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India's Sovereign Gold Bonds:

The ₹1.87 Lakh Crore Question Every Taxpayer Should Understand

A Public Edition of the Investigation

Based on Official Data and Independent Research

July 2026

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Version History

This page provides a running record of published versions of this report for archival tracking and future version control.

Version	Date	Status	Description
v1.0	July 2026	Initial Public Release	First publication of the public edition of the Sovereign Gold Bond investigation.

About the Author

This report was authored by Mohammad Arshad, founder of PulseLifeX, and produced under PulseLifeX Research, an independent research initiative focused on sovereign financial exposures, public-sector accounting transparency, and long-horizon fiscal risk in India.

The author's approach draws on publicly available official sources — Reserve Bank of India annual reports, Union Budget documents, Parliamentary replies, and World Gold Council data — combined with independent analytical modelling to surface exposures that are not always presented in a consolidated form in official disclosures.

Research Focus

- Sovereign contingent liabilities and off-balance-sheet exposures
- Public-sector accounting transparency and disclosure standards
- Commodity-linked government financial instruments
- Central bank reserve management and monetary policy interaction with fiscal outcomes

Independence Statement

This research was conducted independently. It was not commissioned by, and does not represent the views of, the Government of India, the Reserve Bank of India, or any political party. All factual claims are sourced to official public documents; all interpretive and scenario-based claims are clearly labelled as such throughout the report, consistent with the Research Classification Framework presented on the following pages.

Research Metadata

Research Type	Independent analytical and scenario-based research
Methodology Classification	Verified Facts / Analytical Inference / Scenario Analysis (see Research Classification Framework)
Primary Sources	13 categories — RBI, Union Budget, Parliament, World Gold Council, GASAB, CAG, financial press
Data Cut-off Date	July 2026
Estimation Basis	Gold price ₹14,400/gm (July 2026); 130 tonnes outstanding SGB gold equivalent (Parliament reply, April 1, 2025)
Peer Input	Author calculations reviewed against publicly disclosed official figures
Limitations	Exact current SGB outstanding tonnage, RBI internal risk assessments, and future gold price paths are not independently verifiable and are treated as estimates or scenarios
Reproducibility	All formulas and source figures are disclosed inline and in the Sources section

Methodology

This report applies a three-tier research classification methodology, distinguishing between verified facts, analytical inferences, and scenario-based projections. This structure is designed to give readers — including journalists, policymakers, and lawyers — a transparent basis for evaluating each claim in the report.

Tier 1 — Verified Facts

Figures and events drawn directly from official primary sources: RBI Annual Reports, Union Budget documents, Parliamentary replies, and government notifications. These are treated as established data points.

Tier 2 — Analytical Inference

Interpretations derived from Tier 1 data — for example, fiscal implications of reserve fund depletion, or the accounting treatment of contingent liabilities. These are the author's analysis applied to verified facts, and are presented as interpretation rather than fact.

Tier 3 — Scenario Analysis

Forward-looking estimates that depend on stated assumptions — for example, projected redemption costs under different future gold price paths. These are explicitly labelled as scenario-dependent and are not predictions.

Estimation Approach

Where the report presents an estimated market-value redemption exposure, the calculation multiplies the most recently disclosed outstanding SGB gold-equivalent tonnage by the prevailing gold price at the time of writing. This is a mark-to-market estimate, not an official government figure, and is labelled as such throughout.

Scope Limitations

- The report does not have access to RBI's internal risk models or unpublished reserve adequacy assessments.
- Exact SGB outstanding tonnage as of the publication date is based on the most recent official disclosure available (April 2025) and may have shifted with subsequent redemptions.
- Future gold price scenarios are illustrative and sourced to named third-party forecasts where cited.

AI Transparency Statement

In the interest of methodological transparency, this publication discloses the role of artificial intelligence tools in its production.

Research and Drafting

The underlying research, data verification, source selection, and analytical conclusions in this manuscript were directed by the author. The manuscript text itself is treated as final and frozen for the purposes of this publication.

Production and Design

AI-assisted tools (Claude, Anthropic) were used in the production of this publication for document design, page architecture, figure generation, typographic formatting, and layout — that is, for publication production rather than for authoring the underlying research findings, factual claims, or conclusions.

What This Means for Readers

- The factual claims and analysis in this report originate from the author's research, sourced to the documents listed in the Sources section.
- AI assistance was applied to the presentation layer — cover design, figure rendering, layout, and typography — not to the generation of findings.
- Readers seeking to verify any factual claim should refer directly to the primary sources cited, not to this AI transparency statement.

Research Classification Framework

This report distinguishes throughout between verified facts, analytical inferences, and scenario-based projections. The framework below is applied consistently across all fourteen parts of this report.

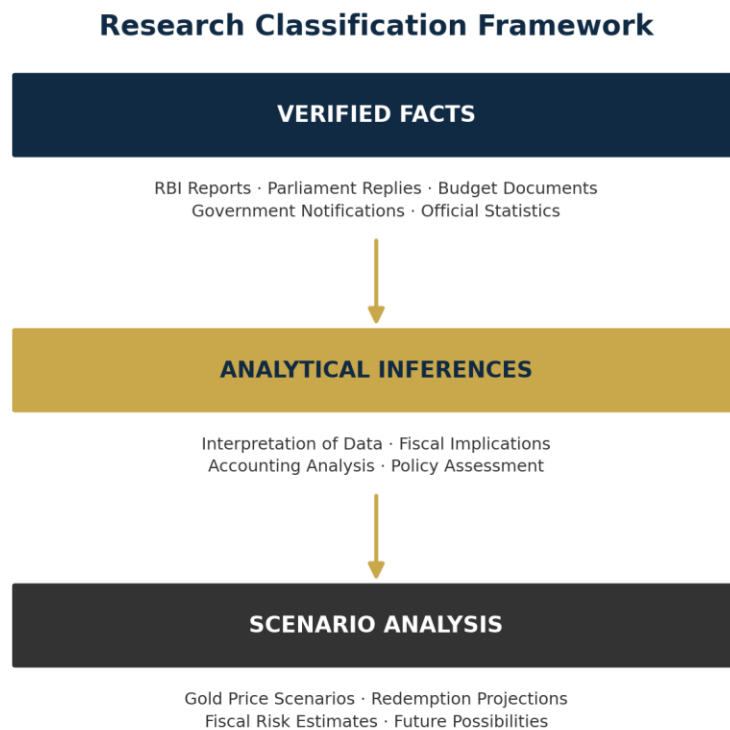


Figure 9. Research Classification Framework

Source: Author methodology framework.

