

Evaluation of Sovereign Gold Bonds Scheme in India - A Study of Investors' Perception

Chityala Sai Kumar¹, Prof. Indrakanti Sekhar²

¹Research scholar, Department of Commerce, Commerce, Osmania University, Hyderabad

² Professor of Commerce, Department of Commerce, Principal UCC & BM, Osmania University.

Abstract—The study explains the types of gold investment, scope of the study, period of study. The gold rates in India from 1930 to 2023 increasing at increasing rate of more than 263%. In 1930, 10grams gold available at Rs.18/- and 2023 it will be Rs. 52.790/-, 2000 to 2023 gold prices are increased more than 15 times. Honourable Finance Minister had announced in Union Budget 2015-16 Sovereign Gold Bond, as an alternative to purchasing metal gold. The Sovereign Gold Bond 2016-17 Series I minimum investment will be 1 grams of gold (earlier minimum investment will be 2 grams of gold and this will reduce). In 2015 Scheme was started and continued 21th Feb, 2024, 2015 to 2024 gold price per gram Rs.2,684/- to Rs.6,263/- increase more than 2 times in 9years and subscription 913,571grams (0.913571tonnes) to 1,27,86,819grams (12.786819tonnes) of all time high subscribed. Majority of investors benefited for holding maturity and these are also exempted for tax. Further it explains the trends in current account, gold price relation and they are negatively correlated. 2016-17 to 2019-20 Series X premature gold 7,37,851 grams (7.37851tonnes) are redeemed. India's Balance of Payments on current account in 2015-16 Deficits by Rs.1,43,762crores and come down to Rs.96,916crores in 2016-17. And Deficits increased by Rs.3,14,126crores in 2017-18. In 2018-19 Deficits increased by Rs.4,00,227crores and 2019-20 Deficits come down to Rs.1,72,429crores. The current account balance was surplus in Rs.1,82,070crores then after Deficits will continue in 2021-22 Rs.2,90,816crores and 2022-23 Rs.4,30,693 crores. The India's overall Balance of Payments on current account shows Deficits.

Index Terms—Investments, Gold, Bonds

I. INTRODUCTION

Gold has emotional value; it found a place in Indian homes and hearts which support demand across the generations. Investment in gold is not only available in Physical form but also gold certificates, online and mobile wallets, Exchange-traded funds (ETFs),

Derivatives, such as gold forwards, futures and options are available for investors. In India, gold futures are traded on the National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). Indian gems and jewelry export market, which is one of the fastest growing industries in the country and a leading foreign exchange earner. Gold has always been a good tool to fight inflation. Gold has given high returns in crisis and fall in markets across the globe. The outcome of the Demand Function is that the Demand increases when the Price Decreases where as in Indian context, the Demand and Price increases simultaneously. The price per 10gms of Platinum was comparatively higher than the gold in the last decade and became similar in the recent past, which shows that the demand for Gold remains intact though there are substitutes for it.

"Bond" means an obligation; a promise. A written promise to pay money or do some act if certain circumstances occur or a certain time elapse; a promise that is defeasible upon a condition subsequent. Several central as well as state level public sector undertakings (PSUs) entered the market for the first time in 1985-86 to raise funds through debt securities. Since then, many such public sector undertakings have raised funds through tax free as well as taxable bonds. Even though these bonds were not having any Government guarantee nevertheless bonds became attractive because from the investors point of view mainly because of the tax exempt status and the high coupon rates. A bond is a long-term debt instrument or security. Bonds are issued by the government and the public sector companies in India. The private sector companies also issue bonds, which are generally called debentures in India. A debenture can be secured or unsecured. The features of a bond or debenture are as follows:

Interest rate is fixed and known to bondholders (debenture holders). Interest paid on a bond/debenture is tax deductible. The interest rate is a contractual rate; it is also called a coupon rate.

Maturity a bond (debenture) is generally issued for a specified period of time.

Redemption value the value that a bondholder (debenture holder) will get on maturity redemption.

The term "Gold Bond " mean that the Government was bound to give quantity of gold or money specified in the bond to the holder of the Gold Bond.

II. REVIEW OF LITERATURE

Reserve Bank of India¹ (2024) In consultation with the Government of India, announced four tranches of SGBs issued in 2023-24. The aggregate sum raised during 2023-24 amounted to Rs.27,031crores (44.34tonne). Since the inception of the SGB scheme in November 2015, a total of Rs 72,274crores (146.96tonne) has been raised through 67 tranches.

