Analysis & Effects of Sovereign Gold Bonds

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Gold is one part of the tradition and culture in India. Most of the people who invest in gold are buying jewelleries, gold coins and gold biscuits before 2015. This investment in gold is riskier, like it has some extra saviour cost of locker facility in banks for safety purposes. So, for its solution three gold schemes were released by Central Government on 5 November 2015 i.e., "Gold Monetisation scheme, Sovereign Gold Bond scheme and India Gold Coin scheme". From which Sovereign Gold Bond is main motive of our study. Objective of launching this scheme is to lure Indians away from buying physical gold and gave them secured and easier investment platform in gold. Reserve Bank of India, has described SGB as the securities, which are substitute of physical gold and denominated in grams. These bonds come under the purview of Reserve Bank of India and are safer than physical gold.

Our present study will shed a light on the effects of sovereign Gold Bond on different areas like market liquidity, RBI's gold reserves and also its effect on Indian festivals. In this paper we also explore how it affects the demand of physical gold as well as other investments.

Introduction

IN India, people like more to invest in gold and properties rather than shares and bonds, etc. because people think that invest in it is safer than the other. A scheme called Sovereign Gold Bond scheme (SGBs) was launched by Government of India in November 2015 with the hope that people will invest in these gold bonds as an alternative to physical gold. I think this is one of the policies which helps the RBI to control the liquidity in the Indian market.

About Sovereign Gold Bond

SGBs are government securities denominated in grams of gold. They are deemed as substitutes for holding physical gold. The price of the bonds can be paid and redeemed in cash after maturity. The bond is issued by RBI on behalf of Government of India to the eligible investor (Persons resident in India are eligible for invest in SGB as per 'Foreign Exchange Management Act, 1999'. HUFs, trusts, universities and charitable institutions are also eligible for investment in SGBs. Even if residential status of an investor is changed due to some circumstances, they will be able to hold the SGB till early redemption/ maturity).

Some Points about Sovereign Gold Bond Scheme

- The Bonds are issued in multiples of one gram of gold. Minimum and maximum limit of investment in the Bond can be one gram and 4 kg respectively. An individual can buy a maximum of 4 kg, 4 kg for Hindu Undivided Family (HUF), while maximum limit of investment for a trust and similar entities is 20 kg can be changed by the government from time to time per fiscal year (April – March). In case of joint holding, the limit applies to the first applicant. All the ceiling will be counted in limit either bought from government or secondary market (private institution). Collateral holdings by banks and other financial institutions will not include in the ceiling on investment.
- An interest rate of 2.50 per cent (fixed rate) per annum is applicable on the initial investment in bonds. Interest will be credited to the investors bank account half-yearly, whereas last interest will be payable on maturity along with the principal.

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- Nationalized Banks, Scheduled Foreign Banks, Scheduled Private Banks, Stock Holding Corporation of India Ltd. (SHCIL) designated Post Offices, and the authorized stock exchanges are authorized for sell of bonds either directly or through their agents.
- Investors applying online or making payment through digital mode will get a discount of ₹ 50 per gram less than the nominal value. As per the provisions of the Income-tax Act, 1961 (43 of 1961), only the interest gain from the bonds will come under taxable value, whereas there is no capital gain tax on the redemption of SGB.
- Tenour of the bond is 8 years, while after fifth year from the date of issue on coupon payment, one can take the advantage of early encashment/ redemption of the bond. While on maturity date, the investor shall get an amount (in Indian Rupees) equal to average closing price of 999 purity gold in past three days, published by the India Bullion and Jewellers Association Limited.

In this paper we can detail study on some effects like what are the risk in Sovereign Gold Bonds, Effects of Sovereign Gold Bond on market liquidity, also analyze its effect on RBI gold reserves and effect on Indian festivals and wedding season in analysis and discussion section and also after that we conclude main things, also use some tools to prove our statements which were given below.

Literature Review

In India there are few research and articles are available on the sovereign gold bond scheme. After reviewing these papers, we analyze that there is only work done on, which option is better, buying physical gold or gold bonds.