Research Principle

Facts are reported. Interpretations are identified. Scenarios are labelled.
The distinction is maintained throughout the report.

Table of Contents

Front Matter

Publication Metadata.....	
Version History	
About the Author	
Research Metadata.....	
Methodology.....	
AI Transparency Statement	
Research Classification Framework	
Executive Summary	
Key Findings Infographic.....	

Report Parts

Part 1 What Are Sovereign Gold Bonds?	
Part 2 How Investors Benefited.....	
Part 3 What Changed When Gold Prices Surged	
Part 4 Why Experts Are Talking About SGBs	
Part 5 The Gold Reserve Fund.....	
Part 6 Why Accounting Matters	
Part 7 The RBI Dividend Loop.....	
Part 8 Customs Duties and SGB Valuation	
Part 9 The Global Gold Story	
Part 10 RBI Gold Repatriation	
Part 11 Who Wins and Who Pays?.....	
Part 12 Alternative Views	
Part 13 What Happens Next?	
Part 14 Key Lessons.....	

Back Matter

Conclusion.....	
Glossary	
References.....	
Disclaimer	

List of Figures

Fig. 1 Exposure Gap	
----------------------------------	--

Fig. 2 GRF Depletion
Fig. 3 Gold Price Repricing Timeline.....
Fig. 4 Central Bank Gold Accumulation
Fig. 5 RBI Gold Repatriation Timeline.....
Fig. 6 RBI Dividend Interaction Framework.....
Fig. 7 SGB Lifecycle Framework.....
Fig. 8 Key Findings Infographic.....
Fig. 9 Research Classification Framework.....

Executive Summary

Between 2015 and 2024, the Government of India issued 67 tranches of Sovereign Gold Bonds (SGBs), raising ₹72,274 crore from millions of Indian investors. Under the scheme, the government pays 2.5% annual interest and, at maturity after eight years, repays the prevailing market value of the equivalent quantity of gold — not the amount originally borrowed.

Since the scheme's launch, gold prices have moved from approximately ₹2,684 per gram to approximately ₹14,400 per gram as of July 2026 — a structural repricing driven by pandemic-era monetary expansion, geopolitical realignment, and record central-bank gold accumulation. As a direct consequence, the estimated market-value redemption exposure on outstanding SGBs has risen to approximately ₹1.87 lakh crore, roughly 2.6 times the original funds raised.

The Gold Reserve Fund (GRF) — the dedicated buffer created to fund SGB redemptions — has been drawn down from a peak of ₹28,813 crore (FY25 RE) to ₹697 crore (FY27 BE), a coverage ratio of less than 0.4% against current estimated exposure. The government's budget accounts continue to show SGB liabilities at issue price rather than current market value; a government accounting standard (IGAS 10) that would require mark-to-market disclosure was approved by GASAB but has not been notified.

This report also documents a structural interaction between rising gold prices, RBI gold-reserve revaluation gains, RBI dividend transfers to the government, and reported fiscal deficit figures; an overlap between the government's role as SGB issuer and as the setter of gold import duties; the global shift toward central-bank gold accumulation led by China; and the RBI's own accelerating repatriation of gold reserves to domestic vaults, reaching 77% domestic custody by March 2026.

₹72,274 Cr Funds Raised (2015–2024)	₹1.87 Lakh Cr Estimated Redemption Exposure	< 0.4% GRF Coverage Ratio
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The government borrowed at an average of about ₹4,006 per gram. It now owes ₹14,400 per gram. That is a 2.6x increase.

Key Findings

Seven Key Findings — Sovereign Gold Bonds: Fiscal Innovation, Gold Repricing, and India's Place in a Changing Monetary Order.



Figure 8. Key Findings Infographic

Source: Parliamentary replies, RBI publications, Union Budget documents, and author calculations.

A scheme that raised ₹72,274 crore now carries an estimated market-value exposure of approximately ₹1.87 lakh crore.

Part 1 — What Are Sovereign Gold Bonds?

The Simple Version

Imagine your neighbour comes to you and says: “Lend me ₹2,684. In 8 years, I will return whatever the price of 1 gram of gold is on that day — plus 2.5% interest every year.”

You think: gold prices don’t move that much. You lend the money.

Eight years later, that 1 gram of gold is worth ₹14,400. Your neighbour owes you ₹14,400 — plus 8 years of interest. He borrowed ₹2,684 and must return ₹14,400. That is a 437% increase.

Now imagine your neighbour is the Government of India. And instead of one person, there are millions of investors. And instead of 1 gram, the total is 130 tonnes of gold — equivalent to 130,000,000 grams.

That is the Sovereign Gold Bond scheme. And that is why you should care.

The Official Version

The Sovereign Gold Bond (SGB) scheme was launched on November 5, 2015 by the Government of India, jointly designed by the Ministry of Finance and the Reserve Bank of India. Between 2015 and February 2024, the government issued 67 tranches of these bonds, raising a total of ₹72,274 crore from millions of Indian investors — retail savers, HNIs, trusts, and institutions.

The bonds work like this:

- You buy bonds denominated in grams of gold (minimum 1 gram, maximum 4 kg per year for individuals).
- The government pays you 2.5% interest per year on the issue price.
- After 8 years, the government returns the current market price of gold — not what you paid, but what gold is worth on redemption day.
- Capital gains are completely tax-free if held to maturity.

For investors, it was a dream product. For the government, it looked like cheap borrowing — 2.5% versus 7.5% for regular government bonds. What the government did not adequately account for was the risk that gold prices would rise dramatically. They did. And then some.

