fund managers, banks, jewellery manufacturer, fabricators, benchmarking companies and others in the value chain.

Agenda Item 2: The Good Delivery Rules for Gold and Silver Bars to be defined by IBJA on the lines of LBMA but tweaked suitably to India's Gold Industry

Members discussed the proposed framework for IBJA's good delivery bars. In the present regime only LBMA standard bars are delivered at MCX. A list of acceptable refiners of gold and silver bars shall be developed and maintained by IBJA in order to facilitate the distribution and acceptability on technical grounds of standard bars produced by those refiners

(a) who meet the criteria for inclusion in the list and

(b) whose bars have passed the testing procedures laid down by ABC

Standard bars are of one kilo for gold and approximately 31 kilos for silver. Bars will be listed at the discretion of the Good Delivery Management Committee of IBJA which will reserve the right to make any investigations that it deems appropriate into any applicant for listing. An entry on the list relates to one refinery at one specific location. Separate applications will be required if an applicant wishes to register bars produced in refineries situated at different locations. Criteria, Procedure of application, Technical Assessment Procedure, Testing applicants capability, Submission and Listing sample bars, Charges & Maintenance fee, Delivery, Packing, Approved weights, Proactive monitoring, Specimen technical drawings, Vaults, Security and Logistics companies, responsible sourcing of gold and the like would be delineated in the draft code. A steering committee for this agenda item was also constituted at the meeting.

Agenda Item 3: Integrating India with the Global Trade in Gold-setting up Indian Spot Exchange

Following the merger of the Forward Markets Commission into SEBI, the India Bullion Jewellers Association (IBJA) and the BSE have agreed to launch a program to create an Indian Spot Gold Exchange. One thing that almost everyone agreed on is that a spot exchange will help promote reliable price discovery and transparency. So what development work would a new exchange have to do in order to integrate India into the global market?

The initiative must start at the top of the chain of authority it was felt. The Department of Economic Affairs has encouraged efforts to form an exchange. That makes an excellent start. The role of SEBI and now the BSE gives a regulatory credence from the outset. Banks and other members coming on board will create a tail wind to help overcome the next hurdles. Doing away with the CTT, Futures and Spot trading, Proposed Spot Exchange at GIFT city's FTZ by BSE with INX and industry and the like were highlights.

Deliberations were made about setting up a steering committee to draft the code of ethics which would have representation from a Bullion Bank, Jeweller, Refinery, IBJA, WGC and IGPC. The governance framework could be developed taking views by co-opting Quality Council of India (QCI) which operates under the Ministry of Commerce and is a neutral body with no conflict of interest either financial or otherwise. The objective of developing and enforcing an Indian Precious Code was to not only import gold for consumption but to accentuate exports of gold, reducing smuggling and grey market dealings. The timeline for drafting the code was earmarked as three months- targeting the first draft by 31 July 2017.

The second agenda item to develop Indian good delivery bars was discussed with the view to have them accepted at Bullion Banks unlike the current norm of RBI which permits only LBMA certified bullion to be imported by Banks. Responsible gold sourcing, wider acceptance by stakeholders and reducing dependence on an international agency were opined. The fragmented nature of industry with various lobbies/ associations of jewellers, bullion dealers, refiners was highlighted and need for a unified approach was voiced. The idea of establishing a single institution namely an 'All India Gold Association or Federation' pooling in members from GJF (Gems & Jewellery Federation), GJEPC (Gems & Jewellery Export Promotion Council), Bullion Federation, Foretell Business Solutions and Refiners Association was to be explored. Members suggested a feasibility study for setting up a unified entity for India's Gold industry by IGPC or a global consulting firm namely Oliver Wyman/ Mc Kinsey or any other.

The agenda on setting up a spot gold exchange was also discussed. It was unanimously agreed that unification of tax using GST is the key to an all India Spot benchmark. Exchanges globally offer the ability to hedge price risk and mitigate credit risk in an open and transparent way. All of them are regulated but they also have something else in common. *VAT does not apply to forward or futures trades unless the physical metal is sold to the end user*. A new regulated spot exchange should deal with ***quality and conformity***. A quality assurance system *similar to* London Good Delivery that meets Responsible Gold Guidance would stop smuggling if rules dictated that only LBMA Good Delivery bars or an equivalent standard could be used. The BIS can handle the assaying standards with external advice from others that already provide lab training and certification. Liquidity, Trading hours and benchmark policy should begin with IOSCO (*International Commission of Securities Organisations*) principles. China's SGE (Shanghai Gold Exchange) in operation over a year acting as a quasi-regulator was mentioned. The growth in volumes of gold traded, flexibility in trading hours, rising dominance of RMB internationally, structure of SGE and so on could be emulated.

How the proposition contributes to and detracts from setting up a robust, transparent, efficient gold ecosystem from a policy and implementation perspective:

Mapping the existing gold industry value chain in India exposes its fragmented and unorganised nature. India has only one LBMA compliant refinery, four BIS accredited refineries, about twenty small refineries in Uttarakhand operating under the sunset clause; around fifty bullion dealers, few bullion banks/ star trading houses and nominated agencies importing gold, few large branded jewellery manufacturers and retailers and several small traders in mofussil regions, few logistics and security companies, financers and metal exchanges. Regulators are mainly MoF with DFS, DGFT, DoR, DEA, RBI, SEBI, SPMCIL; Ministry of Commerce, Ministry of Consumer Affairs and neutral entities like PIF and IGPC slowly but surely gaining firm footing as part of core gold policy groups formed by policymakers.

Key Industry players are advocating establishing *Indian Code of Ethics for Precious Metals* and *Good Delivery Rules for Gold Bars* to make the industry more compliant by broadening the base, breaking barriers to entry in market and encouraging as many stakeholders in the value-chain to adopt good practices who either by virtue of scale of operations, quality, lack of resources, technical know-how or integrity issues are not adhering to international code of conduct or norms of business.

Optimistically, this may have a spiralling impact on Indian gold industry's overall organic growth, quantum of jewellery exports, greater product acceptance at international markets, in curtailing parallel grey market operations and so on. As most refineries are quality compliant but do not have the requisite scale or volume of operations, they are unable to procure LBMA certification with its stringent OECD norms on responsible sourcing of gold, volume, quality, methodology, audit etc. For instance only those refineries who have been in operations for minimum 3 years, having a certain net worth turnover, producing minimum 10 tonnes of gold per year, following the Aqua Regia methodology of refining are eligible as per LBMA criteria for certification application process. The smaller BIS accredited refineries debate that as they follow GMP (Good Manufacturing Practices) parameters laid down by NABL (National Accreditation Board Limited) and do not compromise in quality or methodology of producing bars so why should they be disadvantaged due to lack of LBMA certificate in doing business internationally? Regulation for import of dore has recently been changed to allow only BIS accredited refineries to import dore.

While one may give in to some of these reasons for designing an independent blueprint for Indian Gold Industry's own Precious Metals Code and Good Delivery Bars taking a cue from LBMA, it will be a long haul detraction from establishing a transparent, robust, efficient gold ecosystem from a policy implementation perspective. An Indian Precious Code could be contrarian to a globally accepted LBMA standards in existence for years as defining the code at granular level, its inclusiveness, gestation, administration, disruption to existing trade, its enforcement, audits, regulation etc. may need to be well thought through by the committees proposing and drafting a parallel Indian code with the intent to gradually wean the industry from the existing LBMA standards. Further, impressing upon policymakers to allow import and trade of non LBMA bars (hitherto) may lead to an escalation illegal quality and polarisation due to circumvention from established global accreditation norms. Therefore the industry stakeholders should introspect before developing and recommending a novel *Indian Precious Metals Code and Good Delivery Bars* considering how it may detract from creating a robust, efficient, transparent gold ecosystem in India from a policy and implementation viewpoint.

The advantages and challenges in laying down an Indian Precious Metals Code (PMC) to be adopted by various stakeholders articulating its short and long term implications, challenges and due diligence for implementation across the value chain needs to be charted out from a policy and its implementation perspective without causing major disruptions to the existing ecosystem. An empirical research based paper on the subject may perhaps be the maiden step called for before any transformative policy approach is initiated by the industry.

2. Bullion Federation Global Convention (BFGC), 4-6 August 2017, Gurgaon

IGPC committed as 'Research Partner' at the second Bullion Convention organised by the Bullion Federation from 4-6 August, 2017 at New Delhi. The convention had participation by more than 350 delegates from across the value chain from India and abroad. A snapshot of BFGC 2017 Programme is appended to the email for reference. The Federation invited Prof. Arvind Sahay, Head IGPC as a speaker on a panel. In a positive development from ideation at an IGPC GC meeting by WGC on conducting a workshop on 'Due Diligence Guidance for Responsible Chains of Minerals', IGPC followed through and collaborated with OECD (Organisation for Economic Partnership and Development) and DMCC (Dubai Multi Commodities Centre) to deliver this workshop on the margins of the convention. Pictures of the panel discussions and OECD workshop have been shared on twitter handle and saved on IGPC's repository.


INDIA
GOLD POLICY
CENTRE
RESEARCH
PARTNER
AT
BULLION
FEDERATION
GOLD CONVENTION
(BFGC) 2017
CENTRE OF EXCELLENCE IN GOLD RESEARCH
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Twitter: https://twitter.com/@IndiaGoldPolicy
India Gold Policy Centre is funded by the World Gold Council

IGPC was represented by the following delegates at the conference:

1. Professor Arvind Sahay, Head IGPC (GC Member)

2. Mr. P.R. Somasundaram, MD WGC (GC Member IGPC)

3. Ms. Ruchi Agarwal, Manager IGPC

IGPC's primary engagements at the global convention are summarised below:

I. Professor Sahay was a speaker on the panel 'Bridging Borders' on 5 August 2017. The panel discussion's focus was to explore ways through which trade volume of India can be increased with various countries in Asia, Middle East, Russia, Australia and mining countries. The panel was moderated by Cameron Alexander, Director Research, GFMS, Thomson Reuters. Other panellists were Mr. Harish Pawani, Bin Sabt; Mr. Chirag Thakker, Amrapali Group; Mr. Amar Singh, JP Morgan; Mr. John Levin, ANZ and Mr. Ajay Mathur, DMCC.

Prof. Arvind Sahay, Head IGPC addressing delegates at the Panel on Bridging Borders at BFGC 2017

Prof. Sahay, Head IGPC with other panellists at the dais

Prof. Arvind Sahay, Head IGPC being felicitated by Mr. James Jose of Chemmanur Refinery

Free Trade Agreements and Comprehensive Economic Partnership of India with nations get tilted towards country with a better trade balance number, and one of the best examples is South Korea. As a result all bullion suppliers will be facing the pitfall of such treaties, it was opined. This was avoidable through dialogue and deliberations for preventive steps in policies that impact multilateral trade. India will be signing many such treaties in the years ahead and it will create disparity with a Basic Customs Duty (BCD) at 10% in India. Stakeholders discussed plausible ways to work on such treaties with respect to HS Codes related to 71 series. (Prof. Sahay suggested doing away with the current 10% BCD and have only a fair GST levied).

