



A STUDY ON PERFORMANCE EVALUATION OF SOVEREIGN GOLD BONDS 2015-16 TO 2023-24

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Abstract:

Gold Investment in India: A Shift towards Sovereign Gold Bonds

In India, gold is an integral part of tradition and culture, with most investors purchasing jewellery, coins, and biscuits before 2015. However, this form of investment comes with additional costs, such as locker facility fees for safekeeping. To address this, the Central Government launched three gold schemes on November 5, 2015, including the Sovereign Gold Bond (SGB) scheme, which is the focus of this study. The SGB scheme aims to discourage physical gold purchases and offer a secure and convenient investment platform. Backed by the Reserve Bank of India, SGBs are considered a safer alternative to physical gold, denominated in grams, and are substitutes for physical gold. This study examines the impact of SGBs on market liquidity, RBI's gold reserves, and Indian festivals, as well as their effect on physical gold demand and other investments.

Keywords: *Gold, Sovereign Gold Bonds, Gold Imports, Gold Monetization schemes, consumer.*

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Introduction:

India's Gold Consumption: A Socio-Economic Phenomenon with National Implications

India is the world's largest consumer of gold, accounting for approximately 25% of global consumption, with annual imports ranging from 800 to 1000 tonnes. Gold plays a significant role in Indian society, used for jewellery, industrial purposes, investment, and central bank reserves. While gold has historically preserved wealth and provided returns exceeding inflation rates, its consumption has severe national implications. India's dependence on gold imports from countries like China, Russia, and the US negatively impacts the rupee's value. Furthermore, gold remains largely unproductive, idle in safes or vaults,

prompting the government to discourage imports and mobilize existing gold for productive use. Previous measures, such as increased import duties, the 80:20 scheme, and Gold Deposit Schemes, have failed to achieve this goal, highlighting the need for alternative solutions.

India's Gold Schemes: Mobilizing Domestic Gold and Reducing Import Dependence

In 2015, the Indian government launched three gold schemes - Gold Monetization, Gold Sovereign Bond, and Gold Coin and Bullion - to tap into the country's internal gold reserves. These schemes aimed to encourage households and institutions, including temples, to mobilize their gold holdings for productive use. By doing so, the government sought to reduce



reliance on gold imports and promote investment in sovereign gold bonds over physical gold.

Sovereign Gold Bond Scheme: A Key Initiative

Introduced on October 30, 2015, the Sovereign Gold Bond (SGB) scheme is a crucial tool for improving India's current account status and budgetary management. SGBs are RBI-issued securities denominated in gold grams, offering a lock-in period of 8 years, tradability on NSE and BSE, and a 2.5% semi-annual interest rate. To incentivize investment, the Union Budget 2015-16 waived capital gains tax for bonds held till maturity.

Research Focus:

This study explores the Indian gold market, with a specific focus on the Sovereign Gold Bond scheme's effectiveness in reducing gold imports. It also examines investors' awareness and perceptions of the scheme, aiming to understand its impact and potential for growth.

Objectives of the Study:

The present study proposes to focus on the Sovereign Gold Bonds issued by Reserve Bank of India on behalf of the government of India and review the progress achieved, challenges techniques to make it more effective. Various factors related to investments in Sovereign Gold Bonds will also be focused. The objectives of the proposed of the study are:

1. To study the concept of Sovereign Gold Bonds in India.
2. To review the literature available on Sovereign Gold Bonds.
3. To study the Progress achieved by government in Sovereign Gold Bonds schemes since 2015-16 to 2023-24.

Research Methodology of the Study:

The data for the study is based on published and unpublished data collected from secondary sources.

Secondary data:

This research paper undertakes an exploratory study, leveraging secondary data from diverse sources including journals, magazines, articles, and media reports. The study extensively utilizes available secondary data, supplemented by a secondary survey to procure additional necessary information.

Data pertaining to Investment in SGB, Consumption of gold in India is based on secondary sources. Data for these variables can be collected from different government report and websites as mentioned below:

- i. World Gold Council - <https://www.gold.org/>
- ii. Economic Political Weekly - <https://www.epw.in/>
- iii. Reserve Bank of India - <https://rbi.org.in/home.aspx>
- iv. Statista - <https://www.statista.com/statistics/625818/import-value-of-gold-india/>

Review of Literature:

The researcher has reviewed the literature for the purpose of the study and the same is presented below.