How a Sovereign Gold Bond Works

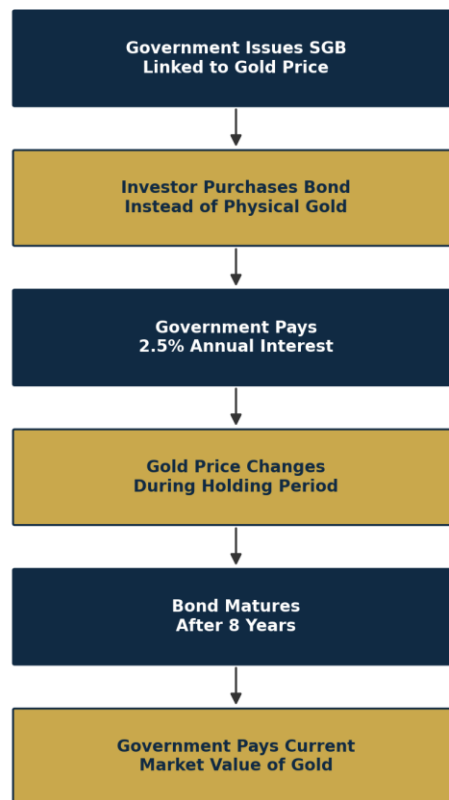


Figure 7. Sovereign Gold Bond Lifecycle Framework

Source: Government of India Sovereign Gold Bond Scheme documentation.

Key Insight

The government does not promise to return the original investment amount. It promises to return the prevailing market value of gold at maturity, regardless of how much gold prices have changed.

Part 2 — How Investors Benefited

Why Millions of Indians Trusted SGBs

For ordinary savers, SGBs were attractive for several reasons:

- Tax-free gains: If you held the bond for 8 years, the entire capital gain was tax-free.
- Regular interest: You got 2.5% per year, paid every six months.
- No storage risk: Unlike physical gold, you didn't need a locker or worry about theft.
- Easy to buy: You could buy through banks, post offices, and online platforms.
- Backed by the government: It was a sovereign bond — considered as safe as government savings schemes.

Many financial advisors recommended SGBs as a long-term savings tool, especially for middle-class families saving for weddings, education, or retirement.

The government marketed SGBs as a way to:

- Reduce reliance on imported physical gold.
- Offer a safe, interest-bearing instrument to households.
- Deepen financial markets and formalize savings.

In that sense, the scheme was successful: millions of Indians trusted it, and many did well from it.

Part 3 — What Changed When Gold Prices Surged

The Simple Version

You borrowed ₹100 from a friend and promised to return “whatever ₹100 buys in gold today.” When you borrowed, ₹100 bought 1 gram. Today, that same 1-gram costs ₹537. You owe ₹537. You borrowed ₹100.

That is what happened to the government — but on a massive scale.

The Numbers

Between 2015 and 2024, the government issued 67 tranches of SGBs, mobilizing 146.96 tonnes of gold equivalent and raising ₹72,274 crore.

Outstanding gold as of March 2025: about 130 tonnes (official reply). Current gold price (July 2026): ₹14,400 per gram.

At this price, the outstanding SGB portfolio represents roughly ₹1.87 lakh crore in estimated market-value redemption exposure. This compares with ₹72,274 crore raised over the life of the scheme. The gap — roughly ₹1.15 lakh crore — is the unrealized fiscal cost of gold appreciation since issuance.

Key Point

The government borrowed at an average of about ₹4,006 per gram. It now owes ₹14,400 per gram. That is a 2.6x increase.

If gold prices rise further — as some major banks forecast — the gap could widen to ₹2.5 lakh crore or more.

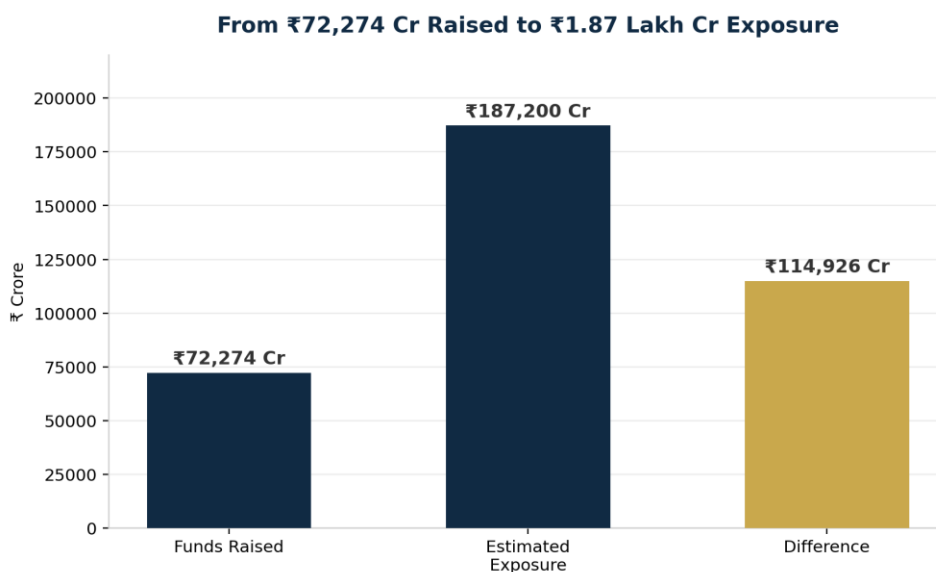


Figure 1. Exposure Gap Between Original Funds Raised and Estimated Redemption Exposure

Source: Parliamentary replies, RBI reports, and author calculations.

Part 4 — Why Experts Are Talking About SGBs

Why Economists, Accountants, and Policymakers Are Concerned

The Sovereign Gold Bond scheme was not a mistake in itself. It was a creative policy tool that helped reduce physical gold imports and offered savers a good product. But it also created a large, gold-linked exposure that is not fully visible in India's official accounts.

Experts are concerned about three things:

- **Scale:** The exposure is large — ₹1.87 lakh crore at current prices — and could grow further.
- **Visibility:** The government's budget shows SGBs at the price they were issued, not the price they will be redeemed at. Parliament votes on numbers that do not reflect the true cost.
- **Risk:** The Gold Reserve Fund (GRF) — the safety net created for SGB redemptions — has been largely depleted.