Prithviraj Kothari (2023) In India, gold has given around 12% CAGR return in the last 25 years, if this historical return continues going forward, the money invested in this SGB can double in the next 8 years.

Sneha Kulkarni (2023) The Reserve Bank of India (RBI) has fixed the price for premature withdrawal of SGB Series I of 2017–18 at Rs. 6,115 per unit, a whopping 110.7% higher than the issue price of Rs. 2,901, in just 5 years. SGB Series III of SGB 2017-18 were priced at Rs 2,964 per gram at the time of issue. RBI has set the redemption price at Rs 6063 per gram, 105% higher than issue price.

Archana P K² (2022) it is found that many investors still prefer jewellery, gold coins and gold bullion bars forms of investment. Most of the investors are not aware about different form of investment in gold other than Jewellery and gold coins which are available in market.

Sonam³ (2022) Gold is a safer investment option, especially during bearish stock market. However, keeping in mind the cons of investing in gold, a

balanced portfolio should be constructed after considering the cost-benefit analysis.

Rajesh Bhayani⁴ (2020) August' 2020 6.35tonnes was the highest ever in a month since the launch of SGB in 2015. Shekhar Bhandari, president and business head (global transaction banking), Kotak Bank, said: "The attraction of SGBs will continue. SGBs have given more than 35% returns in the past year and continue to be best asset class."

2.3 Research Gap:

After reviewing the literature, it is revealed that so many studies are taken on investment in gold. But the studies on gold bonds are not covered, hence bridge the gap in literature this study is taken up.

2.4 Statement of Research problem:

According to the research gap identified from the review of literature, the evaluation and pros and cons relating to gold bonds were not addressed. The present study will be addresses the evaluation, pros and cons and problem stating that gold bonds trends.

2.5 Need for the study:

Gold is a prized asset cherished by a consumer as an ornament and an investment as well. On the other hand, gold is a major contributor to the CAD (Current Account Deficit) for the government, a challenge that needs to be addressed through research in countries like India having low gold reserves. In this context, this research may believe that, it would be useful to undertake an in-depth analysis of the role that gold plays in India now and the role that gold could play in the future.

2.6 Objectives of the study:

1. To examine the trends and Evaluation of Sovereign Gold Bonds scheme and
2. To analyze the impact of gold prices in Current Account Deficit (CAD).

2.7 Research methodology:

i) Sources of data:

The data will be considered primary sources and secondary sources; it will be used accordingly for present study of research.

Primary data: The primary source of data collects from first hand information; primary data to be was collected from the respondents.

Secondary data: Secondary data is one which already exists and it's collected from the published sources.

¹ RESERVE BANK OF INDIA ANNUAL REPORT 2023-24

²Archana P K COMPARATIVE STUDY ON INVESTING IN GOLD RELATED ASSETS IJCRT December 2022 Volume 10, Issue 12

³ Sonam Evaluation of Gold and Stock as an Investment Alternate JETIR June 2022, Volume 9, Issue 6

⁴ https://www.business-standard.com/article/markets/reopening-of-physical-gold-markets-hits-sovereign-gold-bonds-demand-120112001500_1.html

Secondary data will be collected from RBI reports, Journals, Online research articles and Newspapers etc.

ii) Period of the study:

This study is proposed to conduct for a period of nine Years i.e. 2015-2024, the primary data was collected during 2024-25.

iii) Sampling Techniques: Due to the enormous size of inhabitants in the geographical area and its extensive heterogeneous nature, Purposive sampling is considered from five different zones of the Greater Hyderabad Municipal Corporation (GHMC) area by Google forms through a structured questionnaire consisting of open-ended questions on 5-point Likert scale to understand better their demographic, geographic for interpreting overall perceptions.

2.8 Scope of the study:

The study is focused on national wide data from RBI and other sources, how does the Sovereign Gold Bonds affect the Investors.

