STUDENTS' ECONOMIC FORUM

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Theme 288

GOLD MONETIZATION SCHEME AND SOVEREIGN GOLD BONDS SCHEME

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The South Indian Bank Ltd., H.O. : 'S.I.B. House', Thrissur, Kerala

Theme No: 288: Gold Monetization Scheme and Sovereign Gold Bonds Scheme

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced. The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation.

Crude oil and gold are two dominant items of India's imports. With the objective of reduction of imports of gold and utilization of gold available in India, gold monetization schemes and gold bonds scheme were announced in the budget 2015-16. If India can export jewellery items with gold available in India rather than importing, our country's foreign exchange reserves will increase by a considerable extent. This month we discuss about Gold Monetization Scheme and Sovereign Gold Bonds Scheme.

What are the objectives of gold monetization scheme and gold bonds scheme ?
The objective is to mobilize gold held by households and institutions and use this gold for productive purposes which will help to reduce import of gold.

What are the different schemes under gold monetization scheme 2015?
There are two schemes under gold monetization scheme 2015.

1. Revamped Gold Deposit Scheme(R-GDS)
2. Revamped Gold Metal Loan Scheme(R-GML)

Describe briefly the important features of revamped gold deposit schemes?

1. The R-GDS replaces existing gold deposit schemes of 1999. But those deposits which are outstanding as per the earlier scheme will be allowed to continue till maturity. The depositors have the freedom to prematurely withdraw the deposits as per the extant instructions.
2. All scheduled commercial banks (excluding RRBs) - designated banks-are eligible to implement the scheme
3. Interest and principle of the deposit will be denominated in gold.
4. Eligibiliy: Resident Indians (individuals, HUFs, Trust etc.) can join this scheme. Deposits in the name of two or more persons are allowed and on maturity the proceeds will be credited to the joint deposit account. Nominations are also allowed.
5. All deposits under the scheme will be made at the collection and assigning centre

certified by Bureau of Indian Standards (BIS) and notified by central government. In the case of larger deposits, banks at their discretion may accept the gold deposits at the designated branches.

6. Interest on the deposits:-it will start accruing from the date of conversion of gold deposited into tradable gold bars after processing or 30 days after the receipt of gold at banks designated branches or at the Collection and Purity Testing Centers (CPTC).

What is the minimum amount of deposit?

Minimum deposit at any one time shall be 30gm of raw gold (bars, coins, jewellery excluding stones and other metals). All gold deposits, whether tendered at CPTC or designated branches will be assayed.

What are the different schemes under GDS?

There are two different schemes under GDS:

1. Short Term Bank Deposit (STBD)
2. Medium and Long Term Government Deposit (MLTGD)

Explain briefly the important features of STBD scheme?

- The gold deposit made at the designated banks for short term i.e. 1 year to 3 years is termed as Short Term Bank Deposit. The rollover is allowed in multiples of 1 year.
- Designated banks have to treat this liability as their on-balance sheet liability.
- Designated banks are given freedom to allow part or full premature withdrawals subject to penalty and minimum lock -in-period if any
- The designated bank has to consider this deposit for CRR and SLR requirements. The stock of gold held by the designated banks in their books can be considered as eligible asset for making the SLR requirement.
- The interest rate on these deposits will be fixed by the designated banks and will be credited in the deposit account of the customer. Interest accrued can be withdrawn periodically or on maturity.
- Depositor will have the freedom to fix the method of redemption. It can be either in Indian Rupee equivalent of the deposited gold and interest accrued (the price of gold prevailing at the time of redemption) or in gold. In case of premature redemptions it can be in Indian Rupee equivalent or gold which will be decided by the designated bank. The depositors should decide the method of redemption at the time of making deposits and should give it in writing to the bank and it will be irrevocable.

What are the important features of medium and long term government deposit (MLTGD?