We analyze the articles mentioned below:

- "Is Sovereign Gold Bond is better than other Gold Investment" [Article in *International Journal of Knowledge Management Studies*, May 2019.
- "Sovereign Gold Bond – A Financial Innovation in India", *SSRG International Journal of Economics and Management Studies (SSRG – IJEMS),* Vol. 5 Issue 8, August 2018.
- "Gold Saving Scheme: An Unusual Way of Investing in Gold Thrust on the Sovereign Gold Bond Scheme", SGBs, January 2018, Vol. 5, Issue 1.
- "An Introduction of Gold Schemes, 2015 in India", *International Journal of Research-Granthaalayah, Adhana*, Vol. 3 Issue 11, November 2015.
- "Investor's Attitude towards Physical Gold & Sovereign Gold Bonds".
- "A Review of Government Policies and Schemes of Gems & Jewellery Industry", *IOSR Journal of Business and Management (IOSR-JBM),* Vol. 21 Issue 3. Ser. V (March 2019), pp. 71-79. www.iosrjournals.org]

After reviewing above mentioned articles or few given literatures we find one major thing that there is not any one article or literature where we see about the effects of these bonds.

Gaps in Literature

- effects of this gold bond scheme on market liquidity,
- effects on RBI's gold reserves,
- how it affects the demand of physical gold,
- how it affects other investments,
- Sovereign gold bond effect on Indian festivals, and
- Risk in SGBs**.**

These are some findings or we can say it gaps. The above-mentioned literatures were not explaining these issues or gaps so we can discuss these issues in analysis and discussion section in this paper.

Statement of Problem

We are going to analyze the problems described below:

1. Analyse how sovereign gold bond affects the market liquidity.
2. Is it helpful for RBI to increase their gold reserves?
3. Is it affects the demand of physical gold.
4. Are this scheme helps RBI to control inflation or deflation in the Indian economy?
5. Gold bonds are more secure rather than physical gold.
6. Is Sovereign gold bond affects the other bond prices or demand in the market.
7. Is Indian festivals are affected like Akshaya Tritiya by these sovereign gold bonds.

8. How much these bonds affect the gems & jewellery market?

Objectives

Our objective is to analyze the sovereign gold bonds effect on different areas which we describe in the above section (statement of the problem).

We analyze these effects with the help of qualitative and some quantitative data use from renowned websites. Our motive is to explain the above-mentioned problems with logic and gave arguments on that.

Area of Study Analytical Framework

Whatever we conclude or study in this paper is based on secondary data from authentic sources like from RBI's official website and from NSE's website and few other sources like this. We also take some important qualitative things or quantitative data from other articles which we refer in the reference section.

In this paper our only focus on the analysis and effects of sovereign gold bonds on different area so, we only use secondary data in this which is helpful for us making some conclusions and logical arguments on the effects of SGBs.

Sovereign Gold Bond Effect on Market Liquidity

When cash decreases in the market or reducing the purchasing power of an individual then we call it decrease liquidity in the market and *vice-versa*.

In this sovereign gold bond scheme gold bond issued for a fix period so the liquidity of market should affect.

Although investors will get an interest rate of 2.5 per cent interest, but they will not be able to withdraw their investment before 5 years of completion, hence the market liquidity will diminish for that period.

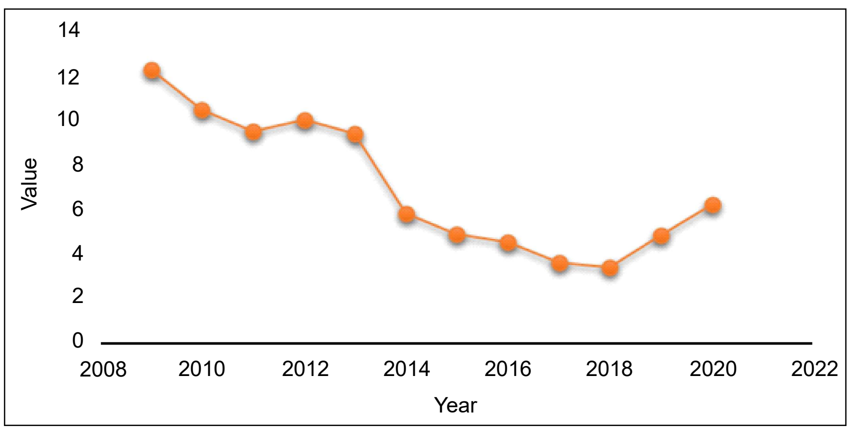
When we analyze the given Table 1, we represent it on the graph 1 and found that after 2015

