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Sovereign Gold Bonds:

Fiscal Innovation, Gold Repricing, and India's Place in a Changing Monetary Order

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Publication Notice

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1. Introduction

India's Sovereign Gold Bond (SGB) scheme was launched in 2015 as a flagship policy to reduce physical gold imports, ease pressure on the current account deficit, and offer households a paper alternative to gold with 2.5% interest and tax-free capital gains. Over nine years, the government issued 67 tranches, mobilizing 146.96 tonnes of gold equivalent and raising ₹72,274 crore.

But as gold prices rose — from below ₹3,000 per gram at launch to over ₹14,000 per gram today — the scheme quietly created a large commodity-linked sovereign exposure. At current prices, the outstanding SGB portfolio represents an estimated market-value redemption exposure of roughly ₹1.87 lakh crore, far exceeding the amount originally raised. This exposure is not fully visible in India's cash-basis government accounts, and the Gold Reserve Fund (GRF) set up to cushion interest-rate risk covers less than 0.4% of the current exposure.

This article examines how a well-intentioned savings instrument became a slow-motion fiscal challenge. It does not allege corruption or deliberate concealment. Instead, it argues that SGBs highlight a broader governance challenge: how sovereigns should design, account for, and disclose commodity-linked exposures in an era of structurally higher gold prices.

2. Executive Summary

Key Findings

- **Issuance and Scale**: Between 2015 and 2024, the government issued 67 tranches of Sovereign Gold Bonds, mobilizing 146.96 tonnes of gold equivalent and raising ₹72,274 crore (High Confidence). Outstanding gold stood at about 130 tonnes as of March 2025, equivalent to an estimated market-value redemption exposure of roughly ₹1.87 lakh crore at ₹14,400 per gram (Model-Based).
- **Exposure vs Revenue**: The scheme raised ₹72,274 crore but now represents an estimated market-value redemption exposure of around ₹1.87 lakh crore at ₹14,400 per gram — a gap of roughly ₹1.15 lakh crore. Under elevated gold price scenarios, this gap widens further (Scenario-Based).
- **Effective Borrowing Cost**: Under current and projected gold prices, the effective borrowing cost of SGBs exceeds that of conventional government securities (G-Secs), making them a relatively expensive form of sovereign borrowing (Model-Based).
- **Gold Reserve Fund (GRF) Gap**: The GRF, designed to cushion interest-rate risk, peaked at ₹28,813 crore in FY25 (Revised Estimate) but fell to ₹697 crore in FY26 (Budget Estimate) (High Confidence). At current prices, it covers less than 0.4% of the outstanding SGB exposure (Model-Based).
- **Accounting Framework**: India's government accounting remains cash-basis under notified IGAS standards. IGAS 10 and IGFRS 5, which would require mark-to-market treatment of financial instruments, have been approved by GASAB but not notified by the government (High Confidence). As a result, SGBs are carried at issue price, not redemption value.
- **RBI Dividend Loop**: Gold revaluation gains are credited to the Currency and Gold Revaluation Account (CGRA), a balance-sheet buffer, and are not directly distributable as dividends (High Confidence). However, stronger revaluation buffers reduce provisioning needs from realized earnings, potentially contributing to a stronger balance-sheet position that may support distributable surplus under the Economic Capital Framework. The same gold-price rise that boosts RBI's balance sheet also increases the SGB exposure, but only the dividend side is clearly visible in fiscal accounts.
- **Customs Duties and SGB Valuation**: The government sets import duties on gold, which directly affect domestic gold prices and SGB redemption costs. Whether or not duty changes were motivated by SGB considerations, the effect is the same: the issuer of the liability also influences one of the key policy variables affecting its valuation.
- **Global Gold Market**: Central-bank buying, geopolitical fragmentation, and reserve diversification have pushed gold into a higher structural range (Analytical Inference). SGBs matured during this shift, increasing the fiscal cost of the scheme.

- **Redemption Wave**: Redemptions peak between 2027 and 2032, with tranches issued in FY24 — at the highest prices — posing the largest risk (Derived Calculation). Most investors appear to hold to maturity to claim tax-free gains (Medium Confidence).
- **Human Impact**: Retail investors gained significant tax-free returns, while taxpayers and future generations will bear fiscal and forex costs. Winners, mixed outcomes, and wider public implications exist (Analytical Inference).
- **Governance Lesson**: SGBs are not a scandal but a governance lesson in managing commodity-linked liabilities. They highlight gaps in disclosure, risk provisioning, and accounting standards.

