Sovereign Gold Bonds

Why in News

The Government of India (GoI), in consultation with the **Reserve Bank of India (RBI)**, has decided to issue **Sovereign Gold Bonds (SGBs)** in six installments, from April 2020 to September 2020.

- This series of government-run gold bonds - the Sovereign Gold Bond 2020-21 scheme - comes at a time when the **rapid spread of the deadly** coronavirus (Covid-19) has **disturbed the financial markets** around the globe, **but increased the appeal of the yellow metal (gold) as a safe-haven.**

Key Points

- **Sovereign gold bonds**
    - Sovereign gold bonds are **issued by the RBI on behalf of the government.** They are **government securities denominated in grams of gold.** They are **substitutes for holding physical gold.**
    - The sovereign gold bond scheme was launched in November 2015. Its objective is to reduce the demand for physical gold and shift a part of the domestic savings (used for the purchase of gold) into financial savings.
    - **Buy and Sale:** Investors have to pay the issue price in cash and the bonds will be redeemed (bought back by the issuer) in cash on maturity.
        - Issue price is the price at which bonds are offered for sale when they first become available to the public.
    - Apart from having a chance to gain from the **rise in gold prices at the time of redemption (capital gain),** the investor gets a **fixed rate of interest** on the investment amount throughout the tenure of the fund.
        - The government will pay an interest at the rate of **2.5% per annum.** The interest is payable **semi-annually.**
    - **Tenure**: Sovereign gold bonds have a **tenure of eight years, with exit options are available from the fifth year.**
    - **Eligibility :**The Bonds will be restricted for sale to resident individuals, Hindu Undivided Families (HUFs), Trusts, Universities and Charitable Institutions.
        - The **minimum permissible investment unit is 1 gram of gold.**
- **Channels to buy bonds:**
    - Investors can buy these bonds through **designated scheduled commercial banks (except Small Finance Banks and Payment Banks), Stock Holding Corporation of India Limited, and designated post offices.**
    - One can also buy these bonds through **National Stock Exchange of India Limited and Bombay Stock Exchange(BSE) Limited.**
- **Advantages of investing in gold bond:**

    - For investors it is advisable to invest in gold for portfolio diversification.
    - Sovereign gold bonds are considered one of the better ways of investing in gold as **along with capital appreciation an investor gets a fixed rate of interest.**
    - Apart from this, it is **tax efficient as no capital gains is charged in case of redemption on maturity.**
    - Sovereign gold bonds are a good way to ensure an investment that does **not need physical storage of gold.**
- **Disadvantages of sovereign gold bonds**
    - This is a **long term investment unlike physical gold which can be sold immediately.**
    - Sovereign gold bonds are listed on exchange but the **trading volumes are not high, therefore it will be difficult to exit before maturity.**

Source : Mint