

Sovereign Gold Bond (SGB): What UPSC Aspirants Need to Know

Gold has traditionally been an important asset in India. However, purchasing physical gold involves concerns such as storage, security and purity.

To provide an alternative to physical gold and reduce the demand for imported gold, the **Government of India introduced the Sovereign Gold Bond (SGB) Scheme in 2015.**

SGBs are government securities denominated in **grams of gold** and are issued by the Reserve Bank of India on behalf of the Government of India.

What is a Sovereign Gold Bond?

A **Sovereign Gold Bond** is a government security whose value is linked to the price of gold.

Instead of buying physical gold, an investor purchases a bond representing a specified quantity of gold.

In simple terms:

Physical Gold → Gold jewellery/bars/coins

SGB → Financial security linked to the price of gold

The investor receives:

Gold-price-linked returns + fixed interest

Why Was the SGB Scheme Introduced?

The scheme was designed to:

- Reduce the demand for physical gold
- Reduce gold imports
- Encourage financial savings
- Provide an alternative to holding physical gold
- Mobilise household gold investments into the financial system

This makes SGBs relevant not only to **personal finance**, but also to **India's macroeconomic management**.

Key Features of Sovereign Gold Bonds

Feature	Details
Issued by	RBI on behalf of Government of India
Denomination	Gram(s) of gold
Minimum unit	1 gram
Interest	2.5% per annum for the standard SGB structure
Interest payment	Half-yearly
Tenure	8 years
Early redemption	Permitted from 5th year on interest-payment dates
Trading	Can be traded on stock exchanges
Security	Sovereign-backed government security
Pricing	Linked to 999-purity gold price

The 2.5% annual interest is calculated on the **initial investment value**, not on the continuously changing market value of gold.

How Does an SGB Work?

Suppose an investor purchases an SGB representing:

10 grams of gold

The value of the bond is linked to the prevailing gold price.

The investor receives:

2.5% annual interest on the initial investment

In addition, the redemption value is linked to the prevailing gold price according to the applicable SGB rules.

Therefore:

Total return $\approx$ Interest income + Change in gold price

However, gold prices can rise or fall, so returns are not guaranteed.

Who Can Invest?

Eligible investors under the scheme include resident individuals and certain eligible

entities such as:

- Individuals
- Hindu Undivided Families (HUFs)
- Trusts
- Universities
- Charitable institutions

SGBs can also be held by an individual on behalf of a minor child, subject to the scheme's conditions.

SGB vs Physical Gold

SGB	Physical Gold
Financial security	Physical asset
No storage required	Requires storage
Earns fixed interest	No interest
Gold-price linked	Gold-price linked
Government-backed security	Depends on seller/product
Can be traded	Can be sold physically
No making charges	Jewellery may involve making charges

For UPSC, the important point is that **SGB converts gold ownership into a financial asset.**

SGB and India's Economy

This is the most important section from a **UPSC GS Paper 3 perspective.**

India has historically been a major consumer and importer of gold.

Large gold imports can affect:

- Current Account Deficit
- Foreign exchange requirements
- Balance of Payments
- Demand for imported commodities

The SGB scheme attempts to encourage people to hold **financial instruments linked to gold rather than physical gold.**

The broader objective:

Physical Gold → Financial Gold → Better mobilisation of household savings

SGB and Financialisation of Savings

India has traditionally had a strong preference for physical assets such as:

- Gold
- Land
- Property

Government initiatives have sought to encourage households to move towards formal financial assets.

SGBs are part of this broader process of **financialisation of household savings**.

This concept is important for:

UPSC GS Paper 3 - Indian Economy

Taxation of SGBs

Tax treatment is an important UPSC point.

Interest received from SGBs is taxable according to applicable income-tax provisions.

Historically, the scheme provided exemption from capital-gains tax for an individual on redemption by the government at maturity. Tax treatment of **secondary-market transfers and newer tax rules should always be checked against the applicable law for the relevant assessment year**.

UPSC Tip

Do not blindly memorise an old tax rule.