This is not about corruption or scandal. It is about design, disclosure, and governance. The scheme highlights how governments should manage commodity-linked liabilities in an era of rising gold prices.

Part 5 — The Gold Reserve Fund

A Household Budget Analogy

The Gold Reserve Fund (GRF) was created as a dedicated pool of money to pay for SGB redemptions when they came due. Think of it as a savings jar labelled “for gold bond repayments.”

Simple example: You take a home loan. The bank requires you to maintain a fixed deposit as collateral — a safety buffer. The GRF was supposed to be that safety buffer for SGB redemptions.

What Happened to the GRF?

Year	GRF Balance
FY 2016–17	₹68 crore (just started)
FY 2024–25 (RE)	₹28,813 crore (peak — looked healthy)
FY 2025–26	₹20,000 crore (declining)
FY 2026–27 (BE)	₹697 crore

The GRF went from ₹28,813 crore to ₹697 crore in one year. It has been almost entirely depleted.

Why? The government used the GRF to fund actual redemptions as they came due — which is what it was designed for. But the problem is that the redemptions are accelerating, gold prices have tripled, and the fund has not been replenished at anywhere near the rate required.

The Math

Current estimated exposure: ₹1,87,200 crore. GRF balance: ₹697 crore. The GRF covers 0.37% of the current exposure. That is not a safety net. That is a postage stamp on a broken dam.

There is also something called the Economic Stabilisation Fund (ESF) — a broader government reserve — with approximately ₹50,000 crore that could theoretically be used. However, the ESF is a general macroeconomic buffer, not a ring-fenced SGB reserve like the GRF. Even adding that, total provision is roughly ₹50,697 crore against a ₹1,87,200 crore exposure. Coverage ratio: 27%. And that is at today's prices. If gold rises further, the gap widens.

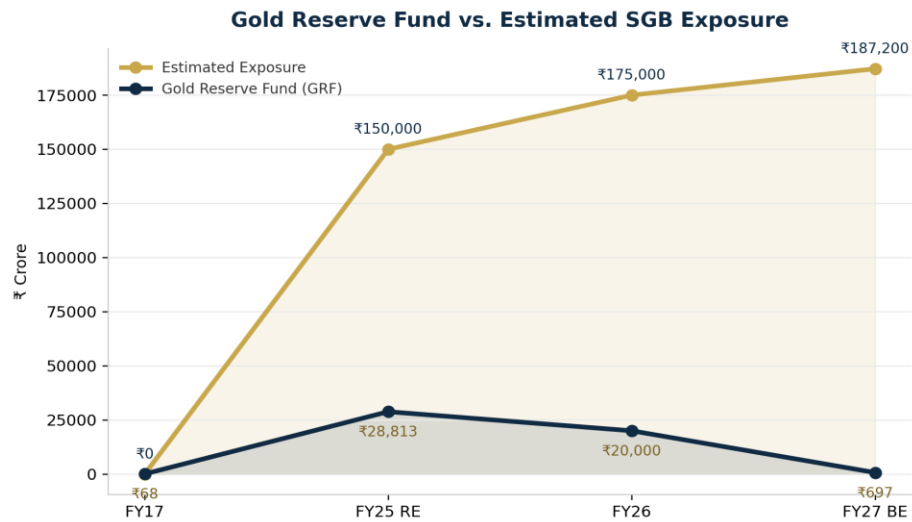


Figure 2. Gold Reserve Fund Compared with Estimated SGB Redemption Exposure

Source: Union Budget documents, RBI publications, and author calculations.

Coverage Ratio

GRF: ₹697 Crore vs. Estimated Exposure: ₹1.87 Lakh Crore

Coverage Ratio: < 0.4%

Part 6 — Why Accounting Matters

How a ₹1.87 Lakh Crore Exposure Hides in Plain Sight

The core issue: The government shows SGBs in its budget at the issue price — what it received when it sold the bonds. It does not show the current market value — what it will actually have to pay when the bonds mature.

Simple example: You borrowed ₹10 lakh from a bank to buy a flat. The flat is now worth ₹50 lakh.

The bank's balance sheet shows the **loan** as ₹10 lakh — that is what you owe.

But if the bank showed the **flat's value** as ₹10 lakh instead of ₹50 lakh, it would **understate** the real collateral cushion, making the bank's risk look smaller than it actually is.

That is what the government is doing with SGBs — showing the **old gold price** (what it received when it sold the bonds) instead of the **current gold price** (what it must pay at redemption), understating the real redemption exposure.

What the Budget Shows	What the Budget Should Show
SGB outstanding: ₹67,322 crore (at issue prices — what was collected)	SGB outstanding: ₹1,87,200 crore (at current gold prices — what will actually be paid)
Hidden from Parliament ₹1,19,878 crore — the difference between what was raised and what is owed.	

The Government Accounting Standard That Was Approved but Never Notified

There is a body called GASAB — the Government Accounting Standards Advisory Board — set up by the Comptroller and Auditor General (CAG) of India. Its job is to create accounting standards for government financial reporting.

GASAB approved a standard called IGAS 10 — specifically dealing with Public Debt Disclosure, including contingent liabilities. If IGAS 10 had been notified (made legally binding), the government would have been required to disclose the SGB exposure at current market value.

IGAS 10 was approved by GASAB. It has never been notified by the Ministry of Finance.

Simple example: “Imagine a building safety committee that includes the building owner. The committee approves a rule requiring all buildings to install fire sprinklers. The building owner — who is also on the committee — never signs the notification making it mandatory. His building has no sprinklers. Nobody can legally force him to install them because the rule was never officially notified.”

“In the same way, GASAB approved IGAS 10 — a standard that would require the government to disclose SGB exposure at current market value. But the Ministry of Finance — which is part of the government — has never notified IGAS 10, so the exposure stays invisible in the budget.”

This is not an allegation of deliberate obstruction. It may reflect bureaucratic inertia, inter-agency coordination challenges, or differing views on how quickly to adopt new standards. But the effect is the same: the exposure stays invisible in the accounts, and Parliament votes on a budget that does not reflect the true cost of the SGB scheme.