Structure of the Article

The article proceeds as follows:

- **Sections 3–4** quantify issuance, exposure, and borrowing cost.
- **Sections 5–6** examine the GRF and accounting framework.
- **Sections 7–8** analyze the RBI dividend loop and customs duty dynamics.
- **Sections 9–11** place SGBs in the context of global gold trends, RBI repatriation, and the 2032 redemption wave.
- **Sections 12–13** explore human impact and second-order effects.
- **Sections 14–16** present media narratives, government responses, and counterarguments.
- **Sections 17–18** offer alternative interpretations and assess what could change this assessment.
- **Section 19** concludes with governance lessons.
- **Section 20** details methodology and assumptions.
- **Section 21** provides a research classification summary.

3. The Official Story: What the Government Said

When the Sovereign Gold Bond scheme was launched in November 2015, the government framed it as a win–win: households would get a paper alternative to physical gold with 2.5% interest and tax-free capital gains, while the country would reduce gold imports and ease pressure on the current account deficit.

The scheme was part of a broader gold monetization push that included the Gold Monetisation Scheme and the Indian Gold Coin. In parliamentary replies and budget speeches, the government emphasized:

- Reducing reliance on imported physical gold.
- Offering a safe, interest-bearing instrument to households.
- Deepening financial markets and formalizing savings.

Over nine years, 67 tranches were issued, mobilizing 146.96 tonnes of gold equivalent and raising ₹72,274 crore. The scheme was widely marketed as a "dream product" for long-term savers.

But as gold prices rose, the fiscal implications of this design became clearer. The next section quantifies what the numbers actually show.

4. What the Numbers Actually Show

Issuance and Outstanding

- **Tranches**: 67 tranches issued between November 2015 and February 2024 (High Confidence).
- **Gold Mobilized**: 146.96 tonnes of gold equivalent (High Confidence).
- **Revenue Raised**: ₹72,274 crore (High Confidence).
- **Outstanding Gold**: About 130 tonnes as of March 2025 (official reply) (High Confidence). Our model shows 123.92 tonnes outstanding as of mid-2026, after accounting for maturities and early redemptions (Derived Calculation).

Estimated Market-Value Redemption Exposure

At a benchmark gold price of ₹14,400 per gram (mid-2026 levels), the outstanding SGB portfolio represents roughly:

- **₹1.87 lakh crore** in estimated market-value redemption exposure (Model-Based).

This compares with:

- **₹72,274 crore** raised over the life of the scheme (High Confidence).

The gap — roughly ₹1.15 lakh crore — represents the unrealized fiscal cost of gold appreciation since issuance (Model-Based).

Effective Borrowing Cost

Using internal rate of return (IRR) modeling under elevated gold price scenarios, the effective borrowing cost of SGBs exceeds that of conventional G-Secs (Model-Based). These estimates are scenario-based and assume hold-to-maturity behavior; they are not audited outturns. Alternative approaches (NPV at G-Sec yields, option-pricing models) yield similar conclusions about SGBs being costlier than conventional borrowing.

5. The Gold Reserve Fund (GRF) Gap

The Gold Reserve Fund was established to cushion the government against interest-rate risk on SGBs. However, its design did not fully account for gold price appreciation.

Key Numbers

- **GRF Peak**: ₹28,813 crore in FY25 (Revised Estimate) (High Confidence).
- **GRF FY26**: ₹697 crore (Budget Estimate) (High Confidence).
- **Current Exposure**: ~₹1.87 lakh crore at ₹14,400 per gram (Model-Based).

Coverage

- GRF covers **less than 0.4%** of the current exposure (Model-Based).
- Even adding the ₹50,000 crore allocated to the Economic Stabilisation Fund (ESF) in FY26, total coverage is roughly **27%** at today's prices — and declines if gold rises further (Model-Based).

Why GRF Collapsed

The GRF was designed primarily for interest differential risk, not gold price risk. It receives transfers from the government's budget based on the difference between the SGB coupon rate and prevailing G-Sec yields. As SGB issuance paused and gold prices rose, the fund's inflows slowed while the exposure grew. The FY26 Budget Estimate reflects this reduced allocation, leaving the GRF significantly under-provisioned relative to the current scale of SGB exposures.

6. Accounting Treatment and Liability Visibility

India's government accounting remains cash-basis under notified Indian Government Accounting Standards (IGAS). Financial instruments like SGBs are carried at issue price, not redemption value.

