

SOVEREIGN GOLD BOND

Scheme to open on Nov 5, will offer 2.75% interest

Programme to offer bonds worth 2 gms of gold, up to a maximum of 500 gms

ENS ECONOMIC BUREAU

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THE GOVERNMENT on Friday said that the sovereign gold bonds will carry an annual interest rate of 2.75 per cent payable semi-annually and will remain open from November 5-20. The bonds, to be issued on November 26 and sold through banks and designated post offices, are aimed at channelising around 20,000 MT gold lying idle with people and temples.

"The borrowing through issuance of the bond will form part of market borrowing programme of the government," the finance ministry said in an official statement. Earlier in the Budget 2015-16, finance minister Arun Jaitley had announced about developing the sovereign gold bonds as an alternative to purchasing the yellow metal.

Early last month the Cabinet had cleared the proposal of issuing the bonds with denominations in multiples of grams of gold with basic unit of one gram. Even as they lauded the move, experts said that it will take some time for the scheme to take off given the return being offered.

20K MT IDLE GOLD

THE BONDS, to be issued on November 26 and sold through banks and designated post offices, are aimed at channelising around 20,000 MT gold lying idle

ACCORDING TO the contours of the policy, the bonds will be for a period of 8 years with exit option from the 5th year to be exercised on the interest payment dates

"It will take some time before people get attracted to the gold bonds. Expectations from returns have changed over the years as inflation has been high. Standalone it is a decent return if you look at the fact that people get nothing for the idle gold," Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors, a Mumbai-based financial firm, said.

He added that it will take around a year

for the product to take off as inflation expectations start to come down and people start accepting the product.

This is the first tranche of the gold bond scheme and subsequent tranches would be notified later, the statement said.

"Price of bond will be fixed in Indian rupees on the basis of the previous week's (Monday-Friday) simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Ltd," it added.

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The sale of bonds will be restricted to Indian entities including individuals, HUFs, trusts, universities, and charitable institutions and the maximum amount that can be subscribed by an entity will not exceed more than 500 grams per person per fiscal year. A self-declaration to this effect will be obtained, the finance ministry said.

The bonds will be eligible for statutory liquidity ratio and can be used as collateral for loans. The interest on gold bonds will be taxable as per the Income Tax Act.