- Deliberation on Gold being a high value commodity to have a significant impact on trade share with each nation. There was a discussion on a strategy of importing gold directly from Japanese, Indonesian and South Korean refiners through the bullion banks and modus operandi to be pinned.
- Increasing imports of Dubai Good Delivery bars was an issue as they are deliverable at exchange yet their share in India's trade is very less. The purity has never been in question and now these refiners follow OECD's DDG as well, so what stops the growth was a question tabled.
- Gujarat International Finance Tec-City is planned to become a centre for free flow of gold trade- that is unrestricted import and export. Its commercialization and way forward to facilitate and benefit industry through trading, vaulting, refining operations was deliberated.
- View of bullion banks on being supplier of doré – what parameters/compliance levels qualify and what doesn't was brought up.
- The gold market in India has been heavily regulated in the last few years with regular changes to import regulations and taxation that has severely hampered imports. An opinion poll on Import Tariff rate by July 1 2018 – 10, 8, 6, 4, 2% was done.
- Several international bullion banks were forced to look elsewhere in recent years as market regulations and weak demand made it extremely difficult to import bullion. A debate on whether the tide is turning in favour of India was done.
- A discussion on what can the Indian gold market and specifically the Indian Government take away from the Chinese experience of creating a central gold exchange such as the Shanghai Gold Exchange was done, specifically to compare best practices in China on regulation and control and whether India has an appetite for similar regulation.
- India is dealing with a significant change to their taxation system with a GST introduced on the 1st July. Its impact on the bullion trade in the second half of the year and on the market in coming years was deliberated.
- An opinion poll on official import of bullion in 2018 - 800 t, 650 t, 550 t, 450 t, 350 t was done.

II. Professor Sahay, Head IGPC and Mr. Tyler Gillard, Head of Sector Projects, RBC (Responsible Business Conduct Unit), Investment Division, Directorate of Financial and Enterprise Affairs, OECD, Paris conducted a workshop on Due Diligence Guidance for Responsible Supply Chains of Minerals on the margins of the convention on 5 August 2017. From ideation at an IGPC meeting to formal communique with OECD and follow ups for planning, was all done in a span of few days prior to the convention. It required co-ordination with the Bullion Federation for logistics and OECD for content planning and delivery of workshop. Few delegates attended the workshop as there were parallel panel sessions at the main convention.

Mr Haresh Acharya, Secretary Bullion Federation (left), Mr Tyler Gillard, Head Sector Projects RBC Unit OECD (centre) and Prof. Arvind Sahay, Head IGPC (right) at the OECD workshop on DDG (Due diligence Guidelines) for Responsible Sourcing of Minerals

Prof. Sahay, Head IGPC conducting the DDG for Responsible Sourcing of Gold workshop with OECD on the margins of Bullion Federation Global Convention at New Delhi


BULLION FEDERATION GLOBAL CONVENTION
BFGC-2017
Workshop on
OECD Due Diligence Guidelines
OECD & India Gold Policy Centre
OECD
INDIA
GOLD POLICY
CENTRE
Workshop
Date: 5th August 2017
Time: 930 am to 1200 pm
Venue: Studio 4, JW Marriott, Aerocity Delhi.
Organised by
Bullion Federation
www.bullionfederation.com

Major Risks from Conflict Affected and High Risk Areas such as Child Labor, Chemical hazards (Mercury and others), Illegal Mining, Terrorist Financing, Choke points in Supply Chains in West African countries of Congo, Burundi, Ghana, Burkina Faso and Latin America where artisanal and small scale mining is widely prevalent was mentioned. An estimated 3 billion $ worth of conflict gold comes to India which needs to be mitigated.

Risks in upstream and downstream mining with respect to legal, political, ethical and international environment were discussed. Responsible sourcing through checks and validation of source, audit trail, third party verification, site visits, software and tools for checks were touched upon. Examples of China and EU countries who have successfully adopted OECD DDG in mineral supply chains was quoted.

Head IGPC explained about emulating DMCC's Independent Oversight Committee (IOC) for adopting responsible guidelines in India. The uptake may be slow initially owing to cost, process and perhaps some loss of business initially but as the DDG get embedded as a policy in the dynamic gold industry, it will lead to ethical, efficient and transparent gold ecosystem.

III. There were several other panel discussions and presentations at the convention. Mr. P.R. Somasundaram, MD, WGC India and IGPC GC Member moderated a panel on 'India Bullion: Vision 2025'. Others on the panel were from Scotia Bank, Galaxy Mines, MMTC PAMP, MCX, HDFC Bank, MD Overseas and Gems & Jewellery Federation of India. A programme agenda of the convention is attached for reference.

Outcome: A positive development after IGPC's alliance at the OECD workshop, is the ongoing discussion on formation of a Working Group on embedding OECD's responsible guidelines in India's gold industry with participation from policy makers, industry and neutral think tanks such as IGPC. Workshops, Training, Advocacy and Policy recommendations for conflict free supply chains in India is the road ahead. IGPC embarked on being a key driver of this initiative.

Further details of the proceedings can be accessed at http://www.bullionfederation.com/Default.aspx

3. 14th India International Gold Convention, 11-13 August 2017, Goa

IGPC committed as Research Partner at IIGC 2017 Goa. This was the Centre's second consecutive participation as a sponsor at the global gold convention with a legacy of fourteen years in gold Industry. IIGC 2017 witnessed participation by 350 plus delegates from over 20 countries across the value chain.

As part of IGPC's Research Partner commitment, collaterals were disseminated to delegates at the event. An advert for IIGC's souvenir was designed and sent for publishing. IGPC's logo was prominently displayed on all digital and event promos of IIGC.

The delegates from IGPC@IIMA are listed below:

1. Professor Arvind Sahay, Head IGPC IIMA
2. Professor Sanket Mohapatra
3. Ruchi Agarwal, Manager IGPC

Key engagements by IGPC were as follows:

1. Prof. Sahay, Head IGPC addressed the delegates about IGPC's key constituencies with focus on research and policy work. Prof. Sanket Mohapatra made a presentation on **IGPC's Research Remit** on 12 August 2017. It summarised the research projects undertaken by IGPC from 2015 onwards including six completed and published studies/ working papers and four research studies that are work in progress. The presentation also covered methodology and findings of the studies done. The presentation was widely appreciated by delegates and organisers following which Foretell Business Solutions has initiated a dialogue for potential research alliance with IGPC.


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(IIGC) 2017
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Twitter: https://twitter.com/@IndiaGoldPolicy
India Gold Policy Centre is funded by the World Gold Council

Prof. Arvind Sahay, Head IGPC and Prof. Sanket Mohapatra at the dais during IIGC 2017

Prof. Arvind Sahay, Head IGPC addressing the delegates at IIGC 2017

Prof. Sanket Mohapatra, Member IGPC making a presentation on IGPC's research remit

Prof. Sanket Mohapatra being felicitated by Mr Bhargav Vaidya at IIGC 2017

2. Professor Arvind Sahay, Head IGPC and Ruchi Agarwal Manager IGPC contributed an article titled Embedding 'OECD Due Diligence Guidelines for Responsible Supply Chains of Minerals in India's Gold ecosystem'-Policy Perspective for the special issue of IIGC August 2017. The article can be accessed online at http://www.bullionbulletin.in/Home.aspx (PDF of the article will be recorded on IGPC website and repository).

3. Prof. Sahay spearheaded a meeting with delegation from DRC (Democratic Republic of Congo). The key agenda of the meeting was sourcing gold responsible way (OECD Due Diligence Guidelines) from Democratic Republic of Congo, Relevance of ICGLR Certification, potential investments in DRC's gold mining assets and challenges in gold ecosystem of DRC with respect to technology, equipment, mostly artisanal mining, deficiency of reliable geological data, export and trade policy impediments, need for training centres for skills/ learning etc.

   There are 900 mining sites producing an average of 60 tons gold per year as reported by Certification Centre. Mining licence issued to companies is mandated for renewal every ten years. The meeting facilitated future avenues for policy, research, training and increasing bilateral trade between India and DRC by mutual co-operation.

Prof. Arvind Sahay with Mr Anil Kansara, Ghana Gold refinery addressing delegation at the round table of DRC and Ghana

Delegates at the round table with delegations from DRC and Ghana. Prof. Sahay, Head IGPC steering the meeting.

Prof. Sahay raised a query about the average investment required for producing 10 or 20 tons of gold responsibly in DRC for which no data was available. There is a dual pricing system prevalent for artisanal miners and large miners. The biggest mining company operating in DRC by production capacity is Banro Corporation. Establishing a licenced gold purchase office requires license fee of 7500 $. The meeting was attended by four members from DRC, few from industry and regulators and IGPC Head and Manager. (Document attached).

4. Prof. Sahay and Manager attended a meeting with delegation from Ghana. The meeting was led by Dy. Minister for Land and Natural Resource, Minerals Commission and Gujarat Gold Coast Refinery. There were other industry delegates at the meeting. The agenda of the meeting was -Recent regulatory developments in Ghana, India's Dore import regulations and trade challenges (certificate of origin, purity declaration, payment issues through banks etc.) and ways to work together with India's gold industry for facilitating bilateral trade.

   (Ghana is the 2nd largest producer of gold in Sub-Saharan Africa - holding 70% of all the gold in West Africa - and the 7th largest gold producer in the world). It has an estimated $200 billion of gold in Ashanti Belt or $1.5 million per 8 acres. Gold production is on the rise with more investments expected to be poured into the country with at least USD15 billion invested in the mining sector since 1983. As of December 2014, 265 local and foreign companies held prospecting licenses with around 70% controlled by local Ghanaian. Many companies holding exploration licences are focusing on gold exploration currently with thirteen (13) mines in active production employs over 25,000 people for large scale mining and estimated over 1 million people for small scale mining. Gold mining in Ghana is booming; juniors and major miners have operations in the country. The meeting was aimed at simplifying policy and regulation and harnessing potential of escalating gold exports from Ghana to India.

5. The **proceedings of IIGC 2017** had nine workshops/ panel discussions with over fifty speakers and several presentations summarised below:

   The convention started with a workshop on GST focusing on issues related to technical clarity for imports by banks wherein they deducted 1% VAT on sale of consignment in pre-GST days and will now be paying 3% GST to govt. Volatility in gold prices will impact their working capital and has been a matter of concern. Aspects of refund of GST to refineries in FTZ vis-à-vis those in DTA and so on were highlighted.

   There was a presentation by Responsible Jewellery Council elucidating certification and norms for responsible supply chain from Mines to Retail. RJC has over 1000 members globally and 134 members in India of which 76 are certified. There are over 300 certified facilities for jewellery manufacturing and little over 44000 employees covered by certification.

   A panel discussion on -Working together towards making India the leaders in Bullion and Jewellery business moderated by Mr. P.R. Somasundaram followed. It had participation from IBJA, LBMA, GJF, MMTC PAMP, GJEPC and ASSOCHAM. The session was an ice-breaker with Shri Manoj Dwivedi, Joint Secretary Ministry of Commerce & Industry, GoI who was present as a dignitary. Mutual commitment to present proposals on regulation and policy every fortnight was agreed. While committing to have an open door policy with stakeholders, Shri Dwivedi made a caveat on moderate regulation for the benefit of the industry. He opined that too much regulation has not helped any industry.

   Mr. S.K. Mohanty, E.D. SEBI made a presentation on power of regulation of Commodity Derivatives Markets and Exchanges, Recognition to the Electronic National Commodity Derivatives Exchanges in 2003; Establishment of Forward Markets Commission (FMC) in 1953, Byelaws for operations, Strengthening Risk Management System; Strengthening derivative infrastructure, development in commodity derivatives, recent permission to launch 'Options in Commodity derivative markets'; Comparative analysis of Gold derivatives at MCX and COMEX w.r.t trading hours, delivery volume, trading unit, contract duration, stock position eligible for delivery and so on.