Part 7 — The RBI Dividend Loop

How Gold Appreciation Is Being Used to Make the Fiscal Deficit Look Better

This section connects three things that appear unrelated: RBI dividends, gold prices, and the government’s fiscal deficit. Once you see the connection, you cannot unsee it.

Step 1: Understand What the RBI Dividend Is

Every year, the Reserve Bank of India makes a profit from its operations — interest on government bonds it holds, returns on foreign currency assets, and crucially, revaluation gains on its gold reserves. When gold prices rise, the RBI’s gold (880 tonnes) becomes more valuable on paper. This paper profit is called a “revaluation gain.”

The RBI transfers a portion of its profits to the government every year as a “dividend.” This is legal, standard practice, and has happened for decades.

Simple example: You own a house worth ₹50 lakh. Your tenant pays you ₹3 lakh rent per year. You also notice the house is now worth ₹80 lakh — a ₹30 lakh paper gain. If you counted that ₹30 lakh paper gain as “income” and spent it, you would be spending money you haven’t actually received. That is what happens when gold revaluation profits are transferred as dividends.

Step 2: What Has Happened to the RBI Dividend

Fiscal Year	RBI Dividend (₹ Crore)
FY 2018–19	28,000
FY 2019–20	57,128
FY 2020–21	99,122
FY 2021–22	30,307
FY 2022–23	87,416
FY 2023–24	2,10,874
FY 2024–25	2,68,590

The RBI dividend increased 859% from FY19 to FY25 — from ₹28,000 crore to ₹2,68,590 crore. The gold revaluation component grew from 11% to 26% of the total dividend.

Step 3: How This Affects the Fiscal Deficit

The government counts the RBI dividend as “Non-Tax Revenue” — income that reduces the fiscal deficit. In FY25, the RBI dividend was 17.1% of total government receipts.

Year	Reported Fiscal Deficit	Without RBI Dividend	Difference
FY 2023–24	5.6% of GDP	6.3% of GDP	0.7%

Year	Reported Fiscal Deficit	Without RBI Dividend	Difference
FY 2024-25	4.8% of GDP	5.6% of GDP	0.8%

The government reported a fiscal deficit of 4.8% of GDP in FY25. Without the RBI dividend, it would have been 5.6% of GDP. Parliament voted on the 4.8% figure. The 5.6% figure was not visible.

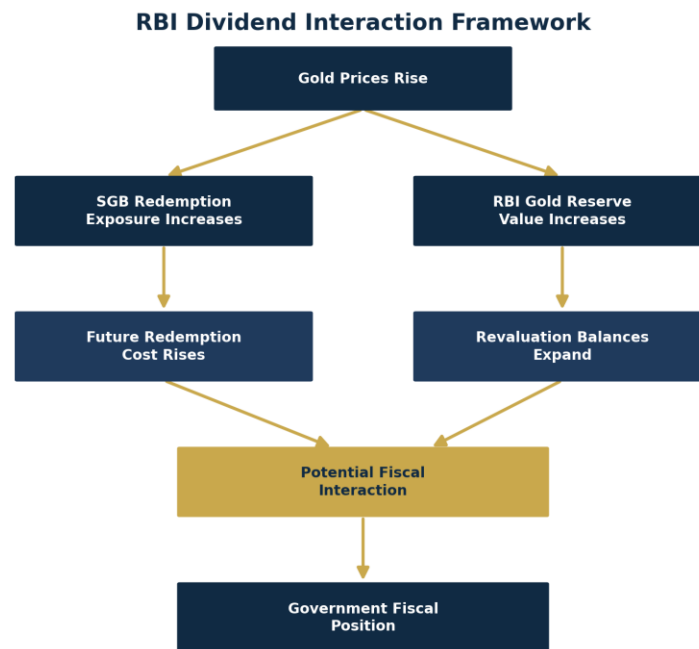
Step 4: The Circular Loop — The Most Important Insight

Connect the dots:

- Gold prices rise globally
- The SGB exposure rises — the government owes more to SGB investors
- The same gold price rise increases the value of RBI's gold reserves
- RBI books a revaluation profit on its gold
- RBI transfers this profit to the government as dividend
- Government counts it as revenue — fiscal deficit looks lower
- Nobody panics about the SGB exposure because the fiscal numbers look fine

Simple example: You borrowed money from your wife and promised to repay her in gold. Gold prices doubled. You now owe her twice as much. But your salary also doubled because your employer gave you a bonus linked to gold prices. So your bank account looks fine. You feel fine. But the debt to your wife has doubled — and the bonus is not guaranteed to keep coming. The day the bonus stops, the debt is still there.

The government is using RBI's gold appreciation gains to paper over the fiscal cost of its own gold-linked exposures. The same gold price rise that is inflating the SGB exposure is also inflating the RBI dividend that makes the fiscal deficit look manageable. It is a circular accounting loop that works perfectly — until redemption day arrives and the cash must actually be paid out.



Illustrative analytical framework — not evidence of causation or policy intent.

Figure 6. Interaction Between Gold Prices, SGB Exposure and RBI Balance Sheet Dynamics

Source: RBI Annual Reports, Union Budget documents, and author analysis.

Illustrative Analytical Framework

This diagram is intended to explain possible interactions between variables. It does not imply causation, misconduct, or policy intent.

Part 8 — Customs Duties and SGB Valuation

The Government Is Both the Borrower and the Price Influencer

This section raises a question that no financial journalist has asked publicly. It is not an allegation of wrongdoing. It is a structural observation about an overlap that was embedded in the scheme design from day one.

