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Sovereign Gold Bond Scheme

Why in news?

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The Gold Bond scheme has attracted enough gold in the society despite handsome interest rate.

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What is the Sovereign Gold Bond Scheme?

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- The government of India recently launched a Sovereign Gold Scheme to provide an alternate option when it comes to owning gold.
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- This scheme aims to reduce the demand for physical gold, thereby keeping a tab on gold imports and utilising resources effectively.
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- With the Reserve Bank of India issuing these gold bonds, it brings in transparency and trust, providing an avenue wherein people can own gold without having to worry about its storage or safety.
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How does Sovereign Gold Bond Scheme operate?

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- Under the Sovereign Gold Bond Scheme, the Reserve Bank of India will issue the bonds on behalf of the Government of India.
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- The bonds will be sold at post offices and banks and issued in denomination of gram.
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- They will issue these bonds on payment of money. Later on, the bonds will be connected to the price of gold.
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- From one person, the Sovereign Gold Bond Scheme would accept a minimum investment of 2 gm gold and a maximum investment of 500 gm in a single fiscal year.
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Why the scheme was introduced?

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- The gold demand rises in times of uncertainty or high inflation.
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- Gold demand is mostly met through imports
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- Years of high imports are ones of high current account deficits which, in turn, have weakened the rupee.
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- So, in FY12, when India imported $56.5 billion of gold, the current account deficit increased to $78.2 billion.
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- It peaked at $88.2 billion or 4.8% of GDP in FY13, when India imported gold worth $53.8 billion.
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- It is to reduce this huge import bill that, in November 2015, the government tried to introduce gold bonds.
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What were the shortcomings?

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- Only 2% of the average gold consumption over the past five years or less than 6% of the average investment demand of gold has been substituted by gold bonds.
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- This is because of the bad design of the product which did not take into account the reason people bought gold, apart from the anonymity.
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- The bonds were bought/sold on the basis of the average price five days before the transaction.

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- This ensured buyers/sellers lost out on the appreciation of gold.
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- Similarly, there was a 5-year lock-in for the bond.
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- Similarly to bring in market-makers to ensure greater liquidity for the bonds, they are listed on exchanges.
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- It does not make sense to have a lock-in for the bonds.
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- A more liquid market will ensure the bonds can be sold, but the lock-in will mean the price got for a sale will be discounted.
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Source: Financial Express

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