   The last panel was on 'Challenges in sourcing Dore and scrap'. The panellists were from MMTC PAMP, Gujarat Gold Centre, LBMA, Thomson Reuters, MoM-DRC and E and Y Global. Out of about 2233 t of global scrap in 2016, India reported about 80 t only. The average Dore imports have been declining and clocked approximately 140 t in 2016 (about 25% of total imports). Lack of transparency, Due Diligence on India Operations, Long term contracts, Dynamic Market, Challenges faced while importing from ASM (Artisanal Mines) which constitute 30% of global Dore production, Indian customs laws and dilemma of licensed aggregators from Mines in West Africa was discussed. The challenges in importing Gold Dore highlighted were as follows:

- Dore must be shipped from the country in which it has been produced.
- The Dore must be of minimum 5 Kg by mass.
- The Assayed content on Gold should not exceed 95%
- Each Dore consignment must be accompanied by the packing list from the mining company in which it has been produced.
- Each Dore must be accompanied by an assay certificate either from the mining company or from the assay laboratory attached to it.

The solution partly lies with the Gold Dore importers, adhering to ethical business practice on sustainable base. Handholding by refiners with the regulators of such Gold producing countries and ASM will help Indian refiners source Dore responsibly as well as help those Government improve productivity by an inclusive, transparent and collaborative approach.

In 2011, OECD - Due Diligence Guidance introduced – becomes de facto international standard to foster global responsible supply chains of minerals and ensuring combat Human Rights Abuse, avoid Conflict Contribution and to comply with AML & CFT.

LBMA introduced Responsible Gold Guidance and mandated that refiners producing LBMA good delivery bars must comply with ***LBMA Responsible Gold Guidance*** by following a five-step framework. Independent Third party audit to provide transparency and consistency for Responsible Gold Programme. GDL includes 71 LBMA Gold Refiners located in 31 countries with MMTC-PAMP being only Indian Refinery from India.

IGPC's participation at IIGC 2017 has been a marketing and brand building effort for greater visibility and for reinforcing its position as as a neutral 'Research and Policy Centre' in the gold industry.

Further details can be accessed at http://www.goldconvention.in/index.html

4. IRMS (Indian Responsible Mineral Sourcing) Meeting, 30 Nov 2017, New Delhi

L: Ms. Ruchi Agarwal, Manager IGPC with dignitaries. First Row: Ms. Shakila, ED, LBMA, Mr. Tyler Gillard, Head- Sector Projects, RBC Unit OECD, Shri Manoj Dwivedi, Secretary Ministry of Commerce, Govt of India and other stakeholders from the industry

First Meeting of the Indian Responsible Minerals Sourcing (IRMS) working committee on Responsible Sourcing of Gold on 30th November 2017 at 7 PM at The Leela Hotel, New Delhi.

1. All the participants were welcomed by a Senior Representative of the Bullion Federation to the first meeting of the IRMS committee. He expressed gratitude to all for participating in an important policy discussion. He informed about the objective of the IRMS meeting and requested Mr. Tyler Gillard, Head of Sector Projects, Responsible Business Conduct Unit, Investment Division, OECD to explain the concept and goals of the committee. The list of attendees is annexed to this document.

2. Objective of the IRMS meeting: The global market has adopted the guidance of OECD for responsible gold and as India is one the world's largest consumers of gold, formation of the IRMS committee will play a vital role for propagating Responsible Gold Guidance to stakeholders in the industry.

The main objective of the meeting was to deliberate and seek recommendations from stakeholders of the industry on Responsible Sourcing of Gold. OECD would facilitate and be the pivotal observer for IRMS in principle and ensure implementation and adoption of OECD guidelines in India.

3. Observations: IRMS will be supported by OECD to transform Indian Responsible gold Guidance into a global standard recognized internationally. It was observed that as OECD guidelines are broad and flexible it was imperative to consult multiple stakeholders for drafting guidelines befitting the Indian gold industry. Several gold industry interlocutors have suggested different versions of guidelines which are likely to be ineffective. OECD suggested that the IRMS initiative will work with other trade bodies like IBJA to come up with a single responsible sourcing guidelines. Hence IRMS Working Committee includes trade bodies and institutions which will constitute core group to look into responsible sourcing. LBMA also shared their experience of challenges and their mitigation while implementing the guidance.

4. Role of OECD: OECD is not only about regulations but self-regulated compliance system to verify the source of Gold. To elaborate the guidelines audit the origin of gold ensuring that it comes from a right source free from terrorist funding, child labour and socially responsible activities. This Due Diligence is not focusing on financial issues but purely a code of conduct and its compliance. The guidelines mandate that the upstream supply chain should be transparent about their source of mined gold.

If mined gold is sourced from conflict areas then sourcing should not annul but a track record of risks should be maintained propagating the specifics of the source in the supply chain.

For Example - ***Congo is considered to be high risk area but still there are organizations like civil society that audit the process of dore supply from mines in Congo.***

5. Terms of Reference (ToR): The Terms of Reference will be used as a guidance for the IRMS Core Committee and as a benchmark in training, implementing and auditing. The ToR would be effective from the first meeting of the working committee i.e, on 30th November 2017 following its agreement by members and the committee will provide strategic direction and leadership to ensure responsible sourcing of minerals sets out to achieve development of industry with necessary transparency and integrity.

The secretariat of the committee would be finalized after discussion with the members and nominations for additional members received.

6. The existing industry dynamics in India post implementation of GST, amplifies that the in the entire supply chain viz. mining of gold to retail, all the suppliers involved in the transactions can be tracked easily. It was emphatically agreed that the vision of implementing IRMS in India by a self-regulatory mode vis-à-vis a legal regulation would benefit the stakeholders. Once the guidelines are in place, they can be transformed into regulation making it easier to implement. In India, majority of the gold is used for domestic purpose and India has colossal grandfathered stocks unlike other nations. Members opined that in India if any regulation is discussed in contemporary scenario, the industry may perceive or confuse it with other regulations of excise duty, taxes and tariffs levied and hamper the real purpose of OECD DDG.

7. OECD framework underpinned the importance of all constituencies of the supply chain (viz. bankers, bullion dealers, jewelers, refiners, importers etc.) to be a part of the IRMS initiative.

8. In India, many small and mid-size jewelers are not aware of the code of conduct of the gold industry, hence creating awareness among them is an essential pre-requisite. Over a period of time, the government may consider providing incentives to make OECD implementation necessary for importers and other stakeholders in the supply chain propagation such that the process is best managed by the industry enabling supervision of audits effectively. The government would play a major role in steering the direction of OECD Guidelines in the long run.

9. There was a consensus that implementation of IRMS would be conducive to making Gold Monetization Scheme (GMS) a success as the guidance will make it easy for every Indian Bank to take gold deposit and deliver to Commex which in turn will help to mobilize the humongous gold holdings by individuals.

10. The risks delineated under OCED DDG are terrorist financing, money laundering, child labor, forced labor, bribery, tax evasion etc. and the traceability of mines is meant to identify these risks. The biggest challenge is right procurement of gold dore from ethical suppliers which involve logistics, proper banking channel or procurement by legal transactions. There are many countries from whom the Indian Refiners avoid procurement of gold if they are involved any of the risks mentioned above.

Indian refiners are procuring dore gold from Peru, Rwanda, Columbia, Ghana, Congo and others after verifying the suppliers, visiting the mines where no child labor or money laundering is involved and checking all major concerns. Refiners purchase dore through banking channels after receiving certificate from the Government of the particular country exporting dore. Therefore it is in the interest of the Indian refiners to adopt OECD DDG to strengthen the supply chain.

11. Upstream and Downstream Companies: The upstream companies constitute refiners who source mined gold and transport it to downstream entities comprising of bullion traders, manufacturers, jewelers and consumers the last stakeholder group would be unaware of the origin of mined gold. *For instance, Jewelers or bullion traders are responsible for checking the origin and supply chain of the bars purchased by them.*

12. Auditing: As regards audit process, the Committee focused on identifying refiners in the chain who can emulate the audit process adopted by like DMCC, LBMA, conflict treaty smelter program etc.

13. Formulation of the IRMS could have 3 levels of audit viz. self-audit by refinery, external audit by hired professional auditors and third level by IOC (Independent Oversight Committee) of the IRMS committee being formulated. This practice would be akin to what is followed by DMCC. Responsible Business Conduct ensures integrity of the audit system.

14. The major concern for OECD is that dore gold does not get displaced in the form of scrap metal in the supply chain. When assessing scrap materials, it is necessary to check periods of value addition and

recycling and check if there is any risk related to money laundering of Dore through scrap material supply chain. *(In case of jewelry – this is verified but if it in case of bullion bar melted from recycled scrap then there should be a detailed check to see that mined material is not laundered through the scrap supply chain)*.

15. **Outcome of the meeting and next steps**: The draft Terms of Reference for the IRMS were expected to be adopted by participants, subject to the integration of the modifications raised during the meeting. The timeline suggested for the Indian Due Diligence Guidance to be launched and adopted is listed below.

Timelines:

- January 2018: Drafting of Indian Due Diligence Guidance taking the IBJA's Initial Version as a base and with the recommendations of all the stakeholders
- February 2018: Publish and seek feedback from stakeholders across the value chain
- March 2018: Finalization of IRMS draft
- April 2018: Presentation of Indian due Diligence Guidance for Responsible Gold Supply Chains in the OECD Forum at Paris

Attendees:

1. Shri. Manoj Dwivedi , (Joint Secretary - Ministry of Commerce), GoI
2. Mr. Tyler Gillard, Head of Sector Projects, Responsible Business Conduct Unit, Investment Division, OECD.
3. Mr. Louis Maréchal, Policy Advisor, Extractives
4. Ms. Sakhila Mirza, ED, LBMA
5. Mr. Ajay Garg, Chairman, Bullion Federation of India
6. Mr. Haresh Acharya, Secretary- Bullion Federation of India.
7. Mr. Rahul Gupta (Chartered Accountant), Chairman of Export promotion Council for EOU's & SEZ, Founder member & Director at Bullion Federation of India
8. Mr. Sudheesh Nambiath- Lead Analyst - Precious Metals Demand, GFMS Supply Chain & Commodities Research, Thomson Reuters
9. Mr. Anil Shankwal (GJEPC)
10. Mr. Suresh Dhruv (GJF)
11. Mr. Ajay Mathur (DMCC)
12. Ms. Ruchi Agarwal (IGPC IIMA)
13. Mr. Rituraj Mukhia (IBM)
14. Mr. James Jose, MD, Chemmanur Gold Refinery Limited, Secretary- Association of Gold Refineries and Mints, Founder Member- Bullion Federation of India.
15. Mr. Ramakrishnan Padmanabhan (IBBA)
16. Mr. Ashish Verma
17. Mr. Sheel Singh, OMGL
18. Mr. Neville Patel, HDFC Bank
19. Mr. Ramakrishnan Padhmanaban, IBBA
20. Mr. Kumar Parmani, IBBA
21. Mr. Ketan Dhruv, Banglore Refinery
22. Mr. Nirakar Chand, Diamond India Limited
23. Mr. Chand Venkatesh, Capsgold Pvt Ltd
24. Mr. Arindam Goswami, Pahle India Foundation
25. Ms. Vijayata Singh, PP Jewellers and Diamonds
26. Mr. Jacob Alexander, Bullion Federation

27. Ms. Mohnish Pandey, Bullion Federation

5. India Gold and Jewellery Summit (IGJS), 1-2 Dec 2017, New Delhi

The first-ever India Gold and Jewellery Summit (IGJS) organized by the Gem and Jewellery promotion council (GJEPC) took place in New Delhi on 1–2 December. Held at Vigyan Bhawan, the central government's premier conference venue, the event was attended by a host of dignitaries and inaugurated by Suresh Prabhu, Union minister for commerce and industry. The IGJS is intended to take shape as a common platform to address all gold policy related issues and create a vibrant gold industry for all stakeholders of the gems and jewellery industry. Even "With massive gold reserves [in private hands], India's appetite for gold is significant," said Prabhu in his address to the attendees. He affirmed that "The industry and the government will work as partners" to revive the glory of India's gold sector.

