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Banks to get commission for unlocking household gold: RBI

By Reuters | Updated: Jan 22, 2016, 04.33 AM IST

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MUMBAI: The government will pay banks a 2.5 per cent commission to unlock the country's massive stash of [gold](#) under a new monetisation scheme, the Reserve Bank of India said, as the ambitious plan received a poor response from banks and customers.

Prime Minister [Narendra Modi](#) launched the Gold Monetisation Scheme on Nov. 5 to lure an estimated 20,000 tonnes of gold hoarded in households and temples into the banking system and trim the import bill of the world's second biggest gold consumer after China.

But only a few kilograms trickled in over the last two months as banks showed little interest in popularising the scheme because of negligible returns for them.

Now the government has decided to pay the participating banks a total commission of 2.5 per cent, including 1.5 per cent handling charges, for the first year, the [RBI](#) said in a statement late on Thursday.

Support from banks is crucial to the success of the scheme. Similar programmes in the past have failed as they were not profitable for the banks.

Under the current scheme, people are encouraged to deposit jewellery, bars or coins with banks so it can be refined to meet fresh demand and cut the need for imports.

The consumer would earn interest and, at the end of the deposit term, get the gold back in the form of bars.

But the public response has been lacklustre. Indians' penchant for [bullion](#) spans centuries and they would not part with their gold, which is seen as providing financial security, unless they were offered incentives such as higher interest rates.

Banks, however, were saying they could not offer attractive rates unless the government compensated them for the loss from higher rates.

"The 2.5 per cent commission will make the scheme attractive for banks even after offering a decent [interest rate](#) to customers," said a Mumbai-based bullion dealer with a private bank.

Banks are allowed to accept gold under medium- and long-term deposit schemes. For the medium-term deposit, the tenure is 5 to 7 years and customers can earn 2.25 per cent interest per annum.

For long-term deposits, the tenure is 12 to 15 years and customers can earn 2.50 per cent interest per annum, the central bank said.

Withdrawals are allowed after a minimum lock-in period of three years for medium-term deposits and five years for long-term deposits, although such withdrawals will attract a penalty in the form of a lower interest rate, the bank said.

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