III. TRENDS AND EVALUATION IN SOVEREIGN GOLD BONDS IN INDIA

Persons holding bullion as an investment part of portfolio diversification, the Sovereign Gold Bonds

scheme (SGB) is a boon. You are relieved from the burden of safeguarding gold and can save on locker rent charges. There is also an advantage of earning tax free returns. Even if the rate of return is 2.5% per annum it is still better than bearing costs for holding gold. The gold rates in India from 1930 to 2023, in these 93 years gold prices increasing at increasing rate of more than 263%. In 1930, 10grams gold available at Rs.18/- and 2023 it will be Rs. 52.790/-, 2000 to 2023 gold prices is increased more than 15 times. Honourable Finance Minister had announced in Union Budget 2015-16 about developing a financial asset, Sovereign Gold Bond, as an alternative to purchasing metal gold. The Sovereign Gold Bond 2016-17 Series I minimum permissible investment will be 1 grams of gold (earlier minimum investment will be 2 grams of gold and this will reduced). The Sovereign Gold Bond prices and subscription, in 2015 Scheme was started and continued 21th Feb, 2024. 2015 to 2024 gold price per gram Rs.2,684/- to Rs.6,263/- increase more than 2 times in 9years and subscription 913,571grams (0.913571tonnes) to 1,27,86,819grams (12.786819tonnes) of all time high subscribed.

Table No 2.1Sovereign Gold Bonds Tranche wise redemption as on 14th February, 2025

S No	Series	Issue Date	Number of units subscribed (in grams)	Number of units Premature redeemed (in grams)	Units outstanding (in grams)
1	2016-17 Series IV	17-Mar-17	2,220,885	188,045	2,032,840
2	2017-18 Series I	12-May-17	2,027,695	156,175	1,871,520
3	2017-18 Series II	28-Jul-17	2,349,953	193,257	2,165,752
4	2017-18 Series III	16-Oct-17	264,815	12,172	252,643
5	2017-18 Series IV	23-Oct-17	378,945	19,187	359,758
6	2017-18 Series V	30-Oct-17	174,024	11,483	162,541
7	2017-18 Series VI	06-Nov-17	153,356	7,399	145,957
8	2017-18 Series VII	13-Nov-17	175,121	6,787	168,334
9	2017-18 Series VIII	20-Nov-17	135,666	8,154	127,512
10	2017-18 Series IX	27-Nov-17	105,512	5,746	99,766
11	2017-18 Series X	04-Dec-17	107,380	4,792	102,588
12	2017-18 Series XI	11-Dec-17	81,614	4,120	77,494
13	2017-18 Series XII	18-Dec-17	111,218	7,293	103,925
14	2017-18 Series XIII	26-Dec-17	131,958	7,312	125,607
15	2017-18 Series XIV	01-Jan-18	327,434	12,069	316,058
16	2018-19 Series I	04-May-18	650,337	25,679	624,658

17	2018-19 Series II	23-Oct-18	312,258	8,000	304,258
18	2018-19 Series III	13-Nov -18	409,398	9,562	399,836
19	2018-19 Series IV	01-Jan-19	207,886	3,106	205,724
20	2018-19 Series V	22-Jan-19	243,606	3,808	241,613
21	2018-19 Series VI	22-Feb-19	207,388	4,802	202,586
22	2019-20 Series I	11-Jun-19	459,789	4,654	455,135
23	2019-20 Series II	16-Jul-19	535,947	10,837	525,110
24	2019-20 Series III	14-Aug-19	1,024,837	9,864	1,014,973
25	2019-20 Series IV	17-Sep-19	627,892	1,070	626,822
26	2019-20 Series V	15-Oct-19	455,776	1,133	454,643
27	2019-20 Series VI	30-Oct-19	693,210	5,700	687,510
28	2019-20 Series VII	10-Dec-19	648,304	2,093	646,211
29	2019-20 Series VIII	21-Jan-20	522,119	906	521,213
30	2019-20 Series IX	11-Feb-20	405,957	1,150	404,807
31	2019-20 Series X	11-Mar-20	757,338	1,496	755,842
Total			1,69,07,618	7,37,851	1,61,69,767

Source: https://rbi.org.in/Scripts/BS_SwarnaBharat.aspx

Above Table No 2.1 shows the Sovereign Gold Bond subscription, redemption and outstanding, in 2015 Scheme was started. 2016-17 to 2019-20 Series X premature gold 7,37,851 grams (7.37851tonnes) redeemed.

