

## Gold monetisation policy has no lustre, needs changes: IIM-A

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The Centre's gold monetisation policy has been unsuccessful due to a lack of incentives to consumers and banks, and needed to be tweaked to make it popular, a research body of the IIM, Ahmedabad, said today.

IIM's Indian Gold Policy Centre (IGPC) carried out a study on "Gold monetisation in India as a transformative policy", and suggested changes to achieve its intended goal.

"The gold monetisation policy, introduced by the Centre in 2015, had expected around 1,500 tonnes of gold coming in mainstream system. However, so far only around 200 tonnes of gold (including gold bonds) have come in mainstream. To say the least the scheme has been unsuccessful," Head of IGPC Professor Arvind Sahay said.

"A serious rethink is required about the scheme. It is needed to be tweaked so that more and more people get attracted towards it. Though the idea behind it is very noble, the present scheme lacks incentives for banks and consumers."

In India, it is estimated that there is 25,000 tonnes of gold, of which only around 800 tonnes is with RBI and the rest is privately held, Sahay said.

India is the second-largest importer of the yellow metal, bringing in 800-900 tonnes every year from overseas.

"Most of this gold, when purchased, remains with the owner, and circulation of money stops, which is not good for the economy," Sahay said.

"The banks in India are struggling to promote products based on GMP and seek more control on the process to have a clear separation of risks or effective mitigation of risks relating to operationalisation of the policy."

"Inadequate specialisation/experience in quality management of gold and lack of sufficient incentive alignment have been pointed out as the main reasons why banks are not yet fully on board (for the scheme). Process issues such as turnaround time and logistics requirements also deter banks and refiners from taking up the policy," he said.

"Consumers consider gold as having more sentimental value than investment value. They are reluctant to part with gold, but in time of crisis they will go up to pledging gold."

"Rural consumers are more reluctant to part with gold as compared to urban consumers. High openness to pledging gold is also strongly correlated with a high level of comfort with holding one's gold assets in the form of paper.

"A state-wise analysis of parameters indicating propensity to consider gold as "investment" rather than "sentiment" shows Karnataka, Telengana and Tamil Nadu to be the most attractive regions for increasing the effectiveness of the policy in both rural and urban regions," the study said.

"The RBI, it seems, is also not willing to have

deposits in form of gold. The RBI should clear its policy on Gold Monetisation," Sahay said.

With an aim to suggest improvisations for a better implementation of the monetisation policy , a nationwide survey was carried across 1171 households, from 10 states that constitute approximately three-quarters of annual national gold consumption, as part of the study.

Also interviewed were senior management of 6 banks, 5 refiners and one industry consultant to understand the challenges and implications of the policy for members of the gold ecosystem.

The households revealed a tendency to accumulate gold for purposes ranging from marriage to child's education. About 50 per cent of respondents said they accumulate gold in small quantities for marriage of child or self.

Family functions and festivals form two main triggers for gold purchase, for around 60 per cent of respondents, indicating ingrained habit and planned accumulation.

There is also high liquidity and safety association of gold, with virtually no substitute, along with a clear reluctance to sell gold received as a gift by almost 70 per cent of respondents.

The IGPC, sponsored by World Gold Council, was set up in 2015 as a centre of excellence, conducting cutting-edge applied research on the gold industry in India and providing insights to suggest ways at both policy as well as execution levels.

The objective of IGPC is to develop insights into how the significant stocks of gold that India owns can be used to advance growth, employment, social inclusion and the economic wealth of the nation.