

Gold monetisation scheme won't work for short-term deposits, say bankers

The gold monetisation scheme (GMS), announced by the Reserve Bank of India (RBI) on Thursday, would work only for medium- and long-term gold deposits as banks would find it difficult to recover operational costs and hedging costs for short-term deposits, bankers said.

The designated banks are allowed to accept gold deposits as a short-term deposit (one to three years), medium-term (five to seven years) and long-term (12 to 15 years).

Medium-term and long-term deposits would be treated as government borrowings and rate of interest on that will be determined by the government in consultation with RBI, while short-term interest rates would be fixed by individual banks.

Given the costs and assessment of earnings by lending gold, bankers say they would be able to offer an interest rate between one and two per cent on short-term gold deposits.

While all charges like melting and testing in medium- and long-term deposits will be borne by the government, banks will have to shell out the expense for short-term deposits.

Bankers say the cost of melting and testing, indicated in the government notification, for short-term gold deposits of small quantities will not be viable for banks. It would be tough for banks to recover logistics and operational expenses for short-term deposits, public sector bank officials said.

To cut down on the import Bill, RBI allowed individuals, trusts and mutual funds to deposit gold with banks and earn an interest on it. Prime Minister Narendra Modi will launch the scheme on November 5.

A senior State Bank of India executive said, "Before firming up interest rates on these deposits, we will have to see costs in refining and operational expenses."

RBI said the minimum deposit under the scheme should be raw gold equivalent to 30 gram of 995 fineness. The central bank has not fixed a maximum limit for deposit.

There will be a provision for premature withdrawal, subject to a minimum lock-in period and penalty to be determined by individual banks.

A public sector bank official said the existing scheme launched in 1999, run by State Bank of India, was not a success, and added there was "nothing path-breaking" in the new scheme. The new gold monetisation scheme will replace the existing scheme.

(Business Standard)