Indian Economy · GS - III

Evaluate the role of Sovereign Gold Bonds as an instrument of financialisation of household savings and reduction of India's dependence on physical gold imports.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 19/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

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Answer Hint

Financialisation of savings, gold investment, Sovereign Gold Bonds, fixed interest, price-linked returns, import dependence, current account deficit, household investment behaviour, liquidity constraints, redemption options, policy limitations.

Model Answer

Introduction

Gold occupies an important place in Indian household savings, but investment in physical gold creates import dependence and involves storage and security costs. Sovereign Gold Bonds (SGBs) were introduced to provide a financial alternative to physical gold.

Role in Financialisation of Savings

- **Dual return:** SGBs provide returns linked to gold prices along with a fixed annual interest rate of 2.5% under the scheme.
- **Reduced storage risks:** Investors avoid the costs and security concerns associated with physical gold.
- **Formal investment channel:** They channel household savings into government securities and promote financial inclusion.
- **Portfolio diversification:** Gold-linked returns provide an alternative asset for diversifying investment portfolios.

Macroeconomic Significance

- **Import substitution:** A shift from physical gold towards financial gold instruments can moderate demand for imported bullion.
- **External stability:** Lower gold imports can help reduce pressure on the current account deficit and foreign exchange reserves.
- **Government financing:** SGBs provide a borrowing instrument for the government, although redemption obligations must be managed.

Limitations

SGBs do not eliminate physical gold demand, as jewellery has cultural and consumption significance. Limited liquidity in secondary markets, price volatility and the fiscal cost of redemption can also constrain their effectiveness.

Conclusion

SGBs represent an important step towards financialising gold savings. Their effectiveness depends on investor confidence, accessibility, liquidity and a broader shift towards formal financial instruments.

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