1. Sahay & Mukherjee (2016), in their study "Influence of reference prices on purchase intentions and hedonic valuation of gold in India" reveals that consumer in the country place great importance on gold, driven by its perceived value as a "safe investment" and "social status symbol". Additionally, gold is seen as a "liquid asset" that can be easily stored and converted into cash when needed. This highlights the dual value of gold in Indian culture, serving both as a valuable investment and a sentimental treasure. The decision to buy gold is often motivated by a combination of factors, including tradition, habit, and emotional attachment.
2. Rishabh Gupta (2018), in his study "Sovereign Gold Bond – A Financial Innovation in India" This study delves into the theoretical framework and



- background of Sovereign Gold Bonds (SGBs), drawing comparisons with Gold ETFs and physical gold. Despite the government's efforts to promote SGBs, the author notes a significant lack of awareness among investors, who often prefer physical gold as a perceived safer option, even with the offered interest. However, the author remains optimistic about the future of SGBs, predicting a thriving market in the near future. The author emphasizes the importance of such schemes in enhancing the overall economic health, highlighting their potential to reduce reliance on physical gold and promote a more stable investment ecosystem.
3. Jalpa, Sheenam Gogia & Vatsala (2013) conducts an empirical analysis of gold investment trends among professionals, comparing e-Gold, gold ETFs, and gold funds. The study aims to: a. Identify the most preferred precious metal for investment (gold, silver, or platinum), b. Understand attitudes towards gold investment and alternative options, c. Assess risk and return perspectives in gold investment. The researcher found that Family and friends significantly influence investment decisions and Gold ETFs are perceived as moderate-risk and moderate-return investments, ranking middle among e-gold and gold funds. Thus, the study provides insights into professionals' investment preferences and risk-return expectations, highlighting the importance of social influence and the relative positioning of gold ETFs in the investment landscape.
 4. Ragavendra RH (2013) in his research compares the performance of gold-related assets, including Gold ETFs, Gold Mutual Funds, and physical gold. The study reveals significant differences among these investment options, with key findings indicating: a. Gold ETFs outperform physical gold and Gold Mutual Funds in terms of returns, b. Statistical analysis confirms the superior performance of Gold ETFs compared to other gold investment options. The study provides valuable insights for investors, highlighting the potential benefits of choosing Gold ETFs over other gold investment alternatives.
 5. Nishad Nawaz M. & Sudindra V. R. (2013) examines various gold investment options, aiming to a. Assess awareness levels among investors, b. Explore available options for gold investment, c. Evaluate pros and cons of different forms of gold investment and d. Raise awareness among investors. The researcher found that, most respondents prefer investing in gold jewellery due to convenience and perceived value, awareness about alternative gold investment options, such as e-gold and gold certificates, is remarkably low and respondents are deterred from exploring other options due to high making charges associated with jewellery. The study highlights the need for increased awareness and education about diverse gold investment options, empowering investors to make informed decisions.
 6. Chaudhary, R., & Bakhshi, P. (2016). conducted an empirical analysis of gold investment trends among professionals, comparing e-Gold, gold ETFs, and gold funds. The study aimed to identify the most preferred precious metal for investment (gold, silver, or platinum), understand attitudes towards gold investment and alternative options and assess risk and return perspectives in gold investment. The researchers found that family and friends significantly influence investment decisions, Gold ETFs are perceived as moderate-risk and moderate-return investments, ranking middle among e-gold and gold funds. The study provides insights into professionals' investment preferences and risk-return expectations, highlighting the importance of social influence and the relative positioning of gold ETFs in the investment landscape.



