

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

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Abstract—The study elucidates the types of gold investment. In 1930, 10grams gold available at Rs.18/- and 2024 it will be Rs. 67.655/-, 2000 to 2024 gold prices is increased more than 15 times. 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

1. INTRODUCTION

Investment in gold is available Physical form, online and mobile wallets, Exchange-traded funds (ETFs), Derivatives, such as gold forwards, futures and options investors can also buy the shares of gold mining companies trading in various exchanges and over-the-counter (OTC) directly in the private market. In India, gold futures are traded on the National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). Gold certificates will allow investors to avoid the risks and costs associated with the transfer and storage of physical gold. Gold has emotional value; it

found a place in Indian homes and hearts which support demand across the generations. Gold plays a central role in the Indian gems and jewelry export market, which is one of the fastest growing industries in the country and a leading foreign exchange earner. World has witnessed the power of gold during war, invasions and national emergencies in several nations. Gold is negatively-correlated to the USD (US Dollar). It can be used effectively to manage currency risk in an investment strategy. Gold has always been a good tool to fight inflation. Gold has given high returns in crisis and fall in markets across the globe and easily convertible into cash. Demand Function of Gold for the economic activity is,

$$F = QD \text{ (Quantity Demanded)}$$

Price, non-Price factors such as Income, Import Duties, Cost of Carry, Making Charges and Wastages. 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. The demand for Gold will remain till the world remains.

"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:

Face value Face value is also called par value. A bond (debenture) is generally issued at a par value of Rs 100 or Rs 1,000, and interest is paid on the face value.

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.

2. REVIEW OF LITERATURE

Moradia, Abha and Mehta, Ashish C¹ (2016) The correlation analysis suggests that there is negative correlation between gold returns and stock returns. The analysis suggests that gold is less volatile and risky than the stock market and provides good returns so it could be used as a diversifier asset for an equity portfolio. Gold usually provides higher returns than the inflation and so does the stock market. Gold provides better returns than the stock market in times of economic distress.

V Venkateshraj² (2015) E-Gold can be purchased from National spot exchange that allows you to purchase gold in smaller denominations such as 1, 2 or 3grams. To test the association between variables, chi square test was carried out, Standard deviation is used to analyze and understand the variability of the data and coefficient of correlation is used to find the strength of the relationship between variables.

¹ Moradia, Abha and Mehta, Ashish C Analyzing gold returns: Indian perspective MPRA August 2018
² V Venkateshraj, A STUDY ON INVESTMENT PATTERN AMONG EMPLOYED WOMEN

Parimalakanthi, K. and Kumar, M. Ashok³ (2015) Most of the investors of Coimbatore city prefer bank deposits followed by investments in gold and silver. To find out the important sources of information considered by an investor before investments, Friedman rank test is employed. The research of Garrett ranking reveals that respondents prefer to invest in savings a/c followed by Gold and Silver, Fixed deposit a/c and the like. To ascertain the investor attitude before investment, at the time of investment, and post investment, Factor analysis is employed.

Mahmoud Yahyazadehfar and Ahmad Babaie⁴ (2012) The relationship between nominal interest rate and gold price with stock price are negative. In this study, they are using a vector auto regressive model (VAR) to investigate relationship between the variables.

Justice A R Dave and Justice K M Mehta⁵ (2002) In 1965, the Union of India had issued the National Defence Gold Bonds, 1980. Gold Bonds were to be issued in exchange of gold, gold coins and gold ornaments, all the gold was returned after 15 years.

Solt and Swanson⁶ (1981) Studied the efficiency of both gold and silver markets and found some positive dependence in their price series. Coefficient of correlation, the generalized autoregressive conditional heteroskedasticity (GARCH) methods are used.

2.1 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.

2.2 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.

2.3 Need for the study:

³ <http://www.journal.bonfring.org/papers/iems/volume5/BIJ-8122.pdf>

⁴ Yahyazadehfar M, Babaie A (2012). Macroeconomic Variables and Stock Price: New Evidence from Iran, Middle East Journal of Scientific Research, 11(4): pp.408- 415.

⁵ Justice A R Dave and Justice K M Mehta⁵ Shankerlal Gafurbhai Patel vs Commissioner Of Income Tax on 21 December, 2002

⁶ Solt, Michael E. and Paul J. Swanson, On the efficiency of the markets for gold and silver, 1981, Journal of Business, 54(3), 453-478.

Going through life without a gold some sort is like safety. India has an ambivalent relationship with gold. Gold is a prized asset cherished by a consumer as an adornment (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. This research unravels how gold can become an asset for the Indian economy, rather than a liability. There are 25,000 tons of gold worth of .72,50,000 crores which is idle now. Looking across the gold market, research shows how 25,000 tons of gold can be put to work within the Indian economy thereby driving growth and boost GDP. 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.

2.4 Objectives of the study:

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

2.5 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 was collected with the help of Google forms from the respondents.

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

2.6 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 Hyderabad Investors.

3. TRENDS AND EVALUATION IN SOVEREIGN GOLD BONDS IN INDIA

Gold rates in India from 1930 to 2024, in these years gold prices increasing at increasing rate of more than 263%. In 1930, 10grams gold available at Rs.18/- and 2024 it will be Rs. 67.655/-, 2000 to 2024 gold prices are increased more than 15 times. On 30th Oct, 2015 the Reserve bank of India (RBI) released a press note stating that, in consultation with Government of India (GoI) has decided to issue Sovereign Gold Bonds (SGB's). The Bonds will be issued on 26th Nov, 2015. To enable smooth uploading of applications into RBI's E-kuber system, it has since been decided to shift the issue date of the Sovereign Gold Bond from November 26, 2015 to November 30, 2015. Applications accepted from 5th Nov, 2015 to 20th Nov, 2015. The borrowing through issuance of the bond will form part of market borrowing program of GoI. 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 reduce). 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. 2016-17 to 2019-20 Series X premature gold 7,37,851 grams (7.37851tonnes) redeemed.

