

# Excerpts of Memorandum submitted to Govt. of India by AGRM on Reviving GMS



**Mr James Jose**

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**To**  
**Smt. Nirmala Sitharaman**  
**Hon Minister for Finance**  
**Govt of india**

**Sub:** suggestions to reduce annual import of 750 tonnes of gold and CAD

**Ref:** our earlier letters on policy tweekings to make GMS operational, to collect domestic gold deposits

**Respected madam**

We appreciate and respect your concern in the words -“India does not produce much gold. In fact the production is almost zilch, so you are importing by paying foreign exchange. So, you want to see whether you can at least try to discourage the extend to which

people are importing gold“

However the ground realty is that the consumption and demand for gold in india is highly inelastic, vis a vis import duty, gold price or supply side constraints – the country has been importing around 700-800 tonnes of gold for domestic consumption for the past 2 decades and this steady demand and affinity for gold jewellery is arising from religious, cultural, social and economical factors, irrespective of gold prices, which fluctuate 10% intra year.

An increase in import duty per se, need not bring down the demand for gold, as illustrated from past experience

**Gold imported in tonnes and import duty structure of the past 10 years – from 2011 to 2021**

No	Period	Import duty structure for gold	Yearly import in tonnes For domestic consum	Gold Import for export purpose	Total import tonnes / annum
1	2011	Notional duty of Rs.300 for 10 gms	767 tonnes gold seized Rs.17crores	238 tonnes	1005 tonnes
2	17.1 .2012 28.2.2012	2% ad velorum Duty hiked to 4%	690 tonnes	214 tonnes	904 tonnes
3	21.1.2013 13.8.2013	duty hiked to 6% duty hiked to 10%	604 tonnes	136 tonnes	740 tonnes
4	2014	Duty at 10%	569 tonnes	187 tonnes	756 tonnes
5	2015	Duty at 10%	743 tonnes	196 tonnes	939 tonnes
6	2016	Duty at 10%	350 tonnes. Gold seized 858 crores	174 tonnes	524 tonnes
7	2017	Duty at 10%	642 tonnes	225 tonnes	867 tonnes
8	2018	Duty at 10%	528 tonnes	236 tonnes	767 tonnes
9	2019	Duty hiked to12.5%	464 tonnes	245 tonnes	709 tonnes
10	2020	duty at 12.5%	283 tonnes. Covid pandemic	94 tonnes	377 tonnes Covid lockdown
11	2021	duty at 12.5%	832 tonnes	152 tonnes	984 tonnes
12	April &May 2022	Duty @12.5 % Festival of Akshaya thruthiya	232 tonnes Highest bimonthly Volume	32 tonnes	264 tonnes akshya thruthiya festival
13	5 july 2022	Import duty + cess hiked to 15%	Aimed to reduce imports		Low demand July High demand Aug

**1. Gold demand is always inelastic- The average monthly import of gold for domestic consumption is around 60-70 tonnes and another 15-20 tonnes of import for export purposes** Often, during the 6 months of festival and marriage season - of April –May, Sept – October &, December –January, the import of gold goes upto above 100 tonnes per month, whereas in the remaining 6 off season months, import comes down to 10-20 tonnes per month, taking the monthly average imports to 60-70 tonnes per month. Such being the case, extrapolating or interpreting a particular months high gold imports as a quantum jump in gold consumption is a wrong inference and shall not be a plank / reasoning / criteria to raise import duty,

aimed at curbing gold imports  
**2. Gold supply is always elastic-if there are supply side restrictions like 80:20 rule for gold imports, logistic constraints etc, domestic gold price premiums may go up,** and the shortage in supply is offset by higher supply from unofficial channels and grey market, that is to say, supply is always elastic, shortages are taken care of by non official channels as well, to meet the highly inelastic demand of 750 tonnes of gold per annum.

**3. High import duties incentivize smuggling, also depreciates the INR-**When the official import duties are increased to curb gold imports or to arrest the dollar outflow for gold and worsening CAD, as a corollary, these high import duties

incentivize gold smuggling, leading to additional demand for USD in the hawala market, resulting in the appreciation of USD/ depreciation of INR, arising from the higher demand for dollar from unofficial channels.

