1. Sovereign Gold Bonds

Prelims Syllabus: **Schemes**

Mains Syllabus: **GS-II Welfare schemes for vulnerable sections of the Population by the Centre and States and the Performance of these Schemes; Mechanisms, Laws, Institutions and Bodies constituted for the protection and betterment of these Vulnerable Sections.**

Why in News?

- Recently, Reserve Bank of India (RBI) has decided to issue Sovereign Gold Bonds (SGBs) in six instalments, from April 2020 to September 2020.

About Sovereign Gold Bonds:

- They are government securities denominated in grams of gold. They are substitutes for holding physical gold.
- 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.
- The 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.
- 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.
- It has a tenure of eight years, with exit options are available from the fifth year.
- It will be restricted for sale to resident individuals, Hindu Undivided Families (HUFs), Trusts, Universities and Charitable Institutions.
- Its minimum Permissible Investment Unit is 1 Gram of Gold.

How to Buy this Bonds?

- It can be bought through designated scheduled commercial banks (except Small Finance Banks and Payment Banks), Stock Holding Corporation of India Limited, and designated post offices.
- We can also buy these bonds through National Stock Exchange of India Limited and Bombay Stock Exchange(BSE) Limited.

Advantages of the Gold Bond:

- It is advisable to invest in gold for portfolio diversification.

- It is considered one of the better ways of investing in gold as along with capital appreciation an investor gets a fixed rate of interest.
- It is tax efficient as no capital gains is charged in case of redemption on maturity.
- It a good way to ensure an investment that does not need physical storage of Gold.

Disadvantages of the Gold Bonds

- In long term investment unlike physical gold which can be sold immediately.
- It is listed on exchange but the trading volumes are not high, therefore it will be difficult to exit before Maturity.