Facts on Sovereign Gold Bond Scheme - GK Notes for Banking & SSC in PDF!

General Awareness section is really important to increase your accuracy while appearing for any Government Recruitment Exam. If you are confident in the answers, then you can easily score maximum marks. Gold is an asset that has attracted people for thousands of years because it is durable, easily transportable and universally acceptable. India is the **largest buyer** of gold in the world. Gold has been traditionally considered as a store of value or hedge against inflation. Gold, lying with consumers, is viewed as an **idle asset** and a key factor behind the current account deficit (CAD). Read this article on Sovereign Gold Bond Schemes to learn about its limitations, benefits and much more! You can know more about SSC CGL, IBPS PO & RBI Office Attendant and other such exams then you can click on the provided link!

What is Sovereign Gold Bond Scheme? - Introduction

Sovereign Gold Bonds are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India. Sovereign Gold Bonds will be issued on payment of money and would be linked to the price of gold.

Person resident in India as defined under Foreign Exchange Management Act, 1999 are eligible to invest in Sovereign Gold Bond. Eligible investors include individuals, HUFs, trusts, universities, charitable institutions, etc. The Bonds are issued in denominations of one gram of gold and in multiples thereof. **Minimum** investment in the Bond shall be **two grams** with a **maximum** buying limit of **500 grams** per person per fiscal year (April – March). In case of joint holding, the limit applies to the first applicant.

Important Features of Sovereign Gold Bond Scheme

- The bonds will be issued in denominations of 2, 5, 10 grams of gold or other denominations
- The tenor of the bond could be for a minimum of 5 to 7 years
- You can collect and redeem them through Banks/NBFCs/Post Offices
- Your Bonds to be used as collateral for loans.
- Your Bonds can be easily sold traded on commodity exchanges.
- Your Bonds will have a sovereign guarantee.
- KYC norms; capital gains etc. are similar to investments in physical gold
- Bond to be a part of the sovereign borrowing

The main objective of the scheme is to reduce the demand for physical gold and to Shift part of the estimated 300 tons of physical bars and coins purchased every year for Investment into 'demat' gold bonds.

Benefits of the Sovereign Gold Bond Scheme

Let's have a look at the benefits that you will get under Sovereign Gold Bond Scheme.

- It is available in both demat and paper form
- The main benefit is that you invest rupees today at the international price of gold, then get an additional two percent interest annually and when you exit after five or seven years, you get the latest price of gold plus interest – and the same capital gains treatment as physical gold assets.

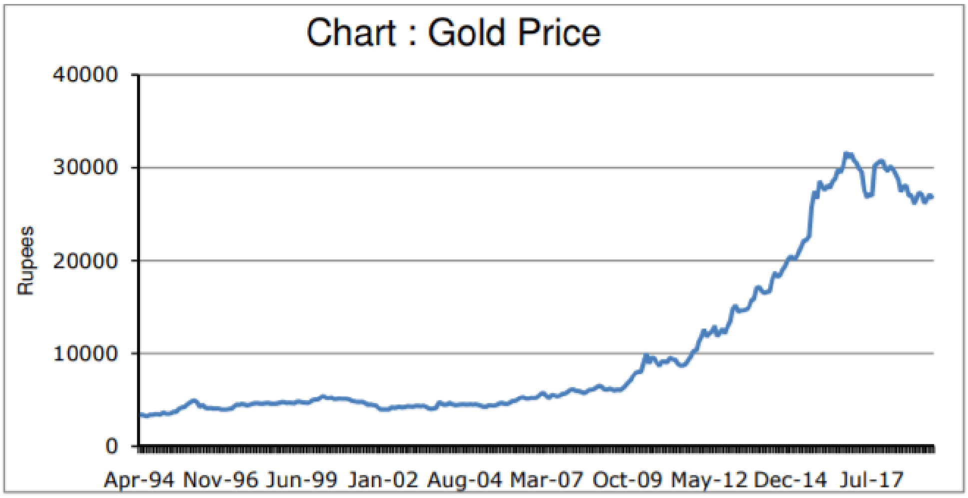
- The quantity of gold for which the investor pays is protected since you will receive the ongoing market price at the time of redemption/ premature redemption.
- The Sovereign Gold Bond is in physical form, so the risks and costs of storage are eliminated.
- Sovereign Gold Bond is free from issues like making charges and purity in the case of gold in jewellery form.
- The bonds are held in the books of the RBI or in demat form eliminating the risk of loss of scrip etc.