Table No 2.2-Sovereign Gold Bonds 2015-I Tranche redemption as on 17th March, 2025

S No	Sovereign Gold Bonds	Issue Date	Issue Price	Redeemed Date	No of Years	Gain	%
1.	2015-I	30-Nov-15	2,684/-	30-Nov-20	5 Years	2,939.50	109.52%
				30-May-21	5 Years 6 months	2,522.05	93.96%
				30-Nov-21	6 Years	2,526.60	94.14%
				30-May-22	6 Years 6 months	2,871.15	106.97%
				30-Nov-22	7 Years	3,039.70	113.25%
				30-May-23	7 Years 6 months	3,866.25	144.05%
				30-Nov-23	8 Years	3,984.80	148.46%
2.	2016-I	08- Feb-16	2,600/-	08-Feb-21	5 Years	2,521.00	96.96%
				08-Aug-21	5 Years 6 months	2,561.50	98.52%
				08-Feb-22	6 Years	2,603.00	100.12%
				08-Aug-22	6 Years 6 months	2,999.50	115.37%
				08-Feb-23	7 Years	3,625.00	139.42%
				08-Aug-23	7 Years 6 months	4,832.50	185.87%
				08-Feb-24	8 Years	4,191.00	161.19%
3.	2016- II	29-Mar-16	2,916/-	29-Mar-21	5 Years	1,939.50	66.51%
				29-Sep-21	5 Years 6 months	2,136.95	73.28%
				29-Mar-22	6 Years	2,687.40	92.16%
				29-Sep-22	6 Years 6 months	2,509.85	86.07%
				29-Mar-23	7 Years	3,515.30	120.55%
				29-Sep-23	7 Years 6 months	3,551.75	121.80%
				29-Mar-24	8 Years	4,268.20	146.37%
4.	2016-17 I	05-Aug-16	3.119/-	05-Aug-21	5 Years	2,074.88	66.52%
				05-Feb-22	5 Years 6 months	2,161.86	69.31%
				05-Aug-22	6 Years	2,161.85	69.31%

				05-Feb-23	6 Years 6 months	2,564.84	82.23%
				05-Aug-23	7 Years	3,196.83	102.50%
				05-Feb-24	7 Years 6 months	4,410.81	141.42%
				05-Aug-24	8 Years	4,105.80	131.64%
5.	2016-17 II	30-Sep-16	3,150/-	30-Sep-21	5 Years	1,895.75	60.18%
				30-Mar-22	5 Years 6 months	2,449.13	77.75%
				30-Sep-22	6 Years	2,274.50	72.21%
				30-Mar-23	6 Years 6 months	3,282.88	104.22%
				30-Sep-23	7 Years	3,322.25	105.47%
				30-Mar-24	7 Years 6 months	4,041.63	128.31%
				30-Sep-24	8 Years	4,997.00	158.63%
6.	2016-17 III	17-Nov-16	3,007/-	17-Nov-21	5 Years	2,228.88	74.12%
				17-May-22	5 Years 6 months	2,521.46	83.85%
				17-Nov-22	6 Years	2,601.05	86.50%
				17-May-23	6 Years 6 months	3,616.64	120.27%
				17-Nov-23	7 Years	3,569.23	118.70%
				17-May-24	7 Years 6 months	4,749.81	157.96%
				17-Nov-24	8 Years	5,382.40	179.00%

Source: https://rbi.org.in/Scripts/BS_SwarnaBharat.aspx

Above Table No 2.2 shows the Sovereign Gold Bonds redemption, Gain and Gain percentage, in 2015-I Scheme was started in 30-Nov-15 and continued to 20th Nov, 2023. The redemption will allow semi-annual interest period, Gain also includes interest. Majority of investors benefited for holding maturity and these are also exempted for tax.

Gain = Redemption Price – Issue Price + Interest (2.5% per annum * no of years)

Gain percentage = Gain/ Issue Price

2016-I Scheme was started in 08-Feb-16 and continued to 08th Feb, 2024. The redemption will allow semi-annual interest period, Gain also includes interest. Investors who withdraw early redemption on 08-Aug-23 will be benefited highly, but consider tax. 2016-17 Series I Scheme was started in 05-Aug-16 and continued 5th Aug, 2024.

3.1 Balance of payments:

India imports Crude oil it is essential and Gold is considered to be a non-essential. Hence the government wants to reduce the import of Gold. The balance of payments of India is classified into (a) balance of payments on current account, and (b) balance of payments on capital account. The current account of the balance of payments of India includes three items: (i) visible trade relating to imports and exports; (ii) invisible items, viz., receipts and payments for such services as shipping, banking,

insurance, travel etc and (iii) unilateral transfers such as donations. The current account shows whether India has a favourable balance or deficit balance of payments in any given year. The balance of payments on capital account shows the implications of current transactions for the country's international financial position. Coming to CAD, a measurement of a country's trade in which the value of goods and services imports exceeds the value of goods and services exports. In simple words the current Account is the difference between a country's total exports to total imports. If we have CAD, we need to use our foreign exchange (Forex) reserves to settle and in the process, we deplete the Forex reserves. If it continues in the long run, we might not have money to get imports.

3.2 Components of Current Account of India⁵:

3.2.1. Merchandise Trade: The component responsible for almost the entire deficit is the merchandise trade and is the most important variable which accounted most of the fluctuations in the current account over the time.

3.2.2. Invisible Trade: The second component of the current account is invisibles and it played an impressive role in covering the trade deficit. Further,

⁵ FAYAZ, Mohd SANDEEP, Kaur Bhatia Trends , Patterns and Determinants of Indian Current Account Deficit, *Applied Econometrics and International Development* Vol. 16-1 (2016).

invisibles are sub-divided into three categories, i.e. services, transfers and income.

3.2.2. a) Services: Services are major boost has been witnessed in the Indian economy, the growth in exports as well as imports of services, occurred due to the opening up of this sector to both domestic and foreign private participation, since the introduction of reforms in 1991. However, this component remained

continuously in surplus due to higher exports and comparatively less imports.

3.2.2. b) Transfers: Unilateral transfers are the payments from one person to another that does not require anything in return, such as donations or aids.

3.2.2. c) Income: Income is the only component of invisibles remained in deficit.

Table No 3.1-India's Balance of Payments on current account (Rs crores)

Year	Current Account Balance	Change in %
2015-16	-1,43,762/-	-
2016-17	-96,916/-	67.41%
2017-18	-3,14,126/-	324.12%
2018-19	-4,00,227/-	127.41%
2019-20	-1,72,429/-	56.92%
2020-21	1,82,070/-	105.59%
2021-22	-2,90,816/-	-159.73%
2022-23	-5,34,774/-	148.10%
2023-24	-1,92,397/-	-277.95%

Source: Economic survey (2023-24) and earlier issues

Above Table No 3.1 shows India's Balance of Payments on current account in 2015-16 Deficits by Rs.1,43,762crores and come down to Rs.96,916crores in 2016-17. And Deficits increased by Rs.3,14,126crores in 2017-18. In 2018-19 Deficits increased by Rs.4,00,227crores and 2019-20 Deficits

come down to Rs.1,72,429crores. The current account balance was surplus in Rs.1,82,070crores then after Deficits will continue in 2021-22 Rs.2,90,816crores and 2022-23 Rs4,30,693 crores. The India's overall Balance of Payments on current account shows Deficits.

Table No 3.2-Trends in gold rates in India (Rs's)

S No	Year	Rate per 10 grams	growth Rate In %
1	2015	26,344/-	-
2	2016	28,624/-	8.65%
3	2017	29,688/-	3.72%
4	2018	31,438/-	5.89%
5	2019	35,220/-	12.03%
6	2020	48,651/-	38.13%
7	2021	48,720/-	0.14%
8	2022	52,670/-	8.10%
9	2023	65,330/-	24.04%

Source: <https://www.bankbazaar.com/gold-rate/gold-rate-trend-in-india.html>

Above Table No 3.2 shows the gold prices 2015-23 continuously increasing and compare to 2015 to 2023 Gold prices are around tripled.

Table No 3.3-Correlation Matrix

Particulars	Balance of Payments on current account	Gold Rate per 10 grams
Balance of Payments on current account	1	
Gold Rate per 10 grams	-0.027028229	1

Source: Secondary Data Analysis

Above Table 3.3 indicates there is a -2.7% negative correlation between the balance of payments on current account and the gold rate per 10 grams. The study concludes the types of gold Investment, scope of the study, period of study, trends in gold rates, SGB's subscription and redemption. Majority of investors benefited for holding maturity and these are also exempted for tax. Further it explains the trends in current account, gold price relation and they are negatively correlated.

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