Prof. Arvind Sahay, Head IGPC partaking in the panel discussion on Spot Gold exchange for India

Praveenshankar Pandya, Chairman, Gem & Jewellery Export Promotion Council (GJEPC), was the first industry leader to speak. His speech was an introductory overview of the issues to be discussed at the summit.He was followed by P R Somasundaram, managing director, World Gold Council, India. "Figures state that gold is the second most favourite asset class after fixed deposits," he said in the course of his presentation. "Needless to say, the need of the hour is a comprehensive gold policy." The industry, he explained, has reached a stage where it is ready to consider a collective approach to contentious issues.This approach is only possible when the entire pipeline is in order, said Rita Teaotia, commerce secretary, Government of India. "Impeccable credibility and transparency are a must along the value chain."

India is jeweller to the world. So the first session of IGJS 2017 was titled "Vision 2022: Indian Jewellery Exports at $25 billion". It clearly referenced the central government's avowed Vision 2022 mission statement. But vision falls flat without finance. And standing in the way of financial institutions is a set of issues that, as P N Prasad, chief general manager, State Bank of India, explained, includes the lack of standards and price transparency in the industry. These must be tackled first, because, as Prasad said, "They affect the integrity of the industry and are a huge deterrent to growth."

The second session of IGJS focused on "Value addition through jewellery manufacturing"; in other words, how to "up the ante". "Design plays a major role," said K Srinivasan, convenor, Joint Parliamentary Committee, GJEPC, in his address. "It adds value to your brand and helps in long-term sustainability. Millennials don't like [ordinary, conventional] designs, thanks to their exposure and expectations." The gem and jewellery industry today manufactures for and caters to millennials who are putting in a lot of thought into jewellery buying. Retailer and manufactures need to invest in product development to drive design value for the consumers.

Consumers today have more than an eclectic design vision. They also have ample information at their fingertips. Internet-savvy shoppers ask retailers relevant questions about quality, gold rates, pricing, making charges, and so on. “We need to be prepared with replies to every question they ask. If they want break-ups in the invoice, we need to have that ready as well,” said Suvankar Sen, executive director, Senco Gold and Diamonds. Be it standout designs or transparent breakups, consumers are looking for value addition at every step of the way. His observations were echoed by Sandeep Kulhalli, senior vice president, retail and marketing, Tanishq. Even with so established a brand, “Consumers quiz us about break-ups.” In the case of gold jewellery purchases, Kulhalli said, this sceptical approach is becoming the norm, whether the individual buyer is urban or rural. The day when India sells gold jewellery by MRP (maximum retail price), he said, is not here yet. Therefore, he called for a change in the kinds of words and phrases that retailers use in their interactions with consumers. For instance, Kulhalli said, it is vital to lay stress on terms like “making charge” and avoid others like “wastage”. Session moderator Hundekari stepped in to recommend the use of terms like “design charge” in the break-up — because after all, design is the biggest value add to the metal and is a significant input! Day two of the summit began with a session titled “Gold policy focus: a view point from policymakers”. The GJEPC’s Pandya presented a list of suggestions from the industry to help the government achieve its Vision 2022. “We aim to make India the topmost exporter at $25 billion by 2022,” he said. “This isn’t possible without transparent and well-defined gold policies, and sound infrastructure like one-stop jewellery parks where there is ease of functioning, including getting all 22 licences in one shot.”

The foremost deterrent to Vision 2022 is the lack of a structured plan. “The ministries and financial institutions are yet to come together for a long term policy. A structured plan will send out the right message to all transparent players,” he explained, adding, “The grey market must know that gold isn’t available below an officially-set price.” For an industry that employs a mammoth three million workforce, Pandya opined that FTAs need to be closely monitored. “Additionally, we urge the government to take a look at the refund mechanism to aid ease of doing business, easing of sourcing metal, and ease of exporting,” he said. Referring to the vast Indian diaspora living abroad and making hefty gold purchases during their India visits, Pandya felt that when they made payments through credit card or foreign exchange, it should be booked as exports and retailer should immediately receive the benefit of duty. “Previously, the banks viewed the gems and jewellery industry as a thrust sector but private banks today are charging very high interest rates. Neither do we have credit ratings nor have we asked for subsidies despite being market leaders in segments like diamonds and coloured gemstones, to name a few,” he lamented.

One of the country’s top bureaucrats, Dr Hasmukh Adhia, Finance Secretary, fielded a range of questions. On the proposition to set up a single body for the industry for instance, he said that “The demand for creating a Gold Board is a welcome suggestion, and I look forward to the Ministry of Commerce and Industry initiating this discussion.”

Prof. Arvind Sahay, Head IGPC and Mr. Somasundaram PR, MD (India) WGC with other panel members on the Spot Gold Exchange for India

The second session of the day dealt with the much-debated topic of a “Spot gold exchange for India”. Professor Arvind Sahay, Head, India Gold Policy Centre (IGPC), IIM-Ahmedabad, referred to a paper by the IGPC from two years back about the importance of a reference price for gold. “Look at the Shanghai Gold Exchange for instance, with a massive scale of nearly 8000 institutional representations and 7000 individuals. Only a body of such stature can encourage transparency and make the entire industry look up to it,” he stated. Currently, India has different gold prices across different locations and the real challenge is in formulating a regulatory body. When asked about the relevance of a self-regulated exchange, Dr Sahay said, “India hasn’t yet matured to that – both the industry as well as the government. We need to find another way to push all the relevant arms of the government to get regulations in place.”

Rahul Gupta, director, Bullion Federation of India, said the need of the hour was a well-designed contract for export-purpose gold. “The GJEPC has been fighting for export-purpose gold for years, and such a contract will resolve the challenge of gold availability for smaller traders.” he said.

On the urgent need for a spot gold exchange in India, Shivanshu Mehta, head–bullion, MCX, pointed out that the spot and futures markets are more interlinked than they appear to be. “Given the history of spot markets, we need a regulator like the [Securities Contracts (Regulation) Act, 1956, or SCRA], along with active participation by banks and other institutions,” he said.

Like Professor Sahay, Mehta highlighted the need for caution: “There must be critical clauses pertaining to linkages between the spot exchange, market participants, the existing futures and options market and the regulatory body.”

The main act of the sixth and final session of IGJS 2017 was a presentation and panel discussion on the Prevention of Money Laundering Act, 2002, (PMLA). Balesh Kumar, Principal Additional Director-General, Directorate General of Goods and Services Tax Intelligence, spoke on the government’s view of the industry. The PMLA, he said, brings India into compliance with the roadmap of the Financial Action Task Force (FATF), a global inter-governmental policy-making body established to target terror funding.“Gold is as highly liquid as cash,” Kumar said.

As Nitin Khandelwal, chairman, GJF, said, “No-one wants to park their unaccounted money in a product that attracts 15–25 per cent value-addition.” The consensus among jewellers was that jewellery should be kept out of the purview of the Act. By all accounts, this maiden initiative of the GJEPC delivered on its promise to keep the platform open to all stake holders of the gold industry for voicing their opinions and pain points to the govt. authorities and seeking its partnership in making Indian gold industry the most skilled, transparent and buoyant industry in the world. Well timed before the budget 2018, the industry stays hopeful of policies which will have long term positive impact on its growth and development.

Source: https://retailjewellerindia.com/rj-market-watch/featured-articles/power-partners/

6. The second meeting of IRMS initiative by industry was organised by Bullion Federation at Hotel Hilton on 14 March 2018

The representatives present at the meeting are listed herewith:

1. Mr. Louis Maréchal (Policy Advisor - OECD)
2. Mr. Rahul Gupta (Director, Founder Member – Bullion Federation)
3. Mr. Ajay Mathur (DMCC)
4. Mr. Rajesh Khosla (IBJA/MMTC)
5. Mr. Pankaj Lodhiya (Sovereign Metal Limited)
6. Mr. Neil Harby (LBMA)
7. Mr. David Cornall (LBMA)
8. Mr. Chirag Thakkar (Founder Member – Bullion Federation)
9. Mr. Haresh Acharya (Founder Member – Bullion Federation)
10. Mr. Dipay Savla (Founder Member – Bullion Federation)
11. Mr. Sandeep Khamkar (Axis Bank)
12. Mr. Gambhir Singh Panwar (HDFC Bank)
13. Mr. Sudheesh Nambiath (Thomson Reuters)
14. Mr. Nirakar Chand (Diamond India Limited)
15. Mr. Rituraj Mukhia (IBM/CFSI)
16. Ms. Ruchi Agarwal (IGPC, IIMA)
17. Mr. James Jose (Founder Member – Bullion Federation)
18. Mr. Jacob Alexander (Research Analyst – Bullion Federation)
19. Ms. Mohnish Pandey (Research Analyst – Bullion Federation)

OECD representative apprised that a GOLD ALIGNMENT ASSESSMENT project is being carried out by an independent consultant where the existing operational guidelines programme of such as DMCC, RMI, LBMA etc., would be assessed against the OECD guidelines by independent consultants and such methodology and tools can be accessed by Indian government in OECD website and can use them to understand the OECD Guidelines in detail. (website : http://mneguidelines.oecd.org/industry-initiatives-alignment-assessment.htm)

Several other aspects of supply chain were discussed. It was stated in the meeting that E-Challan is going to be implemented soon for B2B, B2C transaction is done without cash the movement of such transaction itself will automatically get recorded on real-time basis which will help to ensure the transparency in the supply chain system which is already mentioned in OECD to cultivate transparency in the supply chain system. OECD will go through a consultation process before finalizing the IRMS due diligence guidance draft and it was recommended that all other stakeholders to come together and collectively give inputs for due diligence guidance.

2nd Meeting of IRMS in progress at Mumbai on 14 March 2018, Manager IGPC attended

7. India International Bullion Summit 14-15 March 2018 – IGPC was the research partner.

IGPC participated as research partner at IIBS5 at Hotel Star Sahar, Mumbai recently. Prof. Arvind Sahay, Head IGPC was a speaker at the panel on ‘Gold policy and its implementation framework’. The convention hosted technical sessions on 14th followed by policy deliberations on 15th March. Further details can be accessed at www.ibja.co


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Prof. Arvind Sahay, Head IGPC sharing insights on Gold Policy at a panel discussion

Prof. Arvind Sahay, Head IGPC being felicitated at IIBS5 as a speaker

3.3 IGPC's Engagement with Policy Makers

1. Meetings of GWG (Gold Working Group) on18 April 2017, 28 July, 2017 and 26 December 2017 at DEA, MoF, North Block, New Delhi

Prof. Arvind Sahay, Head IGPC attended/ send recommendations to DEA Ministry of Finance, Govt. of India on various gold policy issues such as improvising GMS at various touch points such as banks, CPTCs, consumers, jewellers and refiners, emulating the Turkey model, setting up spot exchange, taxation, certification, hallmarking and so on.

2. Participation in the meeting of Niti Aayog, Govt of India to transform India's gold markets on 5 September 2017 by Prof. Joshy Jacob, IGPC GC member

The first meeting of Niti Aayog's committee to transform India had participation by IGPC. Prof. Joshy Jacob, GC member attended the first meeting of Niti Aayog. Several policy deliberations were made at the meeting. WGC also actively participated and sent recommendations on policy changes to Niti Aayog.