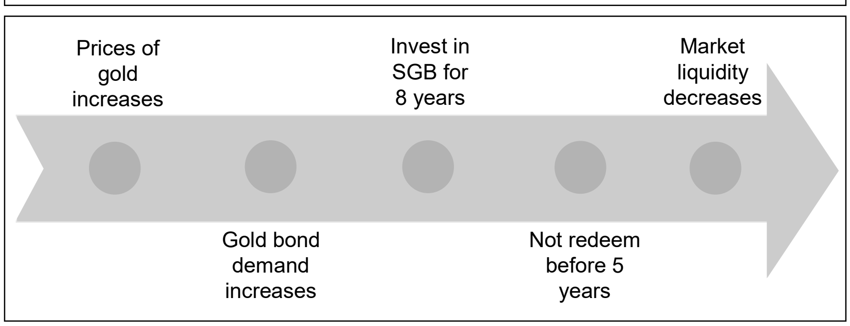
TABLE 1

Date	Value	% Change
2020	6.2	30.09
2019	4.8	38.91
2018	3.4	-4.83
2017	3.6	-19.96
2016	4.5	-8.16
2015	4.9	-15.52
2014	5.8	-38.30
2013	9.4	-6.00
2012	10.0	5.26
2011	9.5	-9.76
2010	10.5	-14.50
2009	12.3	

GRAPH 1

MOVEMENT OF INFLATION





inflation rate will decreases continuously till 2018 but in 2019 and 2020 it will be increased because of some factors in which COVID-19 is one of them and other factors also. So, we analyze that after 2015 RBI mostly decreases all their rate like CRR, SLR and Bank rate also only in 2018 RBI increase its bank rate but after 2018 it will further reduce it. If RBI decreases these rates it means liquidity increases in the market and inflation should be increases but here inflation is continuously decreasing. So, we can say that SGB is one of the factors by which liquidity is reducing from the market after 2015 and when liquidity is decrease purchasing power also decreases by which inflation is also reducing which we proven by table or graph.

Is RBI Use SGB as A Monitory Tool to Control the Liquidity

Liquidity is how quickly you can get your hands on your cash. In simpler terms, liquidity is to get your money whenever you need it.

When RBI issue the SGB in the market and investor will purchase these bonds with minimum maturity period five year, after that only they can redeem their bonds. For that period, liquidity in the market will decreases for the issued amount of gold bond (Figure 1).

So, we can say that when market liquidity increases and RBI wants to decrease it then it can issue the gold bonds in the market. Like this we see or analyze that SGB are one of the monitory tool or policy which help the RBI to control the market liquidity or inflation or deflation in the market.

This can also we analyze from the given table or graph in the above section (Sovereign gold bond effect on market liquidity).

Relationship of SGB's Price with RBI's Gold Reserves in 2020-21

The Reserve Bank of India has to maintain at least an asset value of 200 crore rupees according to the Minimum Reserve System (MRS), which includes Gold or Gold bullion of 115 cr. and foreign currencies of 85 cr. Besides the MRS value, with the government's permission RBI can print currency notes as per economic requirement (Table 2).

