Sarthak's edit

The India Gold Policy Centre, housed at the Indian Institute of Management, Ahmedabad, says poor marketing by the government was the reason behind the lack-lustre performance of the gold monetisation and gold coin schemes. The schemes were launched in November 2015 to capture that part of gold bought for investment purposes, and thereby cause a reduction in demand for physical holdings. But after poor response, the government significantly scaled back its target for gold bonds this year. The IIM-A centre surveyed 1,000 individuals and found that just five knew about the government-sponsored gold schemes.

While poor awareness is a problem, the larger one is that the scheme continues to be unattractive in many ways, and this is a problem even a marketing blitzkrieg can't solve. Even though there