Discontinuing 7.75% RBI Bonds

Why in news?

The Government of India discontinued 7.75% savings (taxable) bonds, 2018 for subscription with effect from the close of banking business on 28 May 2020.

What are 7.75% RBI bonds?

- The 7.75 bonds 2018 were issued with effect from January 10, 2018.
- These bonds are guaranteed for repayment by the RBI.
- These were available for subscription to resident citizens/HUF to invest in a taxable bond.
- While one bond was of Rs 1,000 each, the bonds had no maximum limit for investment.
- The bonds had a 7-year lock-in period from the date of issue.
- However, it permitted premature encasement to individuals who were 60 years and above.
- Interest on these bonds will be taxable under the Income-tax Act, 1961.
- Effectively, after tax, the bond will yield 4.4%.

What has happened now?

- The government has withdrawn these bonds with effect from 28 May 2020.
- Therefore, it will not be available for investors to invest.
- This means it is only ceasing fresh issuance, and not redeeming those already invested.
- Those whose cheques got submitted and cleared till 28 May 2020 will get 7.75%.

Why is the decision now?

- The global growth rate projections have been brought down following the spread of coronavirus Pandemic.
- And since then, the interest rates have been on a decline.
- The bonds move now comes in line with -

i. the cut in repo rate by the RBI
ii. cut in deposit rates by banks
iii. cut in small savings rate by the government

- The RBI's move to cut repo rate has been to push credit growth and demand to give a boost to the economy.

What will the impact be?

- Every government is bound to provide at least one safe, risk-free investment option to its citizens. It was the RBI bond since 2003.
- The 7.75% Savings (Taxable) Bonds, 2018 was mostly used by HNIs (High Net Worth Individuals) to invest.
- It has been a favourite investment option for savers and pensioners.
- They had considered these bonds as safe and generating adequate returns.
- The demand for RBI bonds went up significantly over the last couple of months as investors turned risk averse.
- At this time, investors are not looking much for returns on investment, but for the safety of their capital.
- So, investors rushed for the 7.75% bonds as they saw it as the safest investment instrument available.
- Given this demand, the present move will deprive investors of another saving instrument that yielded relatively higher post-tax returns.
- It has come as a big blow to savers and pensioners at a time when their returns from bank deposits have fallen steeply.

Source: Indian Express