

Issues in Sovereign Gold Bond

Why in news?

People prefer physical gold over sovereign gold bonds as no trail is left for the tax authorities.

Key terms	
Physical gold	<ul style="list-style-type: none"> • It can be purchased at jewelry shops. • It includes a 20% making charge, 3% GST, and capital gains tax is charged when selling the yellow metal.
Digital gold	<ul style="list-style-type: none"> • It is alternative to physical gold where purity is guaranteed. • Example- Investment in exchange traded funds (ETFs), gold mutual funds, and gold futures.
Gold ETFs	<ul style="list-style-type: none"> • They are gold-based passive investment instruments that invest in gold bullion and are based on gold prices. • They are paper or dematerialized units that represent physical gold.

What is Sovereign Gold Bond (SGB)?

About	A financial instrument introduced by government to reduce gold imports
Launch year	2016
Issuer	Reserve Bank of India (RBI) on behalf of Government of India
Interest	2.5% paid semi-annually
Eligible investors	<ul style="list-style-type: none"> • Persons residing in India as defined under <i>Foreign Exchange Management Act, 1999</i> • Individuals, Hindu Undivided Families (HUFs), Trusts, Universities and Charitable institutions
Investment limit	<ul style="list-style-type: none"> • Minimum investment- 1 gram • Maximum investment <ul style="list-style-type: none"> - Individuals & HUFs - 4 kg - Trusts - 20 kg

Authorized agencies to sell SGBs	<ul style="list-style-type: none"> • Nationalised Banks • Scheduled Private Banks • Scheduled Foreign Banks • Designated Post Offices • Stock Holding Corporation of India Ltd., • Authorised stock exchanges
Tenure	8 years with exit option after the 5 th year

What are the advantages of SGB?

- **Protected investment**- The quantity of gold the investor pays for is protected, since he receives the ongoing market price at the time of redemption/premature redemption.
- **Cost effective**- These bonds offer a superior alternative to physical gold as the risks and costs of storage are eliminated.
- **Passive income**- Investors are assured of the market value at the time of maturity, and periodical interest.
- **Flexibility**- These bonds are free from issues like jewellery making charges, purity, risk of loss of scrip, etc.,
- **Collateral**- It is as liquid as physical gold and could be exchanged for money at the time of financial needs.
- **Tax benefits**- There is a provision of tax exemption from the interest and capital gains of the bond.
- **Minimal risk**- Gold bonds have a negligible risk factor, making them an ideal investment choice.

All That Shines...

Million Troy Ounce



Source:
RBI



What makes physical gold more attractive than SGB for people?

- **Liquidity restriction-** SGBs are *long-term investments* that cannot be liquidated before 5 years from the date of investment whereas physical gold can be sold at anytime and anywhere.
- **Lower returns-** SGB are risk free instruments but they provide low returns when compared to other market instruments.
- **Investment limit-** Imposing maximum limit restricts the people their freedom of choice to invest.
- **Market fluctuation-** It shifts the price of gold below the bond cost price.
- **Low demand-** The demand for SGB is very low compared to physical gold imports.
 - Only 1.8% of total gold imports were equivalent to SGBs in the last 8 years.
- **Tangible asset-** Confidentiality and privacy is not possible in SGB where the KYC (Know Your Customer) norms are applied and followed as they are issued by RBI through banks.
- **Cultural value-** Physical gold holds emotional significance in India, especially for weddings and festivals. It is also seen as a symbol of status and wealth.
- **Dependence-** SGB carries the risk of default or fluctuation due to government guarantee unlike the physical gold.

Quick facts

Electronic Gold Receipts

- They are a new way of trading gold on the stock exchange without having to buy or store physical gold.
- **Aim-** To provide transparent and efficient price discovery of gold.
- **Regulation-** Securities and Exchange Board of India (SEBI)
- They are held in demat accounts and traded in stock exchanges like dematerialised stocks.
- The stock exchange can source physical gold from deposits in delivery centres, domestic refineries and imports.

References

1. [Business Line- India wants gold not gold bond](#)
2. [RBI- FAQs on Sovereign gold bond](#)
3. [Business Today | Image](#)