After work on the Table 2, we plot it on the graphs 2 & 3 with the help of excel worksheet and find that when SGB price increases RBI's gold reserve also increases in all series except one series that is Series X because of some exceptional conditions. Time of Series X is October which is full of Indian festivals like Diwali, Dhanteras and after Devutthan Indian wedding season arises by which physical gold demand increases in that month and when physical gold demand increases in the market, SGB demand decreases (for more see on RBI website) why which RBI's gold reserves decrease.

FIGURE 1

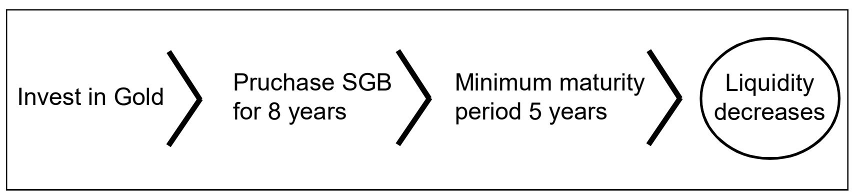


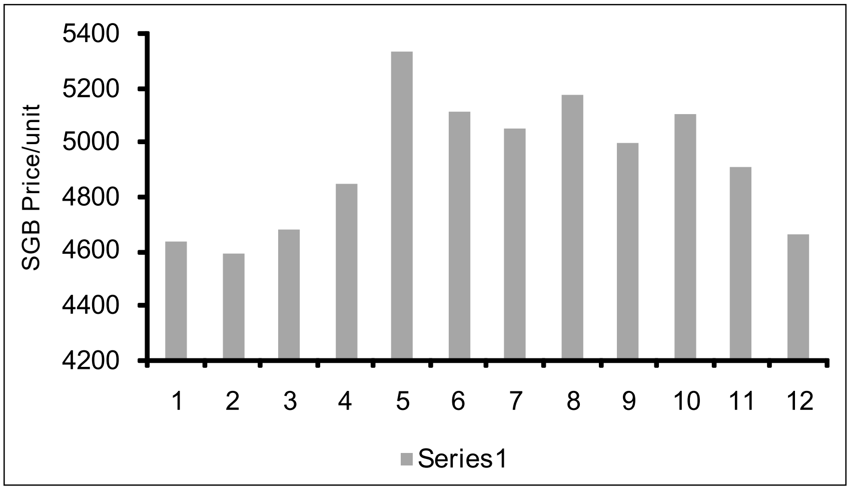
TABLE 2

COMPARISION TABLE B/W SGB PRICES & RBI GOLD RESERVES

Series	SGB price/unit	RBI Gold Reserves
2020-21, Series I	4639	251551
2020-21, Series II	4590	248680
2020-21, Series III	4677	251616
2020-21, Series IV	4852	261190
2020-21, Series V	5334	298108
2020-21, Series VI	5117	274417
2020-21, Series VII	5051	269084
2020-21, SeriesVIII	5177	271280
2020-21, Series IX	5000	270554
2020-21, Series X	5104	263499
2020-21, Series XI	4912	255014
2020-21, Series XII	4662	249807