Limitation of Sovereign Gold Bond Scheme

Everything in this world comes at a price. Let's have a look at the few limitations of Sovereign Gold Bond.

- The scheme will not appeal to those who want physical gold for jewellery or for future use
- The government will have to bear the currency risk
- There may be a risk of capital loss if the market price of gold declines. However, the investor does not lose in terms of the units of gold which he has paid for.
- Hedging of this risk is expensive
- The investor response might be less concerned with the fear of capital loss
- Success of the bond is also dependent on the distribution channels
- The duration of the bond can also be a very important factor
- Bank may have to provide 'premature' redemption facility

Here is an image showing you how exponentially the price of gold has increased in the past 20 years.



Schemes Similar to Sovereign Gold Bond -

1. **Gold Metal Loan Scheme:** It authorized banks to import gold into the country to extend gold loans to jewellery importers and exporters. The interest charged on the loans was linked to the international gold interest rate. Jewelers could avail these loans by providing a Stand-By Letter of Credit (SBLC) or Bank Guarantee (BG).
2. **Gold Deposit Schemes:** In this scheme, you can deposit your idle gold under GDS which will provide you safety, interest earnings, tax benefits and a lot more
3. **Gold Coin with Ashok Chakra:** In this scheme, the government introduced Indian gold coin which will carry Ashok Chakra on its face. This will reduce the demand for import of coins

The below table will give you a brief idea about the comparison between Gold Deposit Scheme and Gold Monetization Scheme. The table will mainly be discussing their features.

Comparison	Sovereign Gold Bond	Gold Monetization Scheme
Purpose	To Mobilize the idle gold in the country and put it into productive users.	To Mobilize the idle gold in the the country and put it into productive users.
Eligibility	Indian Residents	Indian Residents
Minimum Quality	500 gms (Gross) - No Upper Limit	30 gms
Period of Deposit	Either 3,4 or 5 years (Option for early withdrawal l allowed after 1 year)	Minimum of 1 year
Rate of Interest and Payment	1% p.a - Interest is calculated in gold currency (XAU) and paid in equivalent rupees	1% p.a - Interest is calculated in gold currency (XAU) and paid in equivalent rupees
Issue of Gold Deposit Certificate	Certificate will be issued by the bank. After issuing the certificate, the gold is melted, assayed and minted at India Government Mint (IGM)	Gold Purity Certificate will be issued by the collection center. After that only bank will open a Gold savings account.
Loan Facility	Upto 75% of the notional value of the Gold	Rupee Loans facility proposed
Tax Benefits	Exemption from IT, Wealth Tax and Capital Gain tax.	Exemption from IT, Wealth Tax and Capital Gain tax.

To give you more idea, here is a clip from Finicalexpress news, comparing Gold Monetisation and Sovereign Gold Bond Scheme. It will also tell you what Mr Narendra Modi has to say about Sovereign Gold Bond Scheme.

Figure 2: New Gold Schemes

Source: www.financialexpress.com

- While GMS will allow residents Indians to deposit their household gold and earn an interest up to 2.5%, Sovereign Gold Bonds are intended to convert the investment demand for physical gold into paper demand, fetching an annual interest rate of 2.75%.
- The earnings from the scheme would be exempt from capital gains tax, wealth tax and income tax.
- At present, one can only earn interest after a month of depositing the gold, but under the scheme, once consumer deposits their gold with jewellers, they can start earning interest from the next day.
- The move would also help in reducing imports of the metal.

To ensure further success, the Government should allow mass channels such as gold loan **Non-Banking Finance Companies** (NBFCs) to also market it. It can help the scheme reach many more consumers in urban, semi-urban and rural areas

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