**4. The only practical solution to bring down gold imports and forex payments is to encourage recirculation of domestic/ house hold gold holdings estimated to be more than 25,000 tonnes.** Out of this 25,000 tonnes, atleast 1/3rd is of investment type coins, bars and jewellery that can easily be mobilized for GMS deposits, provided there is a comfortable ecosystem for monetizing / depositing this old gold, which is listed as below:

**GMS 2015 - problem areas in mobilizing domestic gold for recirculation /deposits /gold metal loans**

No	Problem areas in GMS gold deposits	Suggestions to incentivize GMS deposits
1	<p><b>Depositors are ready for deposits under the GMS 2015. But banks are not ready to accept GMS deposits, even after 7 years</b></p> <p>There is no software for GMS portal. Govt has entrusted State Bank to develop the Gms portal software, but there seems to be no updates about the GMS software.</p> <p>Even now one bank is comfortably mobilizing old gold deposits from temples and institutions under the old GDS of 1998, and hence not bothered about the new GMS 2015. They bypass / avoid the GMS agents of multiple banks, gold refineries, Cptcs and BIS licensed jewellers, whose vast net work could have collected several hundred tonnes of old gold, as against the 16 tonnes mobilized by this bank in all these 24 years</p>	<p><b>Govt shall fix a deadline to develop and operate the GMS portal;</b> without an inter bank gold transfer mechanism under the GMS portal, GMS cannot be operated, nor can the collected gold from a bank be deployed by another bank at another location</p> <p><b>Govt shall fix a deadline for the banks to appoint nodal officer in every state to operate the GMS :</b></p> <p>Presently none of the bank staff in local branches is aware of GMS, there is no contact person in the bank to arrange the execution of biparty / triparty agreements with gold refineries, cptcs and jewellers, let alone giving information to willing GMS gold depositors</p> <p><b>Govt shall instruct that each bank shall have tie up/ executive agreement with minimum 3 gold refineries 10 cptcs and 50 licensed jewellers in every state:</b> presently these stake holders are chasing the banks for tie up, but banks are ignoring /leaving them in the lurch., unaware that only such a vast network of collection agents can mobilize gold deposits from the public.</p>

<p>2</p>	<p><b>The capital gains tax on sale of old gold is a major factor that hinder the monetizing of old gold holdings.</b></p> <p>Gold price in 1994 was Rs.250 per gm, after 28 years in 2022, it is Rs. 5200 per gm, inclusive of 18% govt levies. Selling the old gold purchased decades ago, to the GMS scheme incurs huge capital gain tax.</p>	<p><b>The capital gains tax on old gold sales shall be withdrawn, so as to incentivize more gold holders to deposit and monetize their old gold under the GMS.</b></p> <p>The tax recovery /revenue foregone from capital gains tax shall be more than compensated by the savings in precious foreign exchange, CAD and rupee depreciation.</p>
<p>3</p>	<p><b>The 3% GST deduction by registered dealers while buying old gold is huge money loss for the customer and is a major negative factor/ deterrent for depositing / monetizing domestic old gold in the GMS</b></p> <p>To evade the burden of capital gains tax and GST, old gold is often sold to unregistered jewellers and other grey market operators. Every year around 200 tonnes of old gold is getting monetized in this parallel economy, mostly to evade capital gains tax, cheque payment and deduction of 3% GST</p>	<p>The 3% GST for gold, shall be offset / compensated with credit note /pass book or voucher ,which they can utilize while buying their next lot of new jewellery from gst registered dealers</p> <p><b>Another option to offset the 3% GST impact on old gold purchase is to reduce the GST to 1%, and shifting the 2% of GST to the basic import duty.</b></p> <p><b>Reducing the GST on gold to 1% will also reduce the gst refund burden for gold sales to the spot gold exchanges and gold sale under demat form</b></p>
<p>4</p>	<p><b>The banks are not having enough gold loan products to deploy the medium and long term GMS gold deposits in a profitable manner</b> The existing gold metal loans ( GML) offered by banks have a short tenure of 180 days – such short term GML is not useful for the jewellery trade, because of the frequent fluctuations in gold price, and hence banks may find it difficult to deploy the long tenure GMS gold deposits as GML to the jewellery trade.</p>	<p><b>To make GML from GMS deposits attractive for the banks and jewellery trade, the tenure of GML from GMS shall be extended to 1 year period,</b> similar to CCOL working capital loans from banks to jewellery shops ,with a provision for renewal every year, similar to CCOL annual renewal facility</p> <p><b>We thankfully acknowledge that the Govt and RBI has permitted gold to gold settlement of GML in the case of GMS gold, which is very positive for GMS deposits</b></p>



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