3.4 IGPC's growing International Footprints

1. Asia Pacific Precious Metals Conference (APPMC), 4-6 June 2017, Grand Copthorne, Singapore

Ms. Ruchi Agarwal Manager participated at Asia Pacific Precious Metals Conference (APPMC) at Singapore 4-6 June 2017 organised by SBMA, International Enterprise Singapore, Foretell Business Solutions and CGSE. Following the conference, IGPC would explore a few opportunities for policy work, collaborative research, training and colloquia with a few potential organizations. Brand IGPC is getting recognised offshore and IGPC can continue to build upon its equity by continued engagement with industry in India and globally. APPMC was an excellent platform for this purpose.

Since Singapore lifted the Goods and Services Tax (GST) on Investment Precious Metals in 2012, the Singapore Bullion Market Association (SBMA) has been playing an active role in raising the profile of Asian bullion markets internationally.

Over the next three years, the SBMA intends to play a greater role in the region by bringing together the bullion markets of the 10 ASEAN countries through the sharing of knowledge and best practices, liaison with governmental agencies and other relevant stakeholders in the region and beyond, and by connecting industry participants to global markets.

R to L: Ms Ruchi Agarwal, Manager IGPC with a delegate from DRC and Ms. Abhinaya, AVP Foretell Business Solutions

2. Infiniti Conference, 12-13 June 2017 at Valencia, Spain

Prof. Sanket Mohapatra, Member IGPC presented the paper on "**Determinants of Central Banks Gold Reserves**" based on the paper '**Turning Over a Golden Leaf? Global Liquidity and Emerging Market Central Banks**' Demand for Gold after the Financial Crisis at *Infiniti Conference at Valencia, Spain 12-13 June 2017*. The Infiniti Conference was jointly organized by Trinity College Dublin, Monash University and Universitat de València. Prof. Sanket acted as a discussant for a paper on "Where is the Compass Rose Now?" which considered changes in the trading environment, non-linearities and stochastic mechanisms as possible explanations for the disappearance of the Compass Rose pattern in gold returns in recent decades. In addition, he acted as Chair for a session on Capital Flows on June 13th.

3. International Conference on Public Policy (ICPP), June 28-30, 2017 at Lee Kuan Yew School of Public Policy, NUS, Singapore

Ms. Priya Narayanan, FPM student presented a paper at ICPP 3 (International Conference on Public Policy) held from June 28-30, 2017 at Lee Kuan Yew School of Public Policy, NUS, Singapore. The paper was on **Gold Monetization Policy-Gold Monetization in India as a Transformative Policy: A Mixed Method Analysis**.

4. Prof. Arvind Sahay is on the IOC (Independent Oversight Committee) of DMCC

3.5 IGPC Meetings at IIMA campus

1. **GC Meeting 10 May 2017**

Members of the Governing Committee at a meeting. L to R: Prof. Joshy Jacob, Prof. Errol D' Souza, Mr Somasundaram PR, Ms. Rakhi Khanna, Prof. Ashish Nanda and Prof. Arvind Sahay.

2. Meeting of IGPC with Shri Govind Mohan, Joint Secretary (IER & Investment), Department of Economic Affairs, Ministry of Finance on 6 March 2018 at IIMA

An IGPC meeting with Shri Govind Mohan was organised to discuss India's gold policy and relevant topics of gold markets at the campus.

L to R: Prof. Errol D'Souza, Director IIMA and Prof. Arvind Sahay, Head IGPC greeting Shri Govind Mohan, JS (IER & Inv), DEA, Ministry of Finance, GoI. Other IGPC IIMA members were also present at the meeting.

L to R: Shri Govind Mohan, Joint Secretary (IER & Investment) DEA, Ministry of Finance GoI interacting with Prof. Arvind Sahay, Head IGPC and other IGPC members

Media Spots and Coverage

04
Chapter

Media Reports

1. Press conference report on release of two important and exhaustive research studies on Gold as a tool for Financial Inclusion and gold as a strategic tool used by various central banks globally on 15 May 2017

   https://www.iima.ac.in/c/document_library/get_file?uuid=c3fb3ee1-78bd-411a-a0dc-a85d4d6adc9f&groupId=62390&filename=Indian%20Gold%20Policy%20Event%20Report%2015th%20May%202017%20-%20Final%20Report

2. Post GST, Customs duty on gold should go or be reduced substantially: Arvind Sahay (31 May 2017).

   http://www.financialexpress.com/economy/post-gst-customs-duty-on-gold-should-go-or-be-reduced-substantially-arvind-sahay/693879/

3. Media Coverage on Conference on Gold & Gold Markets, IIM Ahmedabad (12 January 2018)

   https://www.iima.ac.in/c/document_library/get_file?uuid=2be10c18-d4eb-42a6-83f2-56c12693e716&groupId=62390&filename=Media%20Coverage%20-%20Conference%20on%20Gold%20&%20Gold%20Markets,%20IIMA%20-12%20January%202018

Podcast

4. GST and its implications on Gold (Podcast by Professor Arvind Sahay, Head, IGPC, 29 May 2017)

   https://soundcloud.com/iimapodcast/prof-arvind-sahay-head-india-gold-policy-centre-at-iima-talks-on-gst-and-its-implications-on-gold

Post GST, Customs duty on gold should go or be reduced substantially: Arvind Sahay

Embedding 'OECD Due Diligence Guidelines for Responsible Supply Chains of Minerals in India's Gold ecosystem'-Policy Perspective

Relevance and Impact of Global Gold Policies on India's Gold Industry

Times of India, 16 May 2017, p. 1

Post-2008, emerging markets go for gold

Only A Modest Rise In Reserves In India: Study

Times News Network

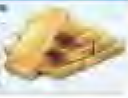
IN RESERVE

Country	[illegible]	[illegible]
China	600	1,700
Russia	[illegible]	[illegible]
India	355	550

The Hindu Business Line, Ahmedabad, 13 January 2018, p. 16

Gold imports may drop to 650 tonnes this fiscal

Investors' shift to other asset classes reason for the dip



Investment pattern

Cut in duty unlikely

The Times of India, Ahmedabad, 13 Jan 2018, p. 5

'Cut in Customs duty on gold unlikely'

Niyati Parikh
@timesgroup.com

Ahmedabad: Despite industry expecting a cut in the basic Customs duty (BCD) on gold imports, experts don't foresee a reduction, at least in this budget session. BCD on gold imports is 10% in addition to 3% GST. With more incidents of gold smuggling, analysts and bullion traders want to see BCD on the yellow metal reduced.

Rajesh Khosla, chairman emeritus, MMTC-PAMP said, "A reduction of BCD on gold imports is needed and jewellers and bullion traders have asked for it. However, unless GST revenue stabilises, a cut in BCD is not possible. It doesn't make sense to cut one source of revenue when the other isn't stable."

Khosla was at a conference on 'Gold and Gold Markets' at the Indian Institute of Management, Ahmedabad on Friday. "We can look forward to 5% cut in six months, when GST revenue is in line with expectations," he said.

Industry experts said duty-paid gold imports for the financial year 2017-18 will hit 650 tonnes, at an average price of US $1,300 per ounce. Analysts say this won't hurt the current account deficit, because international gold prices are low, compared to 2013-14 financial year.

"From April to December 2017, 580 tonnes of gold was imported. Imports will hit 650 tonnes by the end of the fiscal, at a par with the 2016-17 fiscal," said Khosla.

Nav Gujarat Samay, Ahmedabad, 13 January 2018, p. 10

યુવાનોને સોના કરતાં ક્રિપ્ટો કરન્સીમાં વધુ લગાવ: IGPC

નવગુજરાત સમય » અમદાવાદ

Financial Express (Editorial), 17 May 2017, p. 8

Fool'sGOLD

For gold monetisation schemes, poor marketing is a smaller problem than poor structure

THE INDIA GOLD Policy Centre, housed at the Indian Institute of Management, Ahmedabad, says poor marketing by the government was the reason behind the lack-lustre performance of the gold monetisation and gold coin schemes. The schemes were launched in November 2015 to capture that part of gold bought for investment purposes, and thereby cause a reduction in demand for physical holdings. But after poor response, the government significantly scaled back its target for gold bonds this year. The IIM-A centre surveyed 1,000 individuals and found that just five knew about the government-sponsored gold schemes. While poor awareness is a problem, the larger one is that the scheme continues to be unattractive in many ways, and this is a problem even a marketing blitzkrieg can't solve.

Even though there was a 2.75% interest on the bonds in the first five tranches of issue and 2.5% in the subsequent two, sovereign gold bonds are handicapped by the fact they are, as structured at present, not liquid in the manner physical holdings are. The ease of holding gold, and anonymously, will fade with the limits on cash payments and inclusion of gold in GST, but the bonds scheme remains stifled in comparison. It is difficult to get investors interested given there is an eight-year lock-in—premature redemption is permitted from the fifth year, but intent to redeem has to be notified a month before actual redemption. This means paper gold can't be sold in emergencies like physical gold often is. Besides, though these are tradeable if held in the demat form, given there is almost no secondary market at the moment, bond-buyers are stuck with these till they get them redeemed. And then, purchase/redemption is not at spot-price—price is fixed on the basis of the average of the past five days. This means the seller can't capture the gains from a sudden price-rise. With their sheen thus dulled, it is unlikely greater awareness can do the schemes much good.

Published Article in Academic Journal

1. Balagopal Gopalakrishnan & Sanket Mohapatra. (2017, August 30). Global Risk and Demand for Gold by Central Banks. Applied Economics Letters (Published online)

   http://www.tandfonline.com/doi/full/10.1080/13504851.2017.1371837

Research Studies/Working Papers

2. Balagopal Gopalakrishnan and Sanket Mohapatra. (May 2017). Turning Over a Golden Leaf? Global Liquidity and Emerging Market Central Banks' Demand for Gold after the Financial Crisis (IIMA W. P. No. 2017-04-02). Available at

   https://www.iima.ac.in/c/document_library/get_file?uuid=d97164e0-f15d-4514-a874-00e850ac4ec9&groupId=62390&filename=GlobalLiquidityEmergingMarketCentralBankGoldReserves_IGPC_WP

3. Misha Sharma, Shambhavi Srivastava and Govind Singh (IFMR, Chennai). (May 2017). Gold as a Financial Inclusion Tool. Available at

   https://www.iima.ac.in/c/document_library/get_file?uuid=2012aa03-7c15-4f85-bed8-42691974df47&groupId=62390&filename=GOLD%20AS%20A%20FINANCIAL%20INCLUSION%20TOOL%20Web%20File

4. Professor Anindya S. Chakrabarti. (March 2018). Gold accumulation and wealth dynamics across generations - Research Report. Available at

   https://www.iima.ac.in/c/document_library/get_file?uuid=09d42d51-4f87-49c6-85d1-a86240b6127d&groupId=62390&filename=gold_report_asc

Articles in Gold Industry Publications

5. Professor Arvind Sahay and Ruchi Agarwal. (August 2017). Embedding 'OECD Due Diligence Guidelines for Responsible Supply Chains of Minerals in India's gold ecosystem'-policy perspective. Bullion Bulletin. Vol. 7, Issue 8, pp. 16-18. Available at

   https://www.iima.ac.in/c/document_library/get_file?uuid=e81d75e9-0393-4cf1-83f7-a6b3a981f882&groupId=62390&filename=Bullion%20Bulletin%20August%202017_OECD%20Due%20Diligence%20Guidelines

6. Ruchi Agarwal. (December 2017). Relevance and Impact of Global Gold Policies on India's Gold Industry. Bullion Bulletin, Vol. 7, Issue 12, pp. 8-12. Available at
   https://www.iima.ac.in/c/document_library/get_file?uuid=f94d33de-d375-414f-878d-006bafceb3d3&groupId=62390&filename=BB_Dec%202017_IGPC%20Article

Papers presented at the Conference on Gold and Gold Markets, 12 January 2018, IIM Ahmedabad (abstracts on page 93)

https://www.iima.ac.in/web/areas-and-centres/research-centers/igpc/conference-on-gold-and-gold-markets-2018/agenda

1. **Balagopal Gopalakrishnan & Sanket Mohapatra. (2017, August 30). Global Risk and Demand for Gold by Central Banks. Applied Economics Letters (Published online)**

   http://www.tandfonline.com/doi/full/10.1080/13504851.2017.1371837

   This article examines the influence of global risk on the holding of gold by central banks based on annual data for 100 countries during 1990–2015. We use a dynamic panel generalized method of moments model to estimate this effect, controlling for a variety of domestic factors. Consistent with portfolio diversification and perception of gold as a safe asset, we find that the gold holdings of central banks increase in response to higher global risk. This effect varies based on the levels of capital account openness, reserve adequacy, income status and currency 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 countryspecific vulnerabilities.