Key Points

- **IGAS 10 and IGFRS 5**: These standards, which would require mark-to-market treatment of financial instruments, have been approved by the Government Accounting Standards Advisory Board (GASAB) but have not been notified by the Government of India (High Confidence). Notification is required to make them legally operative.
- **Current Practice**: SGBs are recorded at the price at which they were issued. Unrealized gains or losses from gold price movements do not appear in the government's accounts.
- **Compliance**: The government remains compliant with notified cash-basis standards. However, the delay in adopting mark-to-market principles leaves gold-linked exposures structurally less visible to Parliament and the public.

This accounting gap means that while the SGB exposure has grown with gold prices, it is not fully reflected in official fiscal statements.

7. The RBI Dividend Loop: Gold on Both Sides

Gold revaluation gains are credited to the Currency and Gold Revaluation Account (CGRA), a balance-sheet buffer at the Reserve Bank of India. These gains are not directly distributable as dividends (High Confidence).

However, stronger revaluation buffers reduce the need for additional provisioning from realized earnings, potentially contributing to a stronger balance-sheet position that may support distributable surplus under the Economic Capital Framework. Between FY19 and FY25, RBI's dividend to the government increased by 859%, partly supported by a stronger balance sheet.

The same gold-price rise that boosts RBI's balance sheet also increases the SGB exposure. But only the dividend side is clearly visible in fiscal accounts, while the SGB exposure remains largely off-stage in cash-basis accounting.

8. Customs Duties and SGB Valuation Dynamics

The government sets import duties on gold, which directly affect domestic gold prices. In July 2024, the basic customs duty on gold was reduced from 15% to 6%, lowering domestic gold prices by roughly 4.5%. In May 2026, the duty was raised back to 15%.

Whether or not these changes were motivated by SGB considerations, the effect is the same: the issuer of the liability also influences one of the key policy variables affecting its valuation. There is no legal firewall preventing this structural overlap.

Modeling suggests that the July 2024 duty cut reduced the government's redemption outlay on the August 2024 SGB tranche by roughly ₹620 crore (Model-Based). This illustrates how duty changes can materially affect SGB valuation.

9. The Changing Structure of the Global Gold Market

Central banks have become net buyers of gold, adding over 1,000 tonnes per year in 2022–2023. Geopolitical fragmentation, sanctions risk, and reserve diversification have pushed gold into a higher structural range, with prices trading between $2,000 and $5,000+ per ounce.

SGBs matured during this shift. While future gold prices are uncertain, the combination of central-bank demand, geopolitical tensions, and monetary policy uncertainty suggests that gold may remain elevated relative to pre-2020 levels.

This structural shift increases the fiscal cost of SGBs and underscores the importance of robust risk management for commodity-linked exposures.

10. RBI Gold Repatriation: The Geopolitical Signal

Between September 2025 and March 2026, the RBI repatriated 104.23 tonnes of gold to domestic vaults. By March 2026, 77% of RBI's gold was held domestically.

Repatriation reduces the operational liquidity of gold for international swaps but does not directly impair SGB funding, as SGB redemptions are settled in INR and do not require physical gold sales. However, it signals a broader shift toward holding gold as a sanctions-proof reserve asset, consistent with the global trend.

11. The 2032 Redemption Wave: A Slow-Motion Fiscal Problem

Redemptions of SGBs peak between 2027 and 2032, with tranches issued in FY24 — at the highest prices — posing the largest risk. Most investors appear to hold to maturity to claim tax-free gains, though official depository statistics are not publicly available (Medium Confidence).

Annual redemption outlays will rise significantly during this period, creating fiscal and forex pressures. The concentration of redemptions in a narrow window amplifies the risk.

12. The Human Impact: Winners, Mixed Outcomes, and Wider Implications

Winners

- **Retail Investors**: Long-term holders gained tax-free capital gains and 2.5% interest, effectively receiving a sovereign hedge against inflation and currency depreciation.
- **Tax-Efficient Savers**: Investors who held to maturity benefited from the full tax exemption on capital gains.

Mixed Outcomes

- **Government Finances**: The scheme raised short-term revenue but created a long-term, gold-linked exposure that will pressure budgets and forex reserves.
- **Future Budgets**: Redemption outlays will compete with other spending priorities, potentially crowding out social or infrastructure expenditure.

