



# drishti

## Relevance of the Consol Bonds amid Covid-19

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### Why in News

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The **Covid-19 pandemic** and consequential national lockdown in the country has laid a grave impact on the Indian economy.

- Considering the above scenario, the **large stimulus needs to be introduced** by the government to pull back the economy where the required stimulus will exceed the current revenue receipts of the government.

The **stimulus** refers to attempts to use monetary or fiscal policy (or stabilization policy in general) to stimulate the economy.

- Thus, an introduction of a **Consol Bond** is one of the solutions for the government to fund the stimulus.

### Background

- In the **Budget (2020)** before the pandemic, India projected a **deficit of Rs.7.96-lakh crore**.
- Further, the financial deficit is expected to **increase** by a wide margin due to **revenue shrinkage** from the coming depression accompanied by a **lack of disinvestment**.
- Though, **the government and RBI have announced various economic measures** to deal with the economic impact of nationwide lockdown but these measures are considered to be inadequate.

In addition to the planned expenditure, the government needs to spend nearly Rs.5-lakh crore and Rs.6-lakh crore as stimulus.

### Consol Bonds

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- **Description:**
  - Consol bond (also known as **perpetual bond**) is a **fixed income security with no maturity date.**
  - It is often considered a **type of equity, rather than debt.**
  - The major benefit of these bonds is that they **pay a steady stream of interest payments forever.** However, **these bonds can be redeemed at issuer's discretion.**
- **Notable Existence of Consol Bonds in the History:**
  - The console bonds were majorly used by the British government during **World War-I.**
  - The bonds were issued in **1917** as the British government sought to raise more money to finance the ongoing cost of World War-I.
  - In 2014, the British government, a century after the start of World War-I, paid out 10% of the total outstanding Consol bond debt.

## Consol Bonds and Current Indian Economic Scenario

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- **Consol Bonds Instead of PM-CARES:**
  - The introduction of the Consol bonds would have been a better solution for the government if people would have invested in consol bonds instead of making donations to **PM-CARES.** It could have made **citizens as active participants** in handling the economic scenario of the country.
  - Unlike PM-CARES, the proceeds of the bonds could have been used to **fulfil the various essential medical as well as economic requirements** of the country.
- **One of the Available Solutions:**
  - The fall of real estate and given the lack of safe havens outside of gold, the bond would offer a dual benefit as a **risk free investment for retail investors.**
  - An **attractive coupon rate for the bond or tax rebates** can also be an incentive for investors.
  - The government can consider a phased redemption of these bonds after the economy is put back on a path of high growth.

**Source:TH**