About Sovereign Gold Bonds:

Gold Monetization schemes, Sovereign Gold Bond Scheme along with the Indian Gold Coin were the schemes recently launched by the Government of India with the objective to monetize the gold owned by households and religious institutions and to reduce the pressure on import bills. The main features of the schemes under the scanner are as under:

Sovereign Gold Bonds (SGBs) was launched in November 2015 by Government of India with the aim to reduce the demand of physical gold and shift a part of the domestic saving to financial savings. SGBs are government-backed securities that represent a digital equivalent of gold, allowing investors to hold gold without physical possession. These bonds can be purchased and redeemed in cash at maturity. The Reserve Bank of India (RBI) issues SGBs on behalf of the Government of India to eligible investors, including; Individuals residing in India (as per the Foreign Exchange Management Act, 1999), Hindu Undivided Families (HUFs), Trusts, Universities and Charitable institutions. Notably, even if an investor's residential status changes, they can still hold the SGB until early redemption or maturity, ensuring flexibility and security.

Key Features of Sovereign Gold Bond Scheme:

- **Sovereign Gold Bond Investment Limits:** The bonds are issued in units of one gram of gold, with flexible investment limits, minimum investment being 1 gram and maximum investment limit for individuals and Undivided Families (HUFs) is 4 kg per fiscal year. Trusts and similar entities can invest up to 20 kg per fiscal year (subject to change by the government). The points to be noted are, Joint holdings are subject to the same limits, applied to the first applicant. Investment ceilings apply to both direct government purchases and secondary market acquisitions. Collateral holdings by banks and financial institutions are excluded from the

investment limits. These limits are in place to ensure a balanced and regulated investment environment for Sovereign Gold Bonds.

- **Interest on Sovereign Gold Bonds:** Investors in Sovereign Gold Bonds earns a fixed interest rate of 2.50% per annum on their initial investment. The interest gets credited to the investor's bank account semi-annually, i.e. the investors receive regular interest payments every 6 months, with the final interest payment and principal amount being paid out when the bond matures.
- **Authorized Entities for Bond Sales:** The following entities are authorized to sell Sovereign Gold Bonds: Nationalized Banks, Scheduled Foreign Banks, Scheduled Private Banks, Stock Holding Corporation of India Ltd. (SHCIL), Designated Post Offices and Authorized stock exchanges (directly or through agents)
- **Benefits and Tax Implications:** Online applicants and digital payment users receive a discount of ₹50 per gram below the nominal value. Interest earned is taxable under the Income-tax Act, 1961, but capital gains tax is exempt on redemption. Bond tenure is 8 years, with early encashment/redemption options available after 5 years from the issue date.
- **Redemption and Maturity:** Investors can redeem their bonds after 5 years from the issue date, with coupon payments. On maturity, investors receive an amount equivalent to the average closing price of 999 purity gold for the past 3 days, as published by the India Bullion and Jewellers Association Limited, in Indian Rupees.

Performance of Sovereign Gold Bonds Scheme:

The first tranche of Sovereign Gold Bond Scheme was opened for subscription on November 05, 2015. According to data from the Ministry of Finance, Government of India, the first tranche received 62,169 applications, with a total gold subscription of 915.953



Kilograms of gold amounting to Rs 246.20 crore by the Banks and Post Offices.

Cut to the year 2023-24, the Reserve Bank, in consultation with the Government of India, had announced a calendar comprising four tranches of SGBs issued during 2023-24. In the fiscal year 2023-24, a total of ₹27,031 crore was raised, equivalent to

44.34 tonnes of gold. Since the launch of the Sovereign Gold Bond (SGB) scheme in November 2015, the cumulative amount raised has reached ₹72,274 crore, corresponding to 146.96 tonnes of gold, spread across 67 tranches. The details are presented in the table below:

1. Performance of Sovereign Gold Bonds:

The Sovereign Gold Bonds scheme was launched in November 2015 with the objective of reducing gold imports and promoting a paper-based gold investment system. Since its inception, the scheme has made significant progress, which the researcher has made an attempt to display as under:

Table 1: Total Sovereign Gold Bonds Issued

Issue of Sovereign Gold Bonds			
Year	Issue price/unit	Number of units subscribed (in grams)	Total Amount (Rs. Crore)
2015-16	2733.33	4903285	1317.91
2016-17	3054.75	11387765	3480.57
2017-18	2932.07	6524691	1894.75
2018-19	3183.67	2030873	643.17
2019-20	3779.2	6131169	2316.37
2020-21	4926.25	32351961	16048.74
2021-22	4828.4	27035139	12991.00
2022-23	5327	12260868	6550.66
2023-24	6077.75	44336876	27031.96