2. **Balagopal Gopalakrishnan and Sanket Mohapatra. (May 2017). Turning Over a Golden Leaf? Global Liquidity and Emerging Market Central Banks' Demand for Gold after the Financial Crisis (IIMA W. P. No. 2017-04-02).**

   https://www.iima.ac.in/c/document_library/get_file?uuid=d97164e0-f15d-4514-a874-00e850ac4ec9&groupId=62390&filename=GlobalLiquidityEmergingMarketCentralBankGoldReserves_IGPC_WP

   The quantity of gold reserves held by central banks in emerging markets and developing economies (EMDEs) has risen sharply following the global financial crisis in 2008. This paper examines factors driving holding of gold by central banks in 50 EMDEs using a dynamic panel generalized method of moments model. We find that monetary expansion in advanced economies is robustly related to the post-crisis increase in EMDE gold reserves, after controlling for domestic factors and changes in the global risk environment. This effect holds across different measures of global liquidity, and is robust to alternate model specifications, inclusion of additional covariates, and alternate estimation methods. We argue that the unprecedented monetary expansion in advanced economies has resulted in a shift in EMDE reserve asset holding strategy, resulting in continued accumulation of gold reserves even after the peak of the financial crisis.

3. **Misha Sharma, Shambhavi Srivastava and Govind Singh (IFMR, Chennai). (May 2017). Gold as a Financial Inclusion Tool.**

   https://www.iima.ac.in/c/document_library/get_file?uuid=2012aa03-7c15-4f85-bed8-42691974df47&groupId=62390&filename=GOLD%20AS%20A%20FINANCIAL%20INCLUSION%20TOOL%20Web%20File

   India accounts for 10% of the total world gold stock and is the second largest market for gold after China. In 2015, India bought 663 tonne of gold jewellery and continues to remain one of the world's largest gold jewellery consuming countries. Indian investment in gold is motivated by several social, economic and cultural factors, although demand for gold is primarily driven by income and prices. Gold is often bought on special occasions such as weddings, festivals and other auspicious events. However, Indians use gold not just for ornamental purposes but also for fulfilling the financial needs of households. Households use gold to save, invest and smooth consumption in the event of shocks and any unforeseen circumstances.

   The nature of the Indian economy makes the role of gold all the more important. For a country of more than 1.2 billion people, where 22% of its population is below the poverty line and more than 70% of the population is still categorized under the informal economy with vulnerable jobs and irregular income, gold acts as a medium to cater to the various financial needs of the household. Hence, gold could be classified as an alternate tool for financial inclusion among low income households. This is more so true for the rural economy that constitutes 70% of the total population and pre-dominantly engages in agricultural activities as their primary source of income. With income from agriculture constantly dwindling and a general lack of institutional credit for farming activities, the agrarian population relies heavily on gold (in the form of gold loan or selling gold) to make necessary agricultural expenses.

The Indian gold market and gold in the financial system therefore becomes an interesting area to research on, given the importance it holds in the Indian context. Gold in the financial system offers products such as gold loans, gold savings schemes and gold investment schemes. This study aims to get an in-depth understanding of how Indians use gold as a financial instrument in the form of savings, loans and investments. We also assess the awareness and interest people have with regard to the gold schemes most recently launched by the Government of India in view of developing the Indian gold sector further.

Findings from the study suggest that gold is an important tool for financial inclusion. Our study participants are active consumers of gold and use gold beyond ornamental purposes, although there is substantial district-wise variation. Gold loan was the most popular gold-based financial product among the study population and informal gold loans constituted for a large pie of the market share, which offer lower gold loan amounts at higher interest rates, as compared to formal gold loan providers which offer higher gold loan amounts at lower interest rates. Additionally, we also find that gold loans were primarily being used for smoothening household consumption and for repaying previous debts, although, it must be pointed out that half of our sample also mentioned using it for productive purposes such as investments in business, education and household improvement and repairs. Finally, we find that Government launched gold schemes such as Gold Monetization Scheme (GMS), Sovereign Gold Bond (SGB) and Indian Gold Coin Scheme (IGCS) were not very successful as people were not aware of these schemes. Although study respondents did express willingness to invest in these schemes if they received adequate information about the products, which indicates the potential for promoting and targeting these schemes better.

4. **Professor Anindya S. Chakrabarti. (March 2018). Gold accumulation and wealth dynamics across generations - Research Report.**

   https://www.iima.ac.in/c/document_library/get_file?uuid=09d42d51-4f87-49c6-85d1-a86240b6127d&groupId=62390&filename=gold_report_asc

5. **Professor Arvind Sahay and Ruchi Agarwal. (August 2017). Embedding 'OECD Due Diligence Guidelines for Responsible Supply Chains of Minerals in India's gold ecosystem'-policy perspective. Bullion Bulletin. Vol. 7, Issue 8, pp. 16-18.**

   https://www.iima.ac.in/c/document_library/get_file?uuid=e81d75e9-0393-4cf1-83f7-a6b3a981f882&groupId=62390&filename=Bullion%20Bulletin%20August%202017_OECD%20Due%20Diligence%20Guidelines

   There has been an increasing uptake globally of the OECD guidance through the development of programmes and their dissemination since its formal adoption in May 2011 by OECD and non-OECD countries. The guidance essentially integrates recommendations developed by the Financial Action Task Force (FATF) to promote effective implementation of measures to combat money laundering and terrorist financing. Industry initiatives estimate that approximately 90% of all refined gold is covered by industry audit programmes designed to implement the guidance.

6. **Ruchi Agarwal. (December 2017). Relevance and Impact of Global Gold Policies on India's Gold Industry. Bullion Bulletin, Vol. 7, Issue 12, pp. 8-12.** https://www.iima.ac.in/c/document_library/get_file?uuid=f94d33de-d375-414f-878d-006bafceb3d3&groupId=62390&filename=BB_Dec%202017_IGPC%20Article

The Indian gold industry imports an average of 800 tonnes gold annually (worth $ 40 billion ~ 1.6% of GDP) and has private holdings of gold estimated at over 25000 tonnes valued at about $1 trillion. It employs more than 5 million people and its output is more than $ 75 billion which is about 3% of GDP. The lion's share of gold imports is consumed for jewellery manufacturing followed by investment, industrial and medical use. Gems & Jewellery segment of the industry is the third largest foreign exchange earner contributing to about 15% exports worth about $43 billion. The key global gold policies that impact India's gold industry have been mapped as:

1. Central banks holding of gold

2. Policies relating to taxation on gold production and consumption in different countries

3. Policies relating to customs duty and import and export of gold and

4. Policies relating to use of gold as a currency and of exchanges for price setting and selling.

Abstracts of Papers Presented at the Conference on Gold & Gold Markets 12 January 2018, IIM Ahmedabad

1. Gold Monetization in India as a Transformative Policy: A Mixed Method Analysis

Priya Narayanan, Balagopal Gopalakrishnan, Arvind Sahay

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 shows that family functions and festivals to be triggers for gold purchase, indicating ingrained the habit and planned accumulation. There is also high liquidity and safety association of gold (which is also not considered as having any substitute) along with a clear reluctance to sell gold received as a gift. Rural consumers are more reluctant to part with gold as compared to urban but are also ready to pledge gold as collateral suggesting requirement related liquidity use of gold.

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. 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.

Clearly, increasing the effectiveness of the Gold Monetization Policy depends on a deeper understanding of consumers' interactions with and sentiments towards gold. 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.

Keywords: *Gold, Gold monetization, Policy, Gold consumption, Policy implementation*

https://www.iima.ac.in/c/document_library/get_file?uuid=0436605c-31ef-43f9-9cb4-1caa4a84af62&groupId=62390&filename=1743454792017-01-02

2. **Distribution of Durable Assets Across Households and Generations: A Mathematical Model**

   Anindya S. Chakrabarti

   Emergence and characterization of inequality are important topics with substantial practical and policy implications, even though there is little consensus on either of them in the literature. In this paper, I propose a pure exchange economy with multiple dynasties living in parallel in an overlapping generation set up with gold as a tradable asset. In our model, gold serves multiple purpose. It has zero storage cost and has fungibility, serves as a medium of exchange and transferable across generations. There are two exogenous shock processes viz. exogenous inflow of golds and stochastic preferences. I show that the evolution of distribution of money can be mapped into a stochastic process with a well-defined steady state. In particular, existence, uniqueness and stability properties of equilibrium of this random dynamical system are discussed. These results explain the robustness of the stationary distributions with respect to the underlying network of interaction under fairly general conditions. Finally, I show that under certain assumptions regarding preferences, the steady state is described by β' distribution which nests multiple statistical distributions with fat tails proposed for modeling income and wealth, examples include Pareto tail, Dagum, log-logistic and Fisk distributions but exclude lognormal distribution.

   https://www.iima.ac.in/c/document_library/get_file?uuid=3d05930c-4719-486f-9e19-e7895cc20b1c&groupId=62390&filename=Abs_Anindya%20Chakrabarti

3. **Impact of CTT on Gold Derivatives Markets: Analysis Based on Ultra-High Frequency Order Flow and Trade Data**

   Satya Sai Harsha Dutta, Joshy Jacob, Jayanth R. Varma

   We investigate the impact of the imposition of the commodities transaction tax (CTT) on the market quality of the commodities derivatives in India using high-frequency order and trade data. The data allows us to examine impact by trader type and the mechanism through which the regulatory shock impacts market quality. The results based on a difference-in- difference approach, indicate that there is a significant deterioration in the market quality measures such as volume, spread, depth, order-fill time, volatility, and the autocorrelation of intraday returns. Based on the limit order book model of Focault et al. (2005), we theoretically determine the effect of a transaction tax on liquidity. Accordingly, the imposition of CTT leads to an increase in the proportion of patient traders and reduction in market activity. Consequently, we find that the limit orders have become aggressive in the post-CTT market. The paper improves the understanding of the transmission of transaction tax-induced shocks in financial markets.

