Indian Economy · GS - III

Assess the role of Sovereign Gold Bonds in mobilising household savings and reducing dependence on physical gold.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 24/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Financialisation of savings, gold imports, interest income, inflation hedge, fiscal implications, investor protection

Model Answer

Introduction

Sovereign Gold Bonds are government securities denominated in grams of gold and issued by the Reserve Bank of India on behalf of the Government of India. They provide investors with an alternative to holding physical gold.

Role of Sovereign Gold Bonds

1. **Financialisation of savings:** SGBs encourage households to invest in formal financial instruments instead of purchasing and storing physical gold.

2. **Import management:** By offering an alternative to physical gold, they can potentially moderate domestic demand for imported gold and reduce pressure on the current account.

3. **Interest income:** Investors receive a fixed interest rate of 2.50% per annum on the nominal investment amount, payable semi-annually, in addition to returns linked to gold prices.

4. **Reduced storage risks:** Investors avoid concerns relating to theft, purity and storage associated with physical gold.

5. **Portfolio diversification:** Gold-linked returns provide an alternative asset class for diversifying household investment portfolios.

Limitations and Challenges

1. **Gold price volatility:** Redemption value depends on prevailing gold prices, exposing investors to market fluctuations.

2. **Liquidity constraints:** Premature redemption through the RBI is permitted only after five years, while secondary-market liquidity may be limited.

3. **Fiscal exposure:** Since redemption is linked to gold prices, an increase in gold prices can raise the government's repayment obligations.

4. **Investor awareness:** Complex redemption and taxation provisions can create difficulties for retail investors.

Way Forward

1. Improve investor awareness about maturity, premature redemption and taxation.
2. Strengthen secondary-market liquidity and price transparency.
3. Ensure predictable issuance and redemption policies.

Conclusion

SGBs offer a mechanism to channel household gold savings into financial assets while reducing the need for physical storage. Their effectiveness depends on investor confidence, transparent policies and sustainable fiscal management.

BECOME IAS
AI POWERED UPSC PREP