Source: RBI SGBs Data. <https://rbidocs.rbi.org.in>

Subscription: Since the inception of the SGB scheme in November 2015, a total of ₹ 72,274 crore (146.96 tonne) has been raised through 67 tranches. The total subscription amount has grown from ₹1318 crores in 2015-16 to ₹27000 crores in 2023-24, indicating a significant increase in investor participation. The increase in the subscription amount is supported by both increase in Subscription (from 4.9 metric tons to 44.34 metric tons of gold) and increase in gold prices (from Rs. 2733.33 per gram to Rs. 6077.75 per gram).

Number of Issues: The number of SGB issues has increased from 2 in 2015-16 to 12 in 2022-23, providing more opportunities for investors to participate.

The investor base has expanded to include individual investors, institutional investors, and even foreign investors. SGBs have **promoted financial savings** and investment in a secure and transparent manner. SGBs have provided investors with a new investment avenue, allowing them to **diversify their portfolios**. SGBs have gained a **market share of 10%** in the gold investment market, indicating increasing acceptance among investors.

Impact on Imports:**Table 2 Gold Imports of India (in tonnes)**

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gold Imports (in tonnes)	1,065.00	642.1	975.3	871.7	827.4	399.6	1,003.40	741.1	862

Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

As seen in the above table no 2, Gold imports did decline in the initial years after the SGB scheme was launched, indicating a positive impact. We can infer that SGBs have attracted some investors who would have otherwise bought physical gold, thereby reducing gold imports, from 1065 tonnes in 2015 to 862 tonnes in 2022-23, indicating a reduction of 19%.

Table 3 Gold Demand of India (in tons)

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Jewellery demand in India (tonnes)	662.3	504.5	601.9	598	544.6	315.9	610.9	600.6	562.3
Total bar and coin demand/Investment Demand (tonnes)	194.9	161.6	169.3	162.4	145.8	130.4	186.5	173.6	185.2
Total Gold Demand (in tonnes)	857.2	666.1	771.2	760.4	690.4	446.4	797.3	774.1	747.5

Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

As seen from the above table no.3, India's gold demand also saw a dip in the initial one year, but there after that, it has remains strong, driven by cultural and economic factors, limiting the impact of SGBs on reducing gold imports. In accordance with a study conducted by the (WGC) Gold Council, gold jewelry requirement accounted for about more than 75 percentage of overall gold consumption in India between 1990 and 2023. We can infer from this that maximum gold consumption is for jewelry fabrication and the rest is gold coins, bars, and gold-backed assets. **The point to be noted here is that, the demand for coins and bars have seen a steady decline and this demand is understood to be replaced by SGBs.** Even though demand has been declining since 2015, the fall in volume seemed to have no effect on the value of gold due to the rising prices of gold.

Challenges and Future Directions:

Subscription levels for SGBs have been inconsistent, and the total amount raised is a small fraction of India's gold imports. Despite the SGB scheme, gold imports have increased in recent years, driven by factors like festival demand, weddings, and economic growth.

There is a need to **increase awareness** about SGBs among investors, particularly in rural areas. Measures

need to be taken to **improve liquidity** in the SGB market. The **investor experience** needs to be enhanced through simplified processes and better customer support.

Conclusion:

Sovereign Gold Bonds Scheme has picked up the traction, but not as much as expected. In fact, the Finance ministry has reduced the target to raise funds



through SGBs in 2024-25 by 38% to ₹18,500 crore due to factors like investor demand, other investment products, and global economic uncertainties.

While the SGB scheme has had some positive impact on reducing gold imports, its overall effect has been limited. Gold imports remain a significant contributor to India's trade deficit, and the government may need to consider additional measures to reduce gold imports and promote a paper-based gold investment system.

The awareness levels still remain quite limited, and efforts need to be taken to increase the awareness across India.

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