   Keywords: *Transaction Tax, Market Microstructure, Liquidity, Commodities, Derivatives, Gold, Limit Order Book, High-Frequency Data*

   https://www.iima.ac.in/c/document_library/get_file?uuid=79b4ad74-00e9-49be-b65d-054730ec6c7a&groupId=62390&filename=Abs_Joshy%20Jacob@IGPC%20Conf

4. **Gold in Central Bank Reserves: Role of Global Risk and Liquidity**

   Balagopal Gopalakrishnan, Sanket Mohapatra

a. **Turning Over a Golden Leaf? Global Liquidity and Emerging Market Central Banks' Demand for Gold after the Financial Crisis** (IIMA Working Paper No WP 2017-04-02 April 2017) The quantity of gold reserves held by central banks in emerging markets and developing economies (EMDEs) has risen sharply following the global financial crisis in 2008. This paper examines factors driving holding of gold by central banks in 50 EMDEs using a dynamic panel generalized method of moments model. We find that monetary expansion in advanced economies is robustly related to the post-crisis increase in EMDE gold reserves, after controlling for domestic factors and changes in the global risk environment. This effect holds across different measures of global liquidity, and is robust to alternate model specifications, inclusion of additional covariates, and alternate estimation methods. We argue that the unprecedented monetary expansion in advanced economies has resulted in a shift in EMDE reserve asset holding strategy, resulting in continued accumulation of gold reserves even after the peak of the financial crisis.

Keywords: *Gold reserves, Emerging markets, Central banks, Monetary easing*

https://www.iima.ac.in/c/document_library/get_file?uuid=d97164e0-f15d-4514-a874-00e850ac4ec9&groupId=62390&filename=GlobalLiquidityEmergingMarketCentralBankGoldReserves_IGPC_WP

b. **Global Risk and Demand for Gold by Central Banks** (Applied Economic Letters, Page 1-5, Published Online, 30 August 2017)

This paper examines the influence of global risk on the holding of gold by central banks based on annual data for 100 countries during 1990-2015. We use a dynamic panel generalized method of moments (GMM) model to estimate this effect, controlling for a variety of domestic factors. Consistent with portfolio diversification and perception of gold as a safe asset, we find that the gold holdings of central banks increase in response to higher global risk. This effect is larger for high-income countries than for developing countries. Moreover, greater capital account openness is associated with a stronger response of central banks' gold holding to global risk, while a higher ratio of overall reserves to imports is associated with a weaker response. We also find evidence that the sensitivity depends on whether the currency regime followed is fixed or floating, with higher responsiveness in the case of fixed rate regimes. The baseline results are robust to alternate estimation methods, exclusion of crisis years, active and passive management of gold reserves and additional controls. 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.

Keywords: *Gold, Central banks, Global risk diversification, Capital account openness, Flight to quality, Safe haven*

http://www.tandfonline.com/doi/full/10.1080/13504851.2017.1371837

5. **Gold and Geopolitical Risk**

Dirk G. Baur, Lee Smales

There is a growing empirical literature on gold's safe haven status with respect to financial risks but no study with respect to global geopolitical risks. This paper extends the common focus on extreme stock market movements and financial turmoil with an analysis of geopolitical risk. We find that gold shows a unique behavior among all precious metals with a positive reaction to geopolitical risks and threats but no reaction to realized geopolitical acts. There is no additional increase in gold return volatility due to geopolitical risks and geopolitical risk is not captured by the stock market volatility index VIX. The findings provide new evidence on the unique status of gold as a global safe haven asset.

Keywords: *Gold, Safe haven, Geopolitical risks, VIX, Precious metals, Bitcoin*

https://www.iima.ac.in/c/document_library/get_file?uuid=a1b8f0c2-6889-4493-b4e7-89882af9e724&groupId=62390&filename=Abs_Dirk%20Baur@IGPC%20Conf

6. **A Study of Excess Volatility of Gold and Silver**

Parthajit Kayal, S. Maheswaran

This paper discusses the case of strong path dependency in asset prices from the theoretical and empirical standpoints. Specifically, it demonstrates persistence of excess volatility in the gold spot price data that engenders excessive path dependence, whereas it is not the same with silver. For this study, we use the extreme value estimator proposed by Rogers and Satchell (1991) and the VRatio proposed by Maheswaran et al (2011). The data for the study is for the period from January, 2001 to December, 2016. We use multiple-days'time horizons for examining the excess volatility with a better approximation of Brownian motion in the data. We capture the excess volatility in the gold data using the Binomial Markov Random Walk model. In this paper, we also utilize the Expected Lifetime Shortfall (ELS) ratio, as a measure of risk to test for the presence of mean reversion in asset prices. Using this ratio, one can observe that the strong mean-reverting characteristic in gold makes it a better investment choice than silver, in general, in the medium term.

Keywords: *Volatility, Commodity Market, Precious metals, Random walk, Brownian motion, Simulation, Extreme value estimator, Market efficiency*

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7. **Does Information Spillover and Leverage Effect Exist in World Gold Markets?**

S. Maria Immanuvel, D. Lazar

Financial markets are highly sensitive to the information. The nature and arrival of information decides their movements. Gold is one among the commodity traded globally and the amount and sign of information in one country affects the internal gold price. The objective of the study is to analyse the information spillover and leverage effect transmitted from major gold consuming countries to the fixation of London Bullion Market Association (LBMA) AM and PM fix prices and how significantly Indian market contributes its information to the price fixation. The multivariate EGARCH model proposed by Koutmos and Booth (1995) is used to analyse the daily spot gold price data of major gold consuming countries like India, USA, Europe and Japan. The results concluded that price and volatility of major gold consuming countries spillover to the LBMA AM fix and PM fix prices. LBMA AM fix and PM fix prices are highly sensitive to the new information and their movements are highly influenced by the information from India and USA. It is found from the leverage effect that positive information causes more volatility in the LBMA fix prices than negative information. Positive information from India and USA plays a significant role in causing volatility in AM fix and PM fix respectively.

Keywords: *World Gold Markets, EGARCH, LBMA AM Fix and PM fix, Information Spill over, Leverage effect*

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8. **Estimating Elasticity of Import Demand for Gold in India**

Paramita Mukherjee, Vivekananda Mukherjee, Debasmita Das

In India gold imports act as a huge burden on the country's current account balance and a large part of it lies idle in the economy. The attempts to curb the import demand have often failed in recent past. We explore the reasons of such failures by analyzing the gold demand pattern of India. In India gold is viewed not only as a consumption good and a financial asset; it also has a socio cultural dimension since ages. This paper derives the price and income elasticities of physical import demand for gold by taking these factors in account, which is unique in its scope. Unlike previous studies gold imports used for different purposes (jewellery, bar etc.) are analysed separately. The possibility of habit formation and inventory adjustment in determining the dynamics of India's import demand for gold have also been taken into consideration. Our findings suggest: first, different motives play roles in shaping demand for different forms of gold, although investment behaviour dominates over habit persistence in aggregate; second, given that the import demand for gold bars is inelastic with respect to real price, ceteris paribus, in both the short-run and the long-run, increment of tariff rates would not reduce import of other non-monetary unwrought forms of gold substantially; third, change in tariff rates, however, can bring down gold jewellery demand more in the long-run than in the short-run; fourth, expenditure effect is strong for gold jewellery demand while demand for gold bars responds little to any changes in import expenditure in the long-run and total gold demand is however moderately sensitive to expenditure movements. The results have important implications for anti-inflationary and anti-cyclical policymaking.

Keywords: *Elasticity estimation, Gold demand, Gold import, Habit formation, Dynamic demand model*

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9. **Gold, Gold mining Stocks and Equities – Exploring their Hedge, Diversifier and Safe Haven Properties in Developed Markets**

   Arif Billah Dar, Manas Paul, Niyati Bhanja

   Abstract: In this paper, we explore the dynamic co-movement of gold, gold mining stocks and equities in the US and the UK. Our dynamic approach involves testing the nexus across both time horizons as well as over time. It is shown that gold mining stocks at certain time horizons and time periods are positively but not perfectly correlated with gold, whereas, they are mostly unrelated to equities at all the studied time horizons as well as over time. Gold and equities are also found to be independent at almost all the time horizons as well. The results drawn have important implications for the Hedge, Diversifier and Safe Haven property of gold and gold mining stocks for multi-horizon portfolio managers.

   Keywords: *Gold mining stock, Hedge, Safe Haven, Gold, Equities, Time Horizons*

   https://www.iima.ac.in/c/document_library/get_file?uuid=a34f08fc-c2d4-406b-85e4-56126d8adac8&groupId=62390&filename=Abs_Manas%20Paul@IGPC%20Conf

10. **Investigation of Price Discovery for Gold Future Market Prices**

    Samna. M, Sadar. A. R

    This paper examines the relationship between Chicago Mercantile Exchange (CME) Gold future price and Gold futures trading in Multi Commodity Exchange of India (MCX). It was found that CME Gold future leads the Indian market in price discovery. Price discovery is the process by which market attempts to reach equilibrium price. In static sense price discovery implies the existence of equilibrium price. In a dynamic sense, the price discovery process describes how information is produced and transmitted across market. Price discovery is a major function of Commodity Future Market. It is generally argued that price discovery in commodity market is more efficient than spot market. As a result, future market attracts hedgers for Risk management and encourages considerable external competition from those who possess market information and price judgment to trade as traders in these commodities. This paper study the Co-Integration of both the Gold future in International and Indian Commodity markets.

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11. Multifractal Modeling of the Indian Gold Market

Provash Mali

The time series of the Indian gold market and the global gold price index over the period of 1985-2013 are analysed by using the multifractal detrended fluctuation analysis method. It is found that both the price and the index series poses more or less similar degree of multifractality which emerges from the long-range temporal correlations as well as from the fat-tailed probability distribution of the series values. An analytical multifractal series (generalized binomial multifractal series) can nicely describe the gold market and the gold index time series data.

Keywords: *Multifractality, Gold price time series, Long-range correlation, Multifractal detrended fluctuation analysis*

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12. Relationship between Gold and other Markets: A Cointegration Approach with Structural Breaks

Shivani Inder Chopra

Academic research has focused on gold as an investment, as a hedger for downsizing risk or against inflation, a safe haven or efficiency of market. The current study attempts to explore the relationship of gold with stock market, foreign exchange market, energy (oil and gas) market, commodity futures, agriculture and interest rates through cointegration approach for India. Engle Granger and Johansen cointegration analysis is carried out on the variables after taking into account structural breaks. The results of the study stock market and interest rates are more cointegrated with the gold whereas other markets i.e. foreign exchange, energy, agriculture and commodity futures do not hold a long term cointegrating relation with gold. However, the relationship of gold with these markets keep on varying in the short run as the cointegrating relationship is observed shifting after structural break.

Keywords: *Gold, markets, Cointegration, Engle-granger, Causality, Structural breaks*

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13. Return and Volatility Spillovers: An Evaluation of India's Demonetization Policy

Shubhasis Dey, Aravind Sampath

We investigate the evolution of dynamic interactions among five major financial assets in the Indian economy, which its recent demonetization policy tried to influence. Spillovers account for more than 25 percent of the forecast error variance in all the five markets. In terms of total spillovers, the banking and the real estate sectors matter the most for the Indian economy. Gold market is responsible for the highest net volatility spillovers to other markets. Spillovers show major trends and cycles in their time series plots. The US economy transmits shocks directly to the key sectors of the Indian economy and via the gold and the foreign exchange markets. The events such as the election of the National Democratic Alliance government in India and the Indian government's demonetization exercise were contemporaneous to some of the major episodes of return and volatility spillovers in the analyzed assets. India's demonetization policy seems to have increased the importance of the IT sector for gold and banking sector volatility shock transmission.