Table No 3.1 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%
2)				30-May-21	5 Years 6 months	2,522.05	93.96%
3)				30-Nov-21	6 Years	2,526.60	94.14%
4)				30-May-22	6 Years 6 months	2,871.15	106.97%
5)				30-Nov-22	7 Years	3,039.70	113.25%
6)				30-May-23	7 Years 6 months	3,866.25	144.05%
7)				30-Nov-23	8 Years	3,984.80	148.46%
8)	2016-I	08- Feb-16	2,600/-	08-Feb-21	5 Years	2,521.00	96.96%
9)				08-Aug-21	5 Years 6 months	2,561.50	98.52%
10)				08-Feb-22	6 Years	2,603.00	100.12%
11)				08-Aug-22	6 Years 6 months	2,999.50	115.37%
12)				08-Feb-23	7 Years	3,625.00	139.42%
13)				08-Aug-23	7 Years 6 months	4,832.50	185.87%
14)				08-Feb-24	8 Years	4,191.00	161.19%
15)	2016- II	29-Mar-16	2,916/-	29-Mar-21	5 Years	1,939.50	66.51%
16)				29-Sep-21	5 Years 6 months	2,136.95	73.28%
17)				29-Mar-22	6 Years	2,687.40	92.16%
18)				29-Sep-22	6 Years 6 months	2,509.85	86.07%
19)				29-Mar-23	7 Years	3,515.30	120.55%
20)				29-Sep-23	7 Years 6 months	3,551.75	121.80%
21)				29-Mar-24	8 Years	4,268.20	146.37%
22)	2016-17 I	05-Aug-16	3.119/-	05-Aug-21	5 Years	2,074.88	66.52%
23)				05-Feb-22	5 Years 6 months	2,161.86	69.31%
24)				05-Aug-22	6 Years	2,161.85	69.31%
25)				05-Feb-23	6 Years 6 months	2,564.84	82.23%
26)				05-Aug-23	7 Years	3,196.83	102.50%
27)				05-Feb-24	7 Years 6 months	4,410.81	141.42%
28)				05-Aug-24	8 Years	4,105.80	131.64%
29)	2016-17 II	30-Sep-16	3,150/-	30-Sep-21	5 Years	1,895.75	60.18%
30)				30-Mar-22	5 Years 6 months	2,449.13	77.75%
31)				30-Sep-22	6 Years	2,274.50	72.21%
32)				30-Mar-23	6 Years 6 months	3,282.88	104.22%
33)				30-Sep-23	7 Years	3,322.25	105.47%
34)				30-Mar-24	7 Years 6 months	4,041.63	128.31%
35)				30-Sep-24	8 Years	4,997.00	158.63%
36)	2016-17 III	17-Nov-16	3,007/-	17-Nov-21	5 Years	2,228.88	74.12%
37)				17-May-22	5 Years 6 months	2,521.46	83.85%

38)				17-Nov-22	6 Years	2,601.05	86.50%
39)				17-May-23	6 Years 6 months	3,616.64	120.27%
40)				17-Nov-23	7 Years	3,569.23	118.70%
41)				17-May-24	7 Years 6 months	4,749.81	157.96%
42)				17-Nov-24	8 Years	5,382.40	179.00%
43)	2016-17 IV	17-Mar-17	3,007/-	17-Mar-22	5 Years	2,681.88	89.19%
44)				17-Sep-22	5 Years 6 months	2,483.46	82.59%
45)				17-Mar-23	6 Years	3,001.05	99.80%
46)				17-Sep-23	6 Years 6 months	3,410.64	113.42%
47)				17-Mar-24	7 Years	3,957.23	131.60%
48)				17-Sep-24	7 Years 6 months	4,752.81	158.06%
49)				17-Mar-25	8 Years	6,218.40	206.80%

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

Above Table No 3.1 shows the Sovereign Gold Bonds redemption, Gain and Gain percentage, in 2015-I Scheme was started and continued to 17th Mar, 2025. 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

4. BALANCE OF PAYMENTS

India imports two things mainly – Crude oil and Gold, the first is essential. Gold is considered to be a non-essential. Hence the government wants to reduce the import of Gold. The balance of payments of a country is a systematic record of all economic transactions between the ‘residents’ of a country and the rest of the world. It presents a record of all receipts on account of goods exported, services rendered and capital received by ‘residents’ and payments made by them on account of goods imported and services received from the capital transferred to ‘non-residents’ or ‘foreigners. 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. For instance, the surplus and the deficit of the current are reflected in the capital account, through changes in the foreign exchange reserves of country, which are an index of the current strength or weakness of a country’s international payments position, are also included in the capital account. 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.

4.1 Components of Current Account of India⁷:

4.1.1. 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. In reduce of CAD.

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

⁷ 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.

4.1.2. a) Services: Services are major boost has been witnessed in the Indian economy, chiefly attributed to 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.

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

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

Table No 4.1 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 4.1 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 4.2 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 4.2 shows the gold prices 2015-23 continuously increasing and compare to 2015 to 2023 Gold prices are around tripled.

Table No 4.3 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 4.3 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, 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.

- [12] <https://www.livemint.com/market/commodities/why-gold-prices-are-up-20-this-year-in-india-1565603590117.html>
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