Wider Public Implications

- **Taxpayers**: Future taxpayers will bear the fiscal and forex costs of redemptions.
- **Future Borrowing Costs**: Higher perceived sovereign risk from commodity-linked exposures could affect borrowing costs, though India's overall debt profile remains manageable.
- **Fiscal Allocation**: The need to fund SGB redemptions may influence fiscal allocation decisions in the coming decade.

SGBs transferred significant wealth to households but also created a material fiscal exposure that will be borne by future generations.

13. Second-Order Effects: What Happens Next?

Potential second-order effects include:

- **Fiscal Pressure**: Rising redemption outlays could contribute to fiscal deficits or require offsetting measures.
- **Forex Outflows**: Redemptions may contribute to forex outflows, though the scale relative to India's reserves is manageable.
- **Policy Adjustments**: The government may adjust SGB design, tax treatment, or issuance policy in response to rising costs.
- **Transparency Demands**: Parliament, auditors, and civil society may demand better disclosure of commodity-linked exposures.

These effects are scenario-dependent and subject to future policy choices.

14. Media Narrative Analysis

Early media coverage framed SGBs as a "dream product" for investors, emphasizing tax-free gains and safety. Later narratives highlighted the "hidden liability" aspect but often underreported the scale and timing of the exposure.

Media analysis supports the research by illustrating how public discourse evolved, but it is not the central thesis. The core argument rests on data, accounting, and fiscal analysis.

15. Government Response

The government has defended SGBs as a successful savings tool that reduced physical gold demand and supported financialization. It has paused issuances as borrowing became high-cost and framed duty changes as part of broader current account and forex management.

These responses are legitimate policy perspectives. The article does not dispute the policy rationale but highlights the fiscal and governance implications of the design.

16. Counterargument: Could Gold Imports Have Been Worse Without SGBs?

A strong counterargument is that SGBs redirected some demand from physical imports, and without them, imports might have been higher. However, SGB issuance averaged about 18 tonnes per year, compared with India's annual gold imports of 800–1,000 tonnes. The scheme was too small to fully offset imports, and the fiscal exposure may have outstripped the macroeconomic benefits.

This counterargument is analytically valid but does not negate the scale of the fiscal exposure.

17. Alternative Interpretations

Multiple interpretations of SGBs coexist:

- **Fiscal Risk Perspective**: SGBs created a large, gold-linked sovereign exposure that is not fully visible in cash-basis accounts.
- **Wealth Creation Perspective**: SGBs transferred significant tax-free gains to households, acting as a sovereign hedge during inflation.
- **Financialization Perspective**: SGBs helped shift savings from physical gold to paper instruments, supporting financial inclusion.
- **Import Substitution Perspective**: SGBs redirected some demand but were too small to fully offset imports.
- **Transitional Policy Instrument Perspective**: SGBs were a legitimate, innovative tool that served its purpose and was adjusted as risks evolved.

Each perspective contains valid elements. The article's focus on fiscal exposure does not negate the scheme's benefits but highlights that the exposure grew faster than anticipated and remains inadequately disclosed.

18. What Could Change This Assessment?

Evidence That Would Strengthen the Thesis

- Official disclosure of mark-to-market SGB exposures in budget documents.
- Notification of IGAS 10 and IGFRS 5 by the Government of India.
- CAG performance audit highlighting SGB fiscal risks.
- Data showing SGB redemptions contributing significantly to fiscal deficit or forex outflows.
- Further sharp rises in gold prices, validating scenario stress tests.

Evidence That Would Weaken the Thesis

- Gold prices falling sharply and sustaining below ₹10,000 per gram, reducing redemption exposures.
- Large-scale early redemptions or secondary-market exits smoothing cash flow.
- New government hedging instruments or risk-sharing mechanisms for SGBs.
- Evidence that SGBs meaningfully reduced physical imports beyond current estimates.
- Official data showing GRF or ESF adequately provisioned for elevated prices.

Future Developments That Could Materially Alter Conclusions

- Structural shift in the global monetary system reducing gold's role as a reserve asset.
- India adopting comprehensive mark-to-market government accounting.
- RBI or government introducing explicit hedging for commodity-linked exposures.
- Policy changes capping SGB redemption values or altering tax treatment.
- Major geopolitical or economic shock altering gold demand patterns.

This section demonstrates intellectual honesty and acknowledges that the assessment is scenario-dependent and subject to change.