Keywords: *Demonetization, Return, Volatility, Spillover, Asset*

https://www.iima.ac.in/c/document_library/get_file?uuid=8d9a0d27-afd0-4a01-9d87-1dfa351a79c7&groupId=62390&filename=Shubhasis&Aravind@IGPC%20conf

14. Sources of Uncertainty and the Indian Economy

Shubhasis Dey

Indian economy is exposed to various forms of uncertainty. Theories of investment under uncertainty and real options predict that increased uncertainty tends to depress real investment. Literature finds that uncertainties regarding oil price and real exchange rate adversely affect domestic capital formation. The socio-economic realities of India together with the lack of penetration of formal financial institutions make gold as a one of the main modes of investment for Indian households. However, over-investment in gold may have adverse consequences for the real economy as it drives away resources from productive capital. Moreover, higher inflation uncertainty makes it harder to extract information from the price system and thus may reduce economic efficiency. In this paper, we use a bivariate GARCH-in-mean VAR model to estimate the interrelationships of various uncertainty measures and the real economy. We find that the Indian economy is not particularly vulnerable to real exchange rate or oil price uncertainties. However, gold price uncertainty has a significant positive effect on output growth. Higher WPI inflation uncertainty is detrimental to growth rates of private consumption expenditure and gross capital formation. Moreover, a rise in the growth rate of government expenditure following a positive CPI inflation shock may partially explain the lack of any detrimental effect on output growth.

Keywords: *Uncertainty, Output growth, Bivariate GARCH-in-mean VAR, India*

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15. A Curious Contract – Exploring the Nuances of Gold Backed Pension Products (Published in Bimaquest, Vol. 18 Issue 1, Jan 2018, Pages 60-82.)

Saket Hishikar

This paper explores the possibility of introducing a pension product in India by monetising the existing stock of gold. The exercise draws inspiration from the RBI's KUB Rao Committee's Report which explicitly recommended exploring such an option. This study argues that in the context of India, gold and gold-backed pension products can be visualised as a culturally driven defined contribution plan and this arrangement operates under a taxexempt- exempt (TEE) regime. Despite being a promising idea, full introduction of goldbacked pension product is not tenable because of the absence of a credible market-based benchmark for rate of interest on physical gold. However a gold-backed term annuity for a period not exceeding 10 years appears feasible in the coming years.

Keywords: *Gold, Gold monetisation, Pension annuity*

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16. Indian Gold Demand and Consumer Buying Pattern: An Industry Perspective

Vaibhav Aggarwal

India has been a leading consumer of gold in the world (WGC, 2016). Owing to the fact that it does not produce much, imports meet the demand for gold in India. In the year 2013, in order to curb the increasing demand of gold and reducing imports, the Government of India initiated some remedial measures. Consequently, gold imports declined and there has been downtrend since the year 2013. Demand for gold comprises mainly jewellery and investment product demands in India. So, the decrease in demand is visible in both jewellery and investment segments but the latter has declined more than the former. Based primary as well as secondary data analysis of investment products, and industry experience of the MMTC Limited, a dominant player in the gold market, this study is an attempt to analyse the demand for gold by retail consumers in India post 2013, discuss the issues affecting this demand as well as report any change in the consumer buying pattern with regard to precious metals like gold and silver.

Keywords: *Gold, Gold demand, Gold as investment, Silver demand, MMTC, Consumer behaviour*

https://www.iima.ac.in/c/document_library/get_file?uuid=9b8c23c5-4f6f-491f-8a55-ad24854cd1fe&groupId=62390&filename=15.%20Vaibhav%20A@IGPC%20Conf(updated)

Policy Notifications by GoI/RBI	06 Chapter

S.No.	Notification, Source	Date
I	**Goods & Services Tax (GST)**	
1.	*GST roll-out – Complete transformation of the Indirect Taxation Landscape; Some minute details of how it happened* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1494172	30 Jun 2017
2.	*Further clarification on tax in reverse charge on gold ornaments; Sale of old jewellery by an individual to a jeweller will not make the jeweller liable to pay tax under reverse charge mechanism on such purchases; However, if an unregistered supplier of gold ornaments sells it to registered supplier, the tax under RCM will apply.* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=167405	13 July 2017
II	**Sovereign Gold Bonds**	
3.	*Government of India to issue Sovereign Gold Bonds 2017-18 – Series I* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=161181	20 April 2017
4.	*Sovereign Gold Bond Scheme 2017-18 – Series I* Reserve Bank of India https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40227	20 April 2017
5.	*Sovereign Gold Bond Scheme 2017 -18 - Series I - Issue Price* *Reserve Bank of India* https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40243	21 April 2017
6.	*Sovereign Gold Bond – Dematerialisation* Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40706	09 June 2017

S.No.	Notification, Source	Date
7.	*Government of India in consultation with RBI decides to issue Sovereign Gold Bond Scheme 2017-18– Series II; Applications for the bond will be accepted from July 10, 2017 to July 14, 2017; The Bonds will be issued on July 28, 2017* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1494762	06 July 2017
8.	*Sovereign Gold Bond Scheme 2017-18 – Series II* Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40989	06 July 2017
9.	*Sovereign Gold Bond Scheme 2017-18 – Series II Issue Price* Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41007	07 July 2017
10.	*Cabinet approves revision of guidelines of Sovereign Gold Bonds Scheme* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=169103	26 July 2017
11.	*Sovereign Gold Bond – Dematerialisation* Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41268	03 August 2017
12.	*Sovereign Gold Bond Scheme 2017 -18– Series-III* *(Applications for the bond to be accepted from October 09, 2017 to December 27, 2017)* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=171468	06 October 2017
13.	*Sovereign Gold Bond 2017-18 Series-III (9-11 Oct 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=41890	06 October 2017

S.No.	Notification, Source	Date
14.	*Sovereign Gold Bond 2017-18 Series-IV (16-18 Oct 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=41976	13 October 2017
15.	*Sovereign Gold Bond 2017-18 Series - V - Issue Price (23-25 Oct 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42023	20 October 2017
16.	*Sovereign Gold Bond Scheme 2017 -18– Issue Price for the next subscription period i.e. October 23-25, 2017 would be Rs. 2,971– per gram with Settlement on October 30, 2017.* Press Information Bureau, Ministry of Finance http://pib.nic.in/newsite/PrintRelease.aspx?relid=171836	21 October 2017
17.	*Amendment to Sovereign Gold Bond Scheme, Notification No.4 (25)-W&M/2017* Reserve Bank of India https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11151	25 October 2017
18.	*Sovereign Gold Bond 2017-18 Series-VI-Issue Price (30 Oct – 01 Nov 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42105	27 October 2017
19.	*Sovereign Gold Bond 2017-18 Series-VII-Issue Price (6-8 Nov 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42170	03 November 2017
20.	*Sovereign Gold Bond 2017-18 Series-VIII-Issue Price (13-15 Nov 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42236	10 November 2017

S.No.	Notification, Source	Date
21.	*GOI floats Series-III of Sovereign Gold Bonds 2017-18 for the period from October 09, 2017 to December 27, 2017* *For the next subscription period i.e. November 13-15, 2017, the issue price shall be Rs2,961 per gram with Settlement on November 20, 2017* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1509035	10 November 2017
22.	*Sovereign Gold Bond 2017-18 Series- IX-Issue Price (20-22 Nov 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42311	17 November 2017
23.	*The Issue Price for the next subscription period i.e. November 20-22, 2017 for the Series III of the Sovereign Gold Bond Scheme 2017-18 would be Rs. 2,964 per gram with Settlement on November 27, 2017; A Discount of Rs.50 per gram from the issue price would be allowed to those investors who apply online and the payment is made through Digital Mode.* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1510060	17 November 2017
24.	*Sovereign Gold Bonds – Dematerialisation (Also notifies total subscription value till 24 Nov 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42361	24 November 2017
25.	*Sovereign Gold Bond 2017-18 Series- X-Issue Price (27-29 Nov 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42374	24 November 2017
26.	*GOI floats Series-III of Sovereign Gold Bonds 2017-18* *Issue price shall be Rs2,961 per gram with Settlement on December 4, 2017.* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1510877	24 November 2017

S.No.	Notification, Source	Date
27.	*Sovereign Gold Bond 2017-18 Series- XI-Issue Price (4-6 Dec 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42428	30 November 2017
28.	*GOI Series-III Sovereign Gold Bonds – next Subscription period – December 4-6 2017* *Issue price shall be Rs2,952 per gram with Settlement on December 11, 2017.* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1511391	30 November 2017
29.	*Sovereign Gold Bond 2017-18 Series- XII-Issue Price (11-13 Dec 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42507	08 December 2017
30.	*For the next subscription period i.e. December 11-13, 2017 of the Series III of Sovereign Gold Bonds 2017-18, the issue price shall be Rs.2,890 (Rupees Two thousand Eight hundred Ninety only) – per gram with Settlement on December 18, 2017.* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1512125	08 December 2017
31.	*Sovereign Gold Bond 2017-18 Series-XIII-Issue Price (18-20 Dec 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42581	15 December 2017
32.	*Sovereign Gold Bond Scheme 2017-18 Issue Price* Press Information Bureau, Ministry of Finance http://pib.nic.in/PressReleseDetail.aspx?PRID=1512904	15 December 2017
33.	*Sovereign Gold Bond 2017-18 Series- XIV-Issue Price (26-27 Dec 2017)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42659	22 December 2017

S.No.	Notification, Source	Date
34.	*Sovereign Gold Bonds – Dematerialisation (Also notifies total subscription value till 04 January 2018)* Reserve Bank of India https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42769	04 January 2018
III	**BIS ACT 2016**	
35.	*Bureau of Indian standards (BIS) Act 2016 brought into force with effect from 12th October, 2017* Press Information Bureau, Ministry of Consumer Affairs, Food & Public Distribution http://pib.nic.in/newsite/mberel.aspx?relid=171705	12 October 2017
IV	**Hedging of Commodity Price Risk and Freight Risk in Overseas Markets**	
36.	*Hedging of Commodity Price Risk and Freight Risk in Overseas Markets (Reserve Bank) Directions* (*Gold, gems and precious stones have been excluded from the list of commodities whose price risk can be hedged. The revised directions shall come into force from April 1, 2018)* Reserve Bank of India https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11226&Mode=0	12 March 2018
V	**Practice of issuance of LoUs/ LoCs for Trade Credits for imports into India**	
37.	*Discontinuance of Letters of Undertaking (LoUs) and Letters of Comfort (LoCs) for Trade Credits* Reserve Bank of India https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11227&Mode=0	12 March 2018
VI	**Gems & Jewellery Sector**	
38.	*Contribution of Gems and Jewellery Industry* Press Information Bureau, Ministry of Commerce & Industry http://www.pib.nic.in/PressReleseDetail.aspx?PRID=1487643	12 April 2017

S.No.	Notification, Source	Date
39.	*Gem & Jewellery Training Institute set up in Udupi, Karnataka, First of its kind in Southern India, aims to boost G&J sector in the region* Press Information Bureau, Ministry of Commerce & Industry http://www.pib.nic.in/PressReleseDetail.aspx?PRID=1493081	16 June 2017
40.	*Government rescinds the Notification No. 4/2017 dated 23rd August, 2017 relating to Gems and Jewellery sector; Another notification will be issued separately in due course.* Press Information Bureau, Ministry of Finance http://www.pib.nic.in/PressReleseDetail.aspx?PRID=1505128	06 October 2017
VII	**Gold Import Schemes**	
41.	*Government Issues Clarification on Gold Imports Scheme* Press Information Bureau, Ministry of Commerce & Industry http://pib.nic.in/PressReleseDetail.aspx?PRID=1523896	12 Mach 2018

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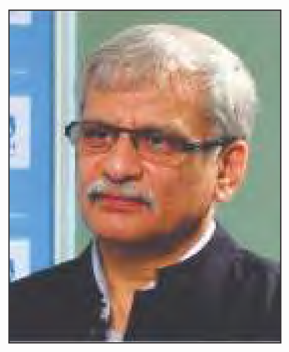

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