The Verified Duty Timeline

Date	Action	Official Reason
Pre-July 2024	15% import duty on gold	Standard rate
July 23, 2024	Cut to 6%	Reduce smuggling; boost gems/jewellery exports
August 5, 2024	Major SGB redemption window	—
FY 2025–26	Gold imports hit \$71.98 billion	All-time record — duty cut triggered surge
May 13, 2026	Raised back to 15%	West Asia crisis; forex conservation
May 2026	PM Modi asks citizens to avoid buying gold for 1 year	Unprecedented
May 2026	UAE/CEPA route: duty raised 5%→14%	Plug Dubai arbitrage

The Math That Nobody Published

The July 2024 duty cut from 15% to 6%:

- Reduced domestic gold prices by approximately 4.5%
- The August 5, 2024 SGB redemption price was calculated on the lower post-cut price
- Government saved approximately ₹620 crore on that single redemption
- But lost approximately ₹26,000 crore in customs revenue for the full year

The May 2026 duty hike from 6% to 15%:

- Will save approximately \$2.5 billion in forex outflows in FY27
- Will also suppress domestic gold prices relative to international prices
- Will reduce SGB redemption costs for the 2026–2032 wave

The Structural Overlap

The government is simultaneously:

- (a) The SGB issuer — owes ₹1.87 lakh crore to investors, redeemable at market gold prices
- (b) The import duty setter — directly controls the domestic gold price through tariff policy
- (c) The forex manager — needs to conserve foreign exchange

- (d) The fiscal manager — needs to minimize redemption outgo

Simple example: Imagine you borrowed money from your employees and promised to repay them in proportion to the price of wheat. You also happen to be the Agriculture Minister who sets the Minimum Support Price for wheat. Every time you raise the MSP, your debt to your employees increases. Every time you lower it, your debt decreases. Would your employees trust that your MSP decisions are purely about agriculture policy? Or would they wonder if you are managing your personal debt through public policy?

The government can legally reduce what it owes SGB investors by raising import duty — which suppresses domestic gold prices. There is no legal firewall preventing this. No independent body oversees the interaction between duty policy and SGB redemption costs. This overlap was embedded in the scheme design from day one. Nobody designed a safeguard against it.

The July 2024 duty cut happened 13 days before the August 5 SGB redemption. The government saved ₹620 crore. Was this timing coincidental? The official reason given was reducing smuggling and boosting gems/jewellery exports. Both are legitimate policy goals. But the SGB saving was real, calculable, and never disclosed.

Part 9 — The Global Gold Story

Why Gold Won't Go Back to ₹5,000 Per Gram

The Old-World vs the New World

Period	Gold Price (\$/oz)	What Was Happening
2015–2020	\$1,100–\$1,500	SGB scheme designed in this era
2020–2022	\$1,600–\$1,800	COVID, US stimulus
2022–2023	\$1,800–\$2,000	Phase 1 floor established
2024–2025	\$2,000–\$3,000	Phase 2 floor established
2026 current	\$4,170–\$5,600	Phase 3 — new structural base

Simple example: Think of gold prices like property prices in Mumbai. In 2005, a flat in Bandra cost ₹50 lakh. In 2010, it cost ₹1.5 crore. In 2020, it cost ₹3 crore. Nobody seriously expects Mumbai property to go back to ₹50 lakh. The floor has permanently shifted. Gold has done the same thing — but globally, and driven by central banks, not just demand.

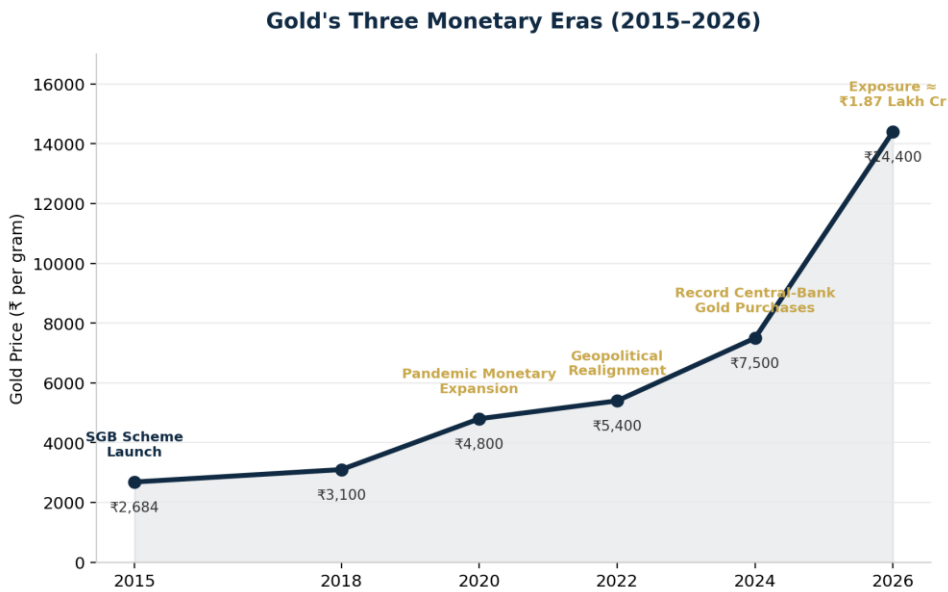


Figure 3. Gold Price Repricing Timeline (2015–2026)

Source: RBI data, World Gold Council publications, market references, and author calculations.

Why the Floor Has Permanently Shifted — Three Verified Drivers

Driver 1: Central banks are buying gold at record pace

Year	Global Central Bank Gold Purchases
2022	1,000+ tonnes — highest in 55 years
2023	1,000+ tonnes — second consecutive record year

Year	Global Central Bank Gold Purchases
Q1 2026	244 tonnes — record \$37 billion in a single quarter

Central banks — the institutions that set monetary policy — are buying gold aggressively. When the people who print money are buying gold, it tells you something about their confidence in paper money.

