# THE INFLUENCE OF THE GOLD MONETIZATION SCHEME ON THE INDIAN FINANCIAL SYSTEM AND THE INDIAN ECONOMY

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## ABSTRACT

The Gold Monetization Scheme (GMS) was introduced to mobilize idle gold held by Indian households and institutions and bring it into productive financial use. This study examines the influence of the scheme on the Indian financial system and economy, focusing on awareness, perceived benefits, banking services, financial liquidity, and economic contribution. Primary data were collected from 100 respondents through a structured questionnaire and analyzed using percentage analysis. The findings indicate that awareness of the scheme is relatively high, respondents perceive positive banking and economic effects, and banking services receive favorable evaluations. However, limited awareness, procedural complexity, and trust concerns remain significant barriers.

**Keywords:** Gold Monetization Scheme, Financial System, Indian Economy, Gold Mobilization, Banking Sector

## 1. INTRODUCTION

Gold has traditionally occupied an important position in Indian households because of its cultural, social, financial, and economic significance. Indian families commonly hold gold in the form of jewellery, coins, and bars, particularly for savings, security, social functions, marriages, and religious occasions. Consequently, substantial quantities of privately held gold remain outside the formal financial system and are not directly contributing to productive economic activity. The Gold Monetization Scheme (GMS) was introduced by the Government of India in 2015 to address this situation by encouraging households and institutions to deposit idle gold with designated banks. The official objective of the scheme is to mobilize idle gold and facilitate its productive use while reducing India's dependence on imported gold over the long term. The scheme revamped the earlier Gold Deposit Scheme and Gold Metal Loan Scheme. Gold deposited under the scheme undergoes collection, purity testing, and valuation before being credited through the banking system. The banking sector plays a central role in implementing GMS. Banks accept gold deposits, maintain deposit accounts, coordinate with collection and purity-testing centres and refineries, pay interest according to applicable arrangements, and facilitate the productive use of mobilized gold. The scheme therefore provides banks with an alternative mechanism for mobilizing resources and potentially supporting liquidity and gold-related financial services. At the macroeconomic level, gold monetization is expected to reduce the demand for imported gold, thereby helping conserve foreign exchange and potentially reducing pressure on India's external account. It can also bring privately held physical assets into the organized financial system and provide depositors with income from otherwise idle assets. The scheme may further support the jewellery industry by making domestically mobilized gold available for productive purposes. Despite these potential benefits, participation has been constrained by limited awareness, emotional attachment to jewellery, concerns about purity testing and valuation, procedural requirements, and customer-trust issues. The study therefore examines awareness, perceived benefits, banking-service satisfaction, and the perceived effects of GMS on India's banking system and economy. It also identifies practical measures for improving public participation and strengthening the effectiveness of the scheme.

## 2. REVIEW OF LITERATURE

The literature reviewed in the study indicates that the Gold Monetization Scheme has considerable potential to convert idle household gold into productive financial resources. Sharma and Gupta (2016) emphasized that the scheme could mobilize unproductive household gold but identified low awareness and emotional attachment to jewellery as major barriers. Kumar (2017) highlighted the potential of gold mobilization to reduce gold-import dependence and improve India's external position. Patel and Shah (2018) examined the role of commercial banks and stressed transparent valuation, efficient services, and customer education. Reddy (2019) found that awareness of the scheme's detailed features remained limited despite general familiarity with the initiative. Singh and Verma (2020) identified potential benefits for banking liquidity and gold-based financial services. Joshi (2021) connected gold monetization with foreign-exchange conservation and financial stability. Mehta and Rao (2022) emphasized customer trust, transparency, and concerns regarding jewellery handling. Nair (2023) highlighted digital banking and electronic tracking as mechanisms for improving participation and transparency. Agarwal and Mishra (2024) associated gold monetization with financial inclusion and formal financial participation, while Prakash and Iyer (2025) emphasized awareness, simplified procedures, digital services, and stakeholder coordination. Overall, the literature indicates that the scheme's success depends strongly on awareness, trust, operational efficiency, and policy support.

## 3. OBJECTIVES OF THE STUDY

1. To study the concept and working mechanism of the Gold Monetization Scheme in India.
2. To examine the influence of the Gold Monetization Scheme on the Indian banking sector.
3. To evaluate the perceived impact of the Gold Monetization Scheme on the Indian economy.
4. To identify the factors affecting public awareness and participation in the Gold Monetization Scheme.
5. To suggest appropriate measures for improving the effectiveness and implementation of the Gold Monetization Scheme.

## 4. RESEARCH METHODOLOGY

The study adopts a descriptive research design using primary and secondary data. Primary data were collected through a structured questionnaire from 100 respondents selected through convenience sampling. Secondary information was obtained from books, journals, government publications, banking reports, newspapers, and reliable websites. Percentage analysis was used for interpretation.

### 4.1 STATISTICAL TOOL

**Percentage Analysis**

**Percentage analysis** is the most appropriate statistical tool for this study because the objectives focus mainly on respondents' awareness, perceptions, satisfaction, and opinions regarding the Gold Monetization Scheme. It enables the responses to be classified into categories and expressed as percentages, making comparisons and interpretation straightforward. The source study also used percentage analysis, tables, bar diagrams, and pie charts for presenting the collected information.