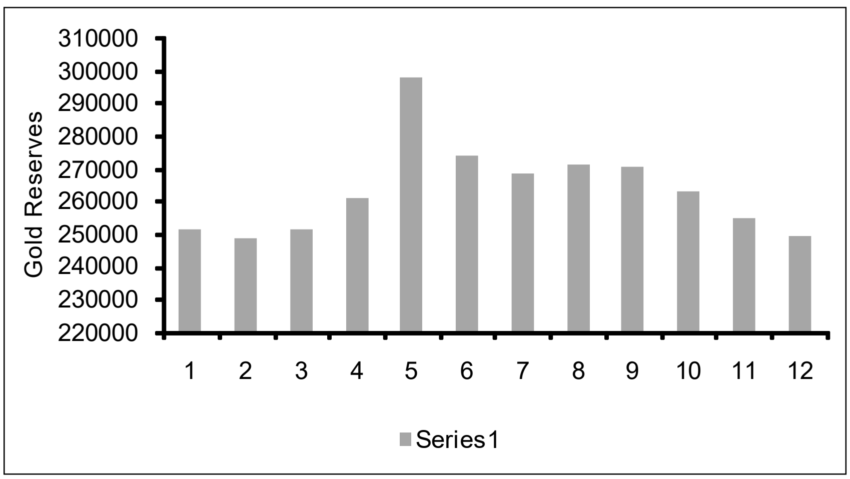
GRAPH 2

SGB PRICES



GRAPH 3

RBI GOLD RESERVES



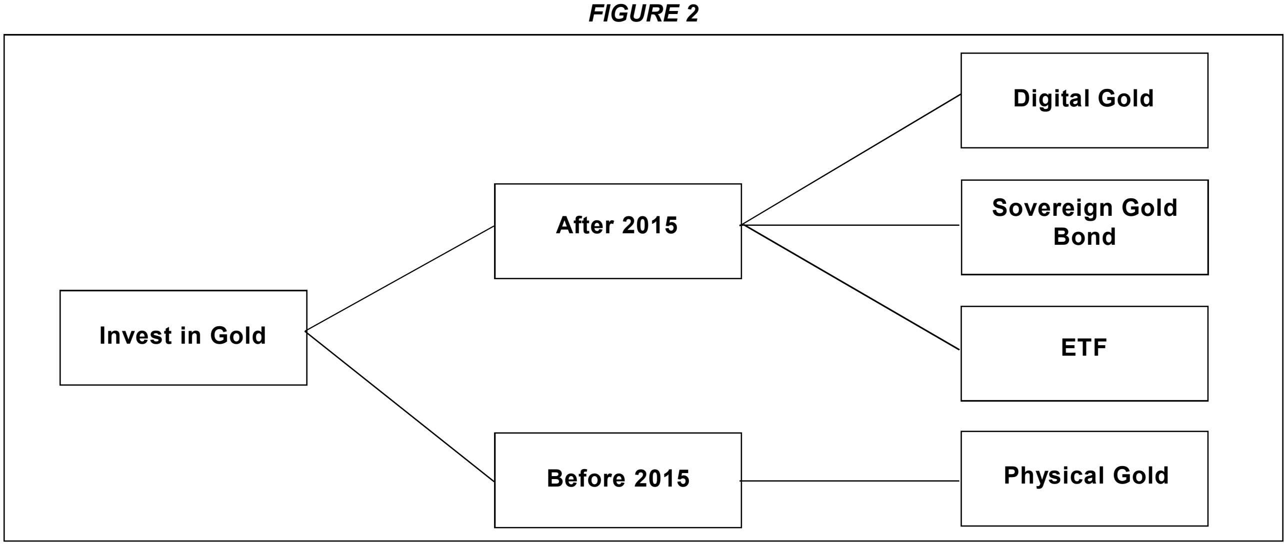
We can present the table with the help of graphs and represent that when SGB price increases RBI gold reserve increases on the other hand when SGB price decreases RBI gold reserve also decreases only in month of October Series X, this situation is not fulfilled because of festive season. So, we say that there is some relation between SGB and RBI gold reserves which we can see in the table and graph.

SGB's Effect on Demand of Physical Gold

Who like to invest in gold they can invest only on physical gold before 2015 but after that they have other options like to invest in Digital Gold, Sovereign Gold Bonds and Exchange- Traded Fund (ETF). Now they have three options more. So, they like to invest where they have face minimum risk or free from risk.

So, it is proven that SGBs effected the demand of physical gold and demand of physical gold is substituted by above three options arises after 2015 (Figure 2).

FIGURE 2



Risk in SGBs

Traditionally people have invested in physical form of gold. In India gold is viewed as a good and safe investment. However, storage of gold in physical form can possess threat to safety as there are many reasons to concern. Storage of physical gold in a bank locker can eliminate the concern of safety but investor has to pay some fees. Keeping in mind all the above-mentioned things the government of India launched an alternative saving scheme in 2015 called 'Sovereign Gold Bonds Scheme' under the Gold Monetization Scheme, to attract Indian citizens to invest in gold in a safe and secure manner, which is economically advantageous.

