Q7

Craze for gold in Indian has led to surge in import of gold in recent years and put pressure on balance of payments and external value of rupee. In view of this, examine the merits of Gold Monetization scheme.

UPSC Civil Services Mains 2015 · GS III · 12 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- Link India's gold craze to imports, the current account and the rupee
- Examine merits of the Gold Monetisation Scheme, 2015
- Note related tools and cultural limits

Revision summary

India's gold demand is met largely by imports, which widen the current account deficit and can weaken the rupee.

Most domestic gold sits idle as jewellery rather than as a financial asset.

Gold Monetisation Scheme 2015 pays interest on deposited gold and can supply jewellers from that stock.

It replaces the older Gold Deposit Scheme and sits with Sovereign Gold Bonds and the Indian Gold Coin.

Trust in assay and cultural preference for jewellery will decide actual deposits.

Introduction

Households and temples in India hold a huge stock of **gold as jewellery and bars**. When prices or festivals rise, **imports** surge. That gold is largely **unproductive**: it sits in lockers while the **current account deficit** and the **rupee** take the hit. The **Gold Monetisation Scheme (November 2015)** tries to pull idle metal into banks and refiners.

Body

Why gold imports hurt the external account

- India is among the world's largest gold importers; the metal is a big line in the **merchandise import bill** after oil.
- The **2013 taper-tantrum** period showed how gold imports can widen the current account deficit and pressure the rupee.
- Policy already used **import duty**, the **80:** 20 export-import rule, and curbs on credit for gold - which treat the symptom, not the stock in homes.

- If even a fraction of domestic gold is **monetised**, import demand for the same jewellery and industrial use can fall.

Merits of the Gold Monetisation Scheme

- Depositors can tender gold to **banks**; after assay, they earn **interest** on the metal and may take back gold or rupees at maturity (short, medium and long tenors).
- Medium- and long-term deposits can be on-lent to **jewellers and refiners**, so the gems and jewellery industry uses domestic metal instead of fresh imports.
- The scheme replaces the weakly used **Gold Deposit Scheme (1999)** with clearer interest, tax treatment and a role for refiners and collection centres.
- **Fiscal and external merit:** lower import volume eases the current account and supports the rupee, without asking households to sell family gold forever.
- Temples and institutions with large holdings can earn a return instead of paying locker and security costs.
- Complementary **Sovereign Gold Bond** and **Indian Gold Coin** (2015) give paper or official coin substitutes so future demand need not all be imported bars.

Limits

- Cultural attachment to **karat jewellery**, distrust of assay, and low interest versus making charges will slow deposits.
- Branch and refinery **infrastructure** must be trusted or the scheme stays a press note.
- Monetisation does not by itself end festival demand; it only recycles existing metal.

Flow diagram

Household temple gold -> Fresh imports

Fresh imports -> CAD and rupee pressure

Household temple gold -> Gold Monetisation Scheme

Gold Monetisation Scheme -> Interest and refiner supply

Interest and refiner supply -> Lower import need

Conclusion

Gold imports have repeatedly strained India's balance of payments and the rupee because idle household metal is preferred to bank returns. The Gold Monetisation Scheme's merit is to pay interest, feed jewellers from domestic stock, and cut the import bill. It will work only with trusted assay, fair interest and the bond-and-coin substitutes that absorb new demand.

Facts & figures

Gold Monetisation Scheme

Launched November 2015: short, medium and long-term gold deposits with banks, interest on gold, and on-lending to the jewellery industry.

Gold Deposit Scheme 1999

Earlier, little-used deposit route that GMS was designed to replace with clearer terms.

Sovereign Gold Bond

2015 RBI-issued rupee bonds denominated in gold, meant to substitute physical import for investment demand.

Indian Gold Coin

Official Indian-minted coin launched with the 2015 gold package to offer a domestic, quality-stamped alternative.

CAD and 2013

Gold imports were a major extra pressure on the current account and the rupee during the 2013 external-stress episode.
