Sovereign Gold Bond Scheme

For Prelims: Government Securities (GS) Act, 2006, RBI, Income Tax Act, 1961

For Mains: Sovereign Gold Bond Scheme, its advantages and disadvantages

Why in News?

The Government of India, in consultation with the **Reserve Bank of India**, will issue **Sovereign Gold Bonds in tranches for 2022-23.**

- Investment in SGBs went up sharply during **Covid-impacted years** as **investors looked for safer options amid volatility in equity markets with 2020-21 and 2021-22 accounting for nearly 75% of total sales** of the bonds since the inception of the scheme in November 2015.

What is the Sovereign Gold Bond Scheme?

- **Launch:**
  - The SGB scheme was **launched in November 2015** with an **objective to reduce the demand for physical gold** and shift a part of the domestic savings - used for the purchase of gold - into financial savings.
- **Issuance:**
  - The Gold Bonds are issued as **Government of India Stock under the Government Securities (GS) Act, 2006.**
  - These are issued by the **Reserve Bank of India (RBI)** on behalf of the Government of India.
  - Bonds are sold through Commercial banks, Stock Holding Corporation of India Limited (SHCIL), designated post offices and recognised stock exchanges viz., **National Stock Exchange of India Limited** and Bombay Stock Exchange, either directly or through agents.
- **Eligibility:**
  - The bonds are **restricted for sale to resident individuals, Hindu Undivided Families (HUFs), trusts,** universities and charitable institutions.
- **Features:**
  - **Issue Price:** Gold bond prices are linked to the price of gold of 999 purity (24 carats) published by **India Bullion and Jewellers Association (IBJA)**, Mumbai.
  - **Investment Limit:** Gold bonds can be purchased **in the multiples of one unit, up to certain thresholds** for different investors.
    - The upper limit for retail (individual) investors and HUFs is **4 kilograms (4,000 units) each per financial year.** For trusts and similar entities, an upper limit of 20 kilograms per financial year is applicable.
    - Minimum permissible investment is 1 gram of gold.
  - **Term**: The gold bonds come with a **maturity period of eight years**, with an option to exit the investment after the first five years.
  - **Interest Rate**: A fixed rate of 2.5% per annum is applicable on the scheme, payable semi-

annually.
        - The interest on Gold Bonds shall be taxable as per the provision of Income Tax Act, 1961.

- **Benefit:**
    - Bonds can be used as **collateral for loans.**
    - The capital gains tax arising on **redemption of SGB to an individual has been exempted.**
        - Redemption is the **act of an issuer repurchasing a bond** at or before maturity.
        - **Capital gain is the profit earned on the sale of an asset** like stocks, bonds or real estate. It results in when the selling price of an asset exceeds its purchase price.
- **Disadvantages of Investing in SGB:**
    - 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.

UPSC Civil Services Examination, Previous year Question (PYQ)

Q. What is/are the purpose/purposes of Government's 'Sovereign Gold Bond Scheme' and 'Gold Monetization Scheme'? (2016)

1. To bring the idle gold lying with Indian households into the economy.
2. To promote FDI in the gold and jewellery sector.
3. To reduce India's dependence on gold imports.

Select the correct answer using the code given below:

(a) 1 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: (c)

Exp:

- Sovereign Gold Bond Scheme and Gold Monetization Scheme were launched by the Government in 2015.
- The main objectives of these schemes are:
    - To mobilize the gold held by households and institutions in the country. **Hence, 1 is correct.** To provide a fillip to the gems and jewellery sector in the country by making gold available as raw material on loan from the banks
    - To be able to reduce reliance on import of gold over time to meet the domestic demand. **Hence, 3 is correct**.
    - To promote FDI in gold and jewellery sector is not the objective of these schemes. **Hence, 2 is not correct**. Therefore, option (c) is the correct answer.

Source: TOI