The SGB scheme is less risky, convenient, and one has nothing to worry about theft risks and cost of storage as fees of bank lockers. It is held in Demat form-eliminating risk of loss of scrip, etc. and also provides more benefit in the form of investment and safe returns that is significant to investors compared to physical gold or Gold ETFs.

Some features & benefits are below:

- *Low risk:* Sovereign Gold Bonds have none of the risks that are associated with physical gold, except the market risks. There is no hefty designing or wasting charges here.
- *Extra income:* A fixed annual interest of 2.50 per cent (on the issue price) will credit in your bank account semi-annually.
- *Long-term investment:* Sovereign gold bond scheme 2020 comes in with a holding period of 8 years. This is ideal for individuals looking for a long-term investment scheme generating extensive capital gains, along with the security of corpus.
- ***Re-sale:*** The Sovereign gold bond scheme 2020 can be traded in the secondary market after 14 days from an initial subscription date, subject to a notice published by the RBI.
- *Loan facility:* Financial institution and Banks accept SGBs as an acceptable form of collateral to avail loans. One can avail a maximum amount equal to 75 per cent of the market gold prices, as stipulated by the RBI's LTV regulations.
- *Taxation:* As per the Income Tax Act, 1961, the interest amount gained on the SGBs comes under taxable income, while there will be no tax on the capital gain on the maturity or early redemption of gold bonds (Tab;e 3).

We see above the comparison between physical gold and sovereign gold bond and analyze that some risk are there as capital amount may loss if prices of gold decreases. However, he can wait for gold prices to increase as he will not loss in terms of gold units, which he has paid for. So, investor like to invest in SGB rather than physical gold because of less risk in SGBs.

TABLE 3

COMPARISON TABLE

Particulars	Physical Gold	Sovereign Gold Bond
Returns/earnings	Lower return due to making charges	More than actual return on gold because of interest
Safety	Risk of theft, wear/tear	No safety issues
Purity	Purity of gold always remains a question	High as it is in electronic form
Gains	LTCG after three years	LTCG post three years. (No capital gain tax if redeemed after maturity)
As loan collateral	Accepted	Accepted (75% of value can be avail)
Tradability or exit formalities	Restrictive	Can be traded and redeemed from the 5th year with the government
Storage expenditures	HighMinimal	Minimal

SGB's Effect on Indian Festivals

Before November 2015 people purchase the physical gold like gold jewellery, gold coins and biscuits of gold on Indian festivals like Dhanteras, Diwali and most gold demanding festival is Akshaya Tritiya also called Akha Teej, but now a day's people have more options there, for example Sovereign Gold Bonds, Digital Gold and Exchange- Traded Fund (ETF). So, there are many ways one could buy gold these days. Physical gold is an obvious option for those who is looking forward to buy jewelleries. But those who are planning to buy the yellow metal for the sake of investment, there are three very good options which we write above. So, we can now say that SGB affects the physical gold demands on Indian festivals and also affect the sale of jewellers on these festivals.

Conclusion

Indian people believe gold as a sign of tradition and also, they like to invest in it for their future and security purposes so, in our nation physical demand is more before 2015. But after that government of India launches the scheme under which who would like to invest in gold, they have more three option for investing in gold that is sovereign gold bond, ETF and digital gold now the investor invests in different aspects.

In this study we find out some effects of Sovereign Gold Bonds and analyze with the help of secondary data from authentic sources and conclude that, RBI use sovereign gold bond as liquidity controlling tool in the market and handle the situation of inflation.

This research revealed the effect of sovereign gold bond on Indian festivals like Diwali, Dhanteras and Akshaya Tritiya because on these festivals and on wedding season gold demand is on its peak. In this paper we also see which one is better to invest, in the (risk in SGBs) section we study about that.

So, we analyse some amazing (+ve) effects of Sovereign Gold Bonds on different area also we see its negative (-ve) effects like, when its demand increases Physical gold demand decreases but we find this is one of the secured schemes for Indian investors.

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Websites

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