- Designated banks on behalf of Central government accept the deposits. It should be clearly stated in the receipts issued by the CPTC and in the deposit certificate issued by the designated banks.
- Balance sheet of the designated bank will not reflect these deposits since it is the liability of central government. Designated banks will transfer the gold deposits to central government as and when instructed by central government. The gold deposit for a period of 5 to 7 years is known as medium term deposits and 12 to 15 years are

known as long term period deposits. Central government may decide the period of deposit from time to time. Similarly the rate of interest also will be decided by central government and notified by RBI. The designated banks may allow whole or part withdrawal of deposits subject to condition determined by Central government (Lock- in-period, Penalty etc.)

- Redemption including interest accrued is possible only in Indian Rupee equivalent of the value of gold at the price of gold at prevailing the time of redemption

What is the procedure of opening of account?

Depositors who do not have account with designated bank should open a gold deposit account with the designated bank with zero balance at any time prior to tendering of gold at CPTC. Customer identification and KYC norms are to be followed as applicable to any other deposit account.

How do the designated banks dispose of gold mobilized under STBD?

The designated banks may (a) Sell the gold to MMTC for minting India Gold coins (IGC), to jeweler and other designated banks who are participating in Gold monetization Scheme, Or (b) Lend the gold under GML scheme to MMTC for minting India Gold Coins (IGC) and to jewelers

What are the methods of gold disposal, accepted by designated banks on behalf of Central government?

1. Gold may be sold to MMTC or to any other agency authorized by Central government to auction the gold deposited under MLTGD and sale proceeds will be credited to central government account with RBI
2. RBI, MMTC, banks or any other entities notified by Central governments can participate in the auction

SOVEREIGN GOLD BONDS SCHEME

What are the objectives of the Sovereign Gold Bonds (SGB) schemes?

The objectives of SGB are the following

1. Reduction of demand for physical gold
2. Investment purpose gold purchase can be shifted to gold bond purchase

On behalf of the government of India, RBI will issue the bond. (The government of India will reimburse the distribution costs and sales commission paid to the intermediate channels by the issuing agency.)

What are the restrictions regarding the purchase of the gold?

Only resident Indian entities can purchase the bond. The maximum ceiling is 500gm per person per financial year.

Briefly describe the important features of SGB?

1. The interest rate of the bond will be decided by the government taking into consideration the domestic and international market conditions. The rate could be floating or fixed rate.

2. Both demat and paper form bonds will be available for purchase
3. Agencies like banks/ NBFCs/post offices/NSC agents etc. may collect money / redeem bonds on behalf of government for a fee.
4. The maturity period of SGB will be eight years and minimum lock-in period is five years
5. Bond may be used as collateral for loans
6. KYC norms to be followed
8. There will be sovereign guarantee for bonds
9. For the purpose of early exit of investors, purchase and sale of bond will be allowed in exchanges
10. Government of India will receive SGB sales money and it will be used for the reduction of government borrowings
11. Nomination facility will be available

Explain briefly regarding the redemption of SGB?
Redemption will be in rupee only. The rate of interest will be calculated on the value of gold at the time of investment.

Who will market the SGB?
In order to make it available easily, it will be marketed through post offices, banks, NBFCs and also by various agencies including national saving certificates (NSC) agents and commission will be paid to the agents.

What is the period of current issue?
Application for bonds can be submitted from 5th November 2015 and it will be closed on 20th November 2015. Government of India can close the issue prior to 20th November 2015 which will be informed and date of issuance of the bonds will be 30th November 2015.

What is the price per gram fixed for current issue of SGB?
₹ 2684/- per gram is the price fixed for sovereign gold bond (minimum is 2 grams bonds i.e., ₹ 2684x2=5368 and the maximum is 500gms i.e., 2684x500= ₹ 13,42,000

What is the interest rate offered and frequency of interest payment?
Interest rate offered is 2.75 % (fixed rate) per annum with half yearly rests

Can a minor invest in SGB?
Yes, the minor can invest in SGB provided the application is made by his/her guardian.

Whether joint holding is allowed in the case of SGB?
Yes, joint holdings are allowed.


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