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

- 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

- It is alternative to physical gold where purity is guaranteed.
- Example- Invesment in exchange traded funds (ETFs), gold mutual funds, and gold futures.

Gold ETFs

- 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.

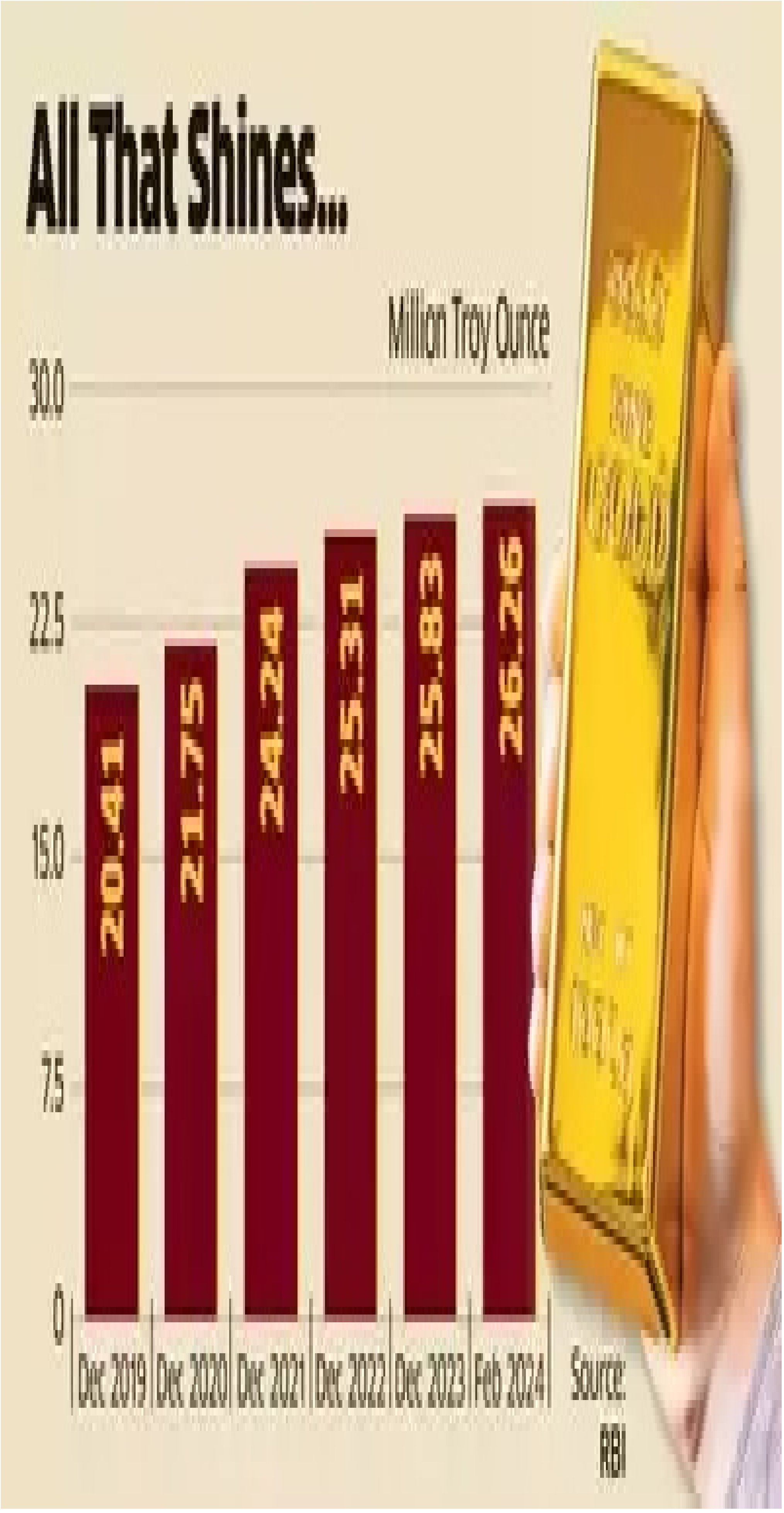
What is Sovereign Gold Bond (SGB)?

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	• Persons residing in India as defined under *Foreign Exchange Management Act,1999* • Individuals, Hindu Undivided Families (HUFs), Trusts, Universities and Charitable institutions
Investment limit	• Minimum investment- 1 gram • Maximum investment - Individuals & HUFs - 4 kg - Trusts - 20 kg

Authorized agencies to sell SGBs	• 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 5th 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
30.0
22.5
15.0
7.5
0
20.41
21.75
24.24
25.31
25.83
26.26
Dec 2019
Dec 2020
Dec 2021
Dec 2022
Dec 2023
Feb 2024
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