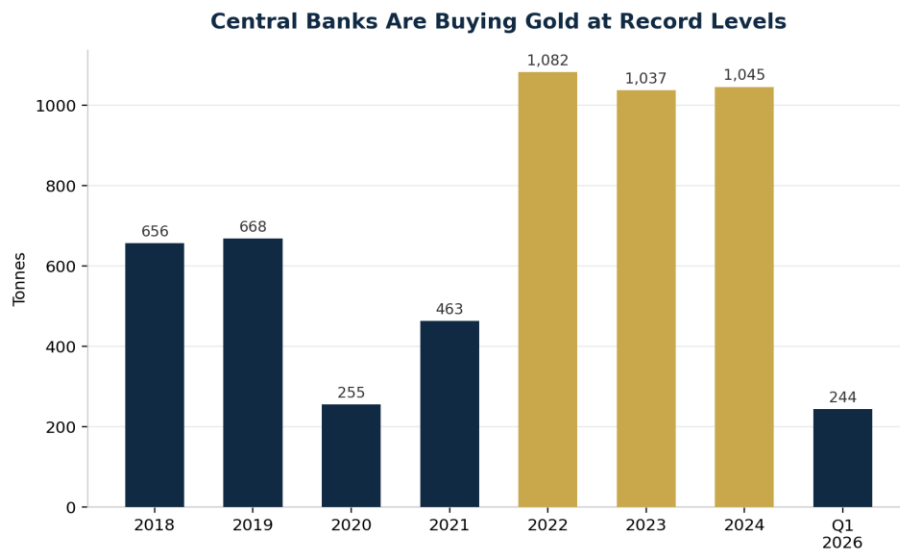


Figure 4. Central-Bank Gold Accumulation

Source: World Gold Council.

Driver 2: China is the biggest buyer — and it is buying for strategic, not financial reasons

China's central bank bought 225 tonnes of gold in 2023 alone — the largest single central bank purchase in any year by any country. China's official gold reserves stand at 2,279.6 tonnes (end-2024), but independent estimates suggest actual holdings including unreported purchases could be 3,000+ tonnes.

Why is China buying so aggressively?

- **Dollar diversification:** China has cut the US dollar's share of its reserves from ~59% (2016) to ~25% (2025)
- **US Treasury dump:** China's US Treasury holdings fell from \$1 trillion+ (2022) to \$768 billion (May 2024)
- **Sanctions-proofing:** In February 2022, Western nations froze \$300 billion of Russia's central bank assets held in London, New York, and Brussels. China drew the obvious conclusion: assets held in Western financial institutions can be seized. Gold held physically in your own country cannot be seized.
- **Yuan internationalization:** Gold backing strengthens the credibility of the Chinese yuan for international trade settlement
- **Room to buy:** Gold is still only ~6% of China's reserves. Their stated target is 20%+. They have a long way to go — and they will keep buying.

Simple example: Imagine you kept all your savings in your neighbour's locker. Then you watched your neighbour freeze someone else's savings without warning. You would immediately start moving your money to your own locker. That is what China is doing — at a national scale, with gold.

The critical insight for India: China is buying gold even at record prices — breaking the traditional rule that central banks buy on dips. This is not a financial trade. It is a strategic imperative. China's price-inelastic buying is itself a structural price floor mechanism. As long as China keeps buying — and it will, because it has a strategic target to reach — gold cannot return to \$1,600–\$1,800.

Driver 3: The Shanghai Gold Exchange has overtaken London as the world's top physical gold market

There are three major gold markets in the world:

- LBMA (London): Trades “unallocated” gold — paper claims on gold that may or may not physically exist. Trading volumes far exceed actual bullion.
- COMEX (New York): Futures market — mostly cash-settled, not physical delivery.
- SGE (Shanghai): Every trade is backed by physical gold. Physical delivery is required.

In 2026, the Shanghai Gold Exchange surpassed London as the world's largest physical gold market. Gold is physically moving from Western vaults to Asian vaults.

In September 2025, China announced plans to serve as a custodian for foreign sovereign gold reserves — directly challenging the Bank of England and the Bank for International Settlements. This is a geopolitical move to make Shanghai the new London for gold settlement.

What this means for India's SGB: India's SGB is a paper gold instrument — the government owes the gold price but does not hold the gold. As the world shifts from paper gold (London/COMEX) to physical gold (Shanghai), physical gold gets permanently repriced upward. India is on the liability side of the very asset that China is accumulating as a strategic reserve.

India is structurally short gold in a world where the largest economy is going structurally long gold.

Part 10 — RBI Gold Repatriation

India Is Quietly Bringing Its Gold Home. Here Is Why That Matters.

The verified facts — from RBI’s own official report:

Date	% of RBI Gold Held in India
March 2023	37%
September 2025	65.4%
March 2026	77%

In the six months between September 2025 and March 2026, the RBI moved 104.23 metric tonnes of gold from the Bank of England and the Bank for International Settlements to domestic vaults in India. In the full financial year FY26, it moved 168.06 metric tonnes — the third consecutive year of accelerating repatriation.

What does this mean?

- Sanctions-proofing: Like China, India is reducing its exposure to Western financial institutions. Gold held in London or Basel can be frozen; gold held in Mumbai cannot.
- Liquidity vs security: The RBI is trading some liquidity (it is easier to trade gold in London) for security (it is safer physically in India).
- Signal to markets: When a central bank quietly moves this much gold home, it is a signal that it expects geopolitical and financial risks to rise — and that it wants its gold where it can control it.

For the SGB scheme, this matters because the RBI’s gold reserves are the ultimate backstop for India’s gold-linked exposures. If gold prices keep rising, the RBI’s gold becomes more valuable — but the government’s SGB exposure also rises. Repatriation does not change the exposure; it changes where the gold sits. But it tells you how seriously the RBI is taking the geopolitical risk environment.

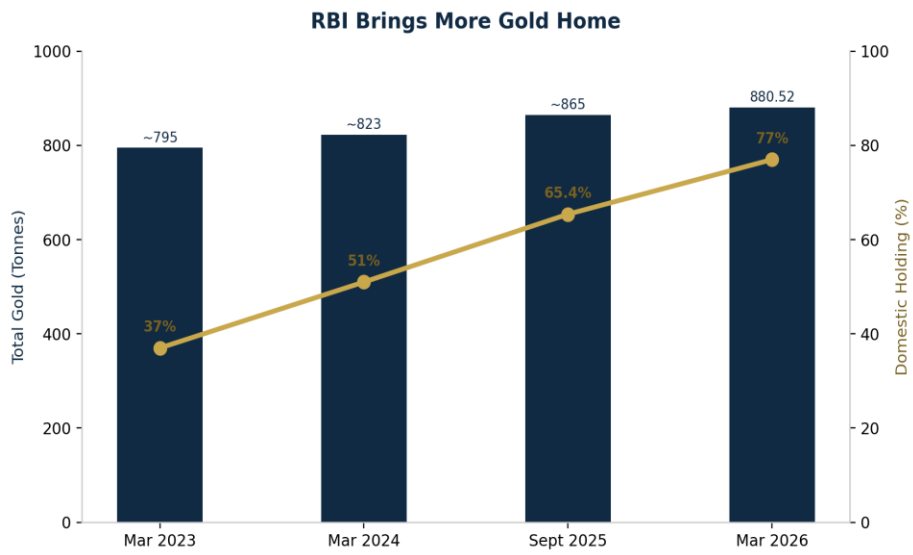


Figure 5. RBI Gold Repatriation Timeline
Source: RBI Annual Reports and related public disclosures.

Part 11 — Who Wins and Who Pays? Balanced Perspectives

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.

Part 12 — Alternative Views: Supporters, Critics, and Neutral Analysts

Supporters' View

- SGBs successfully formalized savings and reduced physical gold demand.
- They helped stabilize the current account deficit and supported the rupee.
- They offered households a safe, tax-efficient way to invest in gold.
- The scheme was a legitimate policy response to a real problem.

Critics' View

- The government did not adequately hedge the gold price risk.
- It did not build a reserve fund large enough to cover the mark-to-market exposure.
- It did not disclose the true size of the exposure in its budget.
- It did not create institutional safeguards against the overlap between import duty policy and SGB redemption costs.

Neutral Analysts' View

- The scheme had valid macroeconomic goals and delivered benefits to savers.
- However, the fiscal exposure grew faster than anticipated, and the governance framework did not keep pace.
- The lesson is not about corruption but about design, disclosure, and risk management.

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.

Part 13 — What Happens Next? Redemption Schedule and Future Scenarios

The Redemption Wave Is Coming

The first SGB tranches matured in 2023–2024. The wave accelerates from 2025 onward. By 2032, most of the 130 tonnes will have matured.

If gold prices stay near current levels or rise further, the government will have to find ₹1.87 lakh crore to ₹2.5 lakh crore to pay investors. That money must come from:

- Higher taxes
- Cuts in other spending
- More borrowing
- Or some combination of all three

The GRF is nearly depleted. The ESF is a general-purpose buffer, not a dedicated SGB fund. The RBI dividend is volatile and cannot be relied on forever.

Policy Options

- Notify IGAS 10: Make it mandatory for the government to disclose contingent exposures at current market value.
- Rebuild the GRF: Create a transparent, ring-fenced fund for SGB redemptions, funded by a portion of RBI gold revaluation gains or a small levy on gold imports.
- Independent oversight: Create an independent body to monitor the interaction between import duty policy and SGB redemption costs, to prevent policy decisions that primarily benefit the government's balance sheet at the expense of savers.
- Full disclosure: Present the SGB exposure at current market value in every budget document, so Parliament votes with full information.

What You Can Do

If you hold SGBs:

- Understand that your return is linked to gold prices — and that the government's ability to pay depends on its fiscal health.
- Track redemption dates and plan accordingly.
- Ask your MP to demand full disclosure of the SGB exposure in Parliament.

If you don't hold SGBs:

- Ask why a ₹1.87 lakh crore exposure is not clearly visible in the budget.

- Ask why a standard like IGAS 10 was approved but never notified.
- Ask why the GRF was allowed to shrink to 0.37% of the exposure.

This is not about blaming any one government or party. It is about a structural problem that crosses political cycles. The SGB scheme was launched under one government, expanded under another, and is maturing under yet another. The accounting gap, the overlap, and the unhedged exposure are institutional issues — not partisan ones.

Part 14 — Key Lessons: What We Know, What We Don't Know, and What Could Change

What We Know

- SGBs raised ₹72,274 crore but now represent an estimated market-value redemption exposure of ₹1.87 lakh crore at current prices.
- The GRF covers less than 0.4% of the current exposure.
- The government's accounts show SGBs at issue price, not redemption value.
- IGAS 10 — a standard that would require mark-to-market disclosure — was approved but not notified.
- The RBI dividend has surged, partly supported by gold revaluation gains.
- The government sets import duties that directly affect domestic gold prices and SGB redemption costs.
- Central banks, especially China, are buying gold aggressively, pushing prices to new structural floors.
- The RBI is repatriating gold to domestic vaults.

What We Don't Know

- Exactly how much gold China holds or plans to buy.
- How high gold prices will go in the long term.
- How future governments will manage the SGB exposure — through taxes, spending cuts, or other measures.

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 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.

Conclusion

The Sovereign Gold Bond scheme was a bold experiment: borrow in gold, give savers a safe product, and reduce physical imports. In the short term, it worked. In the long term, it created a ₹1.87 lakh crore question that Parliament cannot fully see.

The government borrowed at ₹4,006 per gram. It now owes ₹14,400 per gram. The safety net is gone. The exposure is hidden. The same gold price rise that inflates the exposure also inflates the RBI dividend that makes the fiscal deficit look manageable.

This is not a conspiracy theory. It is a structural mismatch between cash-basis accounting and mark-to-market reality. It is an overlap between being the borrower and the price influencer. It is a failure to notify a standard that would have forced transparency.

The gold market has changed forever. India is on the wrong side of that change — short gold in a world going long gold. The RBI is quietly bringing its gold home. The government is hoping nobody does the math.

It is time to do the math.

Glossary

Term	Definition
Sovereign Gold Bond (SGB)	A government bond whose redemption value is linked to the market price of gold.
Gold Reserve Fund (GRF)	A dedicated fund created to pay SGB redemptions.
Economic Stabilisation Fund (ESF)	A general-purpose government reserve used to stabilise the currency and external account.
Mark-to-market	Valuing an asset or exposure at its current market price, not the price at which it was acquired.
Contingent exposure	A potential exposure that depends on a future event — here, the future price of gold.
IGAS 10	A government accounting standard dealing with public debt disclosure, approved by GASAB but not yet notified.
GASAB	Government Accounting Standards Advisory Board — sets accounting standards for government financial reporting.
Lakh	100,000
Crore	10,000,000
Lakh crore	1 trillion (10^{12})

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