

Sovereign Gold Bonds 2017-18

Series II



Moneywise. Be wise.

The Reserve Bank of India has decided to issue Sovereign Gold Bonds 2017-18 - Series II. Applications for the bond issue will be accepted between 10 and 14 July. The bonds will be issued on 28 July. This is the second issue of Sovereign Gold Bonds so far this fiscal year, and ninth overall.

Sovereign Gold Bond is a fixed-term bond issued by the Reserve Bank of India, which represents the exact weight of gold purchased by the investor for a period till the maturity of the security. The SGB scheme was launched in November 2015 with an objective to reduce the demand for physical gold and shift a part of the domestic savings, used for purchase of gold, into financial savings and thereby keep a check on imports. India imports around 1,000 tonnes of gold every year, resulting in large-scale foreign exchange outflows

FEATURES:

- SGBs are government securities, issued by Reserve Bank on behalf of Government of India. They are substitutes for holding physical gold.
- The bonds will be sold through banks, Stock Holding Corporation of India Limited (SHCIL), designated post offices and recognized stock exchanges BSE and NSE.
- Payment for the Bonds will be through cash payment (up to a maximum of Rs. 20,000) or demand draft or cheque or electronic banking.
- The customers will be issued Certificate of Holding on the date of issuance of the SGB.
- The scheme differs from ETFs and physical gold buying, as it offers an interest rate of 2.5 per cent per annum, which is paid semi-annually.

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- The Bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the Bond shall be one gram with a maximum buying limit of 500 grams per person per fiscal year (April – March).
- The price of the bond will be fixed on the basis of the closing price of gold of 999 purity published by the India Bullion and Jewellers Association Limited for the week preceding the subscription period. The issue price of the gold bonds will be Rs 50 per gram less than the nominal value.

The issue price of bond is 2,780 per gram. The issue price of the gold bonds will be Rs 50 per gram less than the nominal value.

- On maturity, the redemption proceeds will be equivalent to the prevailing market value of grams of gold originally invested in Indian Rupees.
- The tenure of the bond will be for a period of eight years with an exit option from the fifth year to be exercised on the interest payment dates.
- The bond will be tradable on the exchanges, if held in demat form.

ADVANTAGES:

- The bond can be used as collateral for availing loans. The loan-to-value ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.
- In case the SGBs are encashed by an individual on expiry of 8 years, no capital gains tax is payable. But in case the SGBs are sold before the maturity date on the exchanges, then this exemption is not applicable.

Sovereign Gold Bonds are free from the levy of GST. The recent implementation of 3% GST rate would push up the cost of buying physical gold.

- There is no cost of holding physical gold in terms of locker.
- There is a sovereign guarantee to get back the gold at the market price at the time of maturity.
- Sovereign Gold Bonds are benchmarked against 999 purity gold. It offers the comfort on purity of the gold owned and the satisfaction of not having to shell out heavy making charges which accrue on physical gold purchases.
- Sovereign Gold Bonds provide two ways of returns. First regular interest of (2.50% p.a) on invested capital every six months and the second in the form of capital gains at the time of redemption in case the price at the time of redemption is higher.
- The Bonds will be eligible for Statutory Liquidity Ratio purposes.

The table shows the details of the previous issues of the sovereign gold bonds.

| | Issue date | Issue price | Bond sold | Total value |
|--|---------------|----------------|-----------|-------------|
| 1st tranche | 26 Nov 2015 | 2,682 per gram | 915.95 Kg | 250 crore |
| 2nd tranche | 08 Feb 2016 | 2,600 per gram | 2872.3 kg | 726 crore |
| 3rd tranche | 29 March 2016 | 2,916 per gram | 1128 kg | 329 crore |
| 4th tranche | 05 Aug 2016 | 3,119 per gram | 2,950 kg | 919 crore |
| 5th tranche | 30 Sep 2016 | 3,150 per gram | 2,435 kg | 768 crore |
| 6th tranche | 17 Nov 2016 | 3,007 per gram | 3,550 kg | 1067 crore |
| 7th tranche | 17 March 2017 | 2893 per gram | 8126 kg | 2351 crore |
| Sovereign Gold Bonds 2017-18 - Series I (8th tranche) | 12 May 2017 | 2901 per gram | N.A | N.A |
| Sovereign Gold Bonds 2017-18 - Series II(9th tranche) | 28 July | 2,780 per gram | --- | -- |

The government has so far issued eighth tranches of SGBs and mobilised Rs. 5,400 crore till date.

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