For current-affairs questions, always check the **latest Finance Act, Income Tax Department notification and RBI notification**.

SGB and Government Borrowing

SGBs are also government securities.

Therefore, they represent a liability of the Government of India.

The RBI issues the bonds on behalf of the government.

This makes SGBs different from:

- Digital gold
- Gold ETFs
- Physical gold

because SGBs are part of the **sovereign securities framework**.

Important Difference: SGB vs Gold ETF

Sovereign Gold Bond

Government security + gold-linked value + fixed interest

Gold ETF

Market-linked financial product that generally tracks gold prices

For UPSC, remember:

SGB is a government security; a Gold ETF is a market-based investment product.

Why Is Gold Important for India?

Gold has a special place in India's economy and society.

It is important because of:

- Household savings
- Jewellery demand
- Cultural significance
- Investment demand

- Imports
- Foreign exchange requirements
- Financial markets

Therefore, gold is not merely a precious metal.

It is also connected to **India's external sector and macroeconomic stability.**

SGB: UPSC Prelims Facts to Remember

1. Who issues SGBs?

Reserve Bank of India on behalf of the Government of India.

2. What is the denomination?

Gram(s) of gold.

3. What determines its value?

The price of gold of prescribed purity according to the scheme's pricing methodology.

4. What is the standard interest rate?

2.5% **per annum** under the established SGB structure.

5. Is the interest paid monthly?

No. It is paid half-yearly.

6. What is the normal maturity period?

8 years.

7. Can investors exit earlier?

Yes, premature redemption is permitted after the fifth year on applicable interest-payment dates.

Possible UPSC Prelims Question

Consider the following statements regarding Sovereign Gold Bonds:

1. They are issued by the Reserve Bank of India on behalf of the Government of India.
2. They are denominated in grams of gold.
3. They pay a fixed rate of interest.
4. Their value is completely independent of gold prices.

Which of the statements given above are correct?

Answer: 1, 2 and 3 only.

Possible UPSC Mains Question GS Paper 3

“Sovereign Gold Bonds represent an attempt to transform India’s traditional preference for physical gold into financial savings.” Discuss.

Key points for the answer:

- India’s high demand for gold
- Gold imports and external-sector implications
- Financialisation of household savings
- Alternative to physical gold
- Mobilisation of savings
- Role of government securities
- Limitations and investor awareness

Advantages and Limitations Potential Advantages

- No physical storage requirement
- Gold-price-linked investment
- Fixed interest component
- Government-backed security
- Can be traded on exchanges
- Helps financialise gold holdings

Limitations

- Gold prices can fall
- Long maturity period
- Secondary-market liquidity can vary
- Interest is relatively small compared with possible gold-price movements
- Tax treatment depends on applicable law
- New SGB issuance depends on government decisions and announced tranches

Why SGB Is Important for UPSC

Sovereign Gold Bond is an excellent example of how **one government scheme can connect multiple UPSC subjects**.

GS Paper 3

Gold imports + savings + financial markets + external sector

GS Paper 2

Government policy and financial inclusion

Economy

Balance of Payments + Current Account + Financialisation

Essay

“From physical assets to financial assets: changing patterns of household savings in India.”

Quick Revision

Remember the SGB concept through this chain:

GOLD

↓

PHYSICAL GOLD DEMAND

↓

GOLD IMPORTS

↓

CURRENT ACCOUNT / EXTERNAL SECTOR

↓

SOVEREIGN GOLD BONDS

↓

FINANCIALISATION OF GOLD

↓

MOBILISATION OF HOUSEHOLD SAVINGS

Final Takeaway

The **Sovereign Gold Bond Scheme** is more than an investment product.

From the UPSC perspective, it represents an important policy attempt to:

reduce dependence on physical gold → encourage financial savings → reduce

pressure from gold imports → deepen financialisation of household savings.

Therefore, whenever you study SGBs, don't just memorise **"2.5% interest and 8-year maturity."**

Understand the larger economic objective:

How can India convert its traditional preference for physical gold into productive financial savings?

That is the real UPSC concept behind the Sovereign Gold Bond Scheme.

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