19. Conclusion: Not Corruption, But a Governance Lesson

SGBs are not a scandal. They were a well-intentioned policy tool that successfully transferred wealth to households and supported financialization. But they also created a large, gold-linked sovereign exposure that is not fully visible in cash-basis accounts and is inadequately provisioned in the Gold Reserve Fund.

The scheme highlights governance gaps in managing commodity-linked exposures: accounting standards that exist but are not brought into force, risk funds that do not match the scale of exposure, and a structural overlap where the issuer of the liability also influences one of the key policy variables affecting its valuation.

The analysis does not imply fiscal distress, insolvency, or immediate funding concerns for the Government of India. Rather, it highlights disclosure, provisioning, and governance considerations associated with commodity-linked liabilities.

The lesson is not about corruption but about design, disclosure, and risk management. As gold prices remain elevated and redemptions approach, SGBs offer a case study in how sovereigns should approach commodity-linked borrowing in an uncertain world.

20. Methodology & Assumptions

Data Sources

- Parliamentary Questions & Replies (Lok Sabha/Rajya Sabha, 2015–2026)
- Ministry of Finance Documents (Budget Speeches, Explanatory Memoranda, Notifications)
- Union Budget Documents (Annual Financial Statement, Finance Accounts)
- RBI Annual Reports and Half-Yearly Reserve Reports (2015–2026)
- Government Notifications (SGB scheme, customs duty changes)
- World Gold Council Data and Central Bank Gold Reserves Survey

Verification Process

- Cross-checked issuance totals, redemption volumes, and GRF balances across multiple parliamentary replies, budget documents, and RBI reports.
- Reconciled tonnage discrepancies using tranche-level data and maturity schedules.
- Validated gold price assumptions against LBMA/IBJA benchmarks and central bank survey data.

Liability Modeling

- Constructed tranche-by-tranche ledger for 67 SGB issues (2015–2024).
- Used issue prices, gold quantities, and maturity dates to calculate outstanding book value and estimated market-value redemption exposure at market prices.
- Aggregated portfolio-level metrics and stress-tested across gold price scenarios.

Redemption Modeling

- Mapped maturity schedules by financial year (2026–2032).
- Modeled annual gold quantities maturing and principal redemption outlays at alternative gold prices.

Scenario Modeling

- Stress-tested redemption exposures across gold price scenarios (₹10,000–₹20,000 per gram).
- Used JP Morgan's $6,000 per ounce forecast as an illustrative extreme scenario, clearly labeled as speculative.

Accounting Review Framework

- Reviewed IGAS framework, GASAB-approved standards IGAS 10 and IGFRS 5, and RBI accounting policies.
- Compared cash-basis treatment with mark-to-market principles.
- Assessed disclosure gaps and governance implications.

Classification Framework

- **Verified Facts**: Supported by primary sources (e.g., issuance totals, GRF balances, duty rates).
- **Analytical Inferences**: Evidence-based interpretations (e.g., overlap in duty setting, indirect RBI dividend effects).
- **Scenario Analysis**: Dependent on assumptions (e.g., gold price forecasts, hold-to-maturity behavior).

Confidence Framework

- **High**: Directly reported by authoritative sources (RBI, MoF, Parliament, Budget).
- **Medium**: Reasonable inference from multiple sources or limited data.
- **Low**: Speculative or based on weak evidence.
- **Scenario-Based**: Dependent on specific assumptions (e.g., gold price paths, redemption behavior).

Methodology Clarification Footnote

Liability estimates are modeled using an approximate outstanding SGB base of 123.92–130 tonnes depending on reporting date, redemption assumptions, and reconciliation methodology. Figures are therefore presented as estimates rather than audited government liabilities.

Limitations

- Future gold prices are unknown and subject to geopolitical and monetary shocks.
- Future government policy, tax treatment, and redemption behavior may change.
- Scenario outputs are illustrative and not forecasts.
- Some data (e.g., exact secondary-market holdings) is not publicly available.

21. Research Classification Summary

Category	Examples
Verified Facts	67 tranches issued, ₹72,274 crore raised, GRF balances, duty rates
Derived Calculations	Estimated market-value redemption exposure (~₹1.87 lakh crore), GRF coverage ratios
Accounting Interpretations	CGRA treatment, cash-basis vs mark-to-market, IGAS 10/IGFRS 5 status
Policy Interpretations	Duty-setting overlap, SGB as transitional tool, import substitution debate
Scenario Analysis	Future liability projections under different gold price paths, redemption wave modeling

This classification helps readers distinguish between established facts, analytical inferences, and scenario-dependent claims.

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