## 5. DATA ANALYSIS AND INTERPRETATION

The study collected responses from 100 respondents. Exactly three tables directly related to the study objectives are presented below.

**Table 5.1: Knowledge of the Gold Monetization Scheme**

| Category | Number | Percentage |
|---|---|---|
| Aware | 68 | 68% |
| Not Aware | 32 | 32% |
| **Total** | **100** | **100%** |

**Interpretation:** The table shows that **68% of respondents are aware** of the Gold Monetization Scheme, whereas 32% are not aware of it. The result indicates a reasonably high level of general awareness, but the proportion of respondents without awareness remains substantial. This supports the need for stronger public education and communication about the scheme.

**Table 5.2: Effects of the Gold Monetization Scheme on the Indian Banking System**

| Category | Number | Percentage |
|---|---|---|
| Strongly Agree | 30 | 30% |
| Agree | 42 | 42% |
| Neutral | 16 | 16% |
| Disagree | 8 | 8% |
| Strongly Disagree | 4 | 4% |
| **Total** | **100** | **100%** |

**Interpretation:** The findings show that **42% agree** and **30% strongly agree** that the Gold Monetization Scheme has a positive effect on the Indian banking system. Thus, 72% of respondents express a favorable view. The result suggests that respondents recognize the potential of mobilizing idle gold to strengthen banking resources, liquidity, and financial operations.

**Table 5.3: Impact of the Gold Monetization Scheme on the Indian Economy**

| Category | Number | Percentage |
|---|---|---|
| Strongly Agree | 40 | 40% |
| Agree | 34 | 34% |
| Neutral | 14 | 14% |
| Disagree | 8 | 8% |
| Strongly Disagree | 4 | 4% |
| **Total** | **100** | **100%** |

**Interpretation:** The table indicates that **40% strongly agree** and **34% agree** that the Gold Monetization Scheme positively affects the Indian economy. Therefore, 74% of respondents express a positive opinion. The finding reflects the perceived economic contribution of converting idle gold into productive resources and reducing dependence on imported gold.

## 6. RESULTS

1. The study finds that the Gold Monetization Scheme has significant potential to mobilize idle household and institutional gold.
2. A majority of respondents, **68%**, are aware of the Gold Monetization Scheme.
3. The findings indicate that awareness is not yet universal, as 32% of respondents remain unaware of the scheme.
4. The study reveals a favorable perception of the scheme's influence on the Indian banking system.
5. A total of 72% of respondents either agree or strongly agree that GMS positively affects the banking system.
6. The study finds a favorable perception of the scheme's contribution to the Indian economy.
7. A total of 74% of respondents either agree or strongly agree that GMS positively affects the Indian economy.
8. The scheme is perceived as useful for converting idle gold into productive financial resources.
9. The findings indicate that the scheme can support banking liquidity and strengthen the formal financial system.
10. Low awareness, emotional attachment to jewellery, purity concerns, procedural complexity, and transparency issues remain important barriers to wider participation.

## 7. SUGGESTIONS

1. Banks and government agencies should conduct continuous awareness campaigns explaining the objectives, benefits, eligibility, and procedures of the Gold Monetization Scheme.
2. The deposit process should be simplified by reducing unnecessary documentation and processing time.
3. Banks should provide transparent information regarding purity testing, gold valuation, interest calculation, and redemption procedures.
4. Customer service should be strengthened to improve confidence among potential depositors.
5. Digital facilities such as online registration, appointment booking, deposit tracking, and customer portals should be expanded.
6. Banks should provide simple educational material explaining how deposited gold contributes to productive financial activity.
7. Government authorities may consider appropriate incentives to encourage longer-term participation.
8. Financial literacy programmes should highlight the opportunity cost of keeping large quantities of gold idle.
9. Bank employees should receive regular training so they can clearly explain the scheme and resolve customer concerns.
10. Coordination among banks, refineries, jewelers, government agencies, and regulatory authorities should be strengthened for efficient implementation.

## 8. CONCLUSION

The Gold Monetization Scheme represents an important policy initiative aimed at transforming idle gold held by households and institutions into a productive financial resource. The study indicates that the scheme has potential benefits for depositors, banks, and the wider Indian economy. The analysis shows that most respondents are aware of the scheme and that a substantial majority perceive positive effects on both the Indian banking system and the economy. By bringing privately held gold into the formal financial system, the scheme can support financial resource mobilization, banking liquidity, and more productive utilization of existing assets. It may also contribute to reducing dependence on imported gold and conserving foreign exchange resources. However, the full potential of the scheme has not yet been achieved because of inadequate awareness, emotional attachment to jewellery, concerns about purity and valuation, procedural complexity, and transparency issues. Improving communication, simplifying procedures, strengthening digital services, and increasing transparency can enhance public confidence and participation. Greater cooperation among the Government of India, banks, refineries, jewelers, and financial institutions is also necessary. Overall, the study concludes that effective implementation and customer-oriented reforms can strengthen the contribution of the Gold Monetization Scheme to India's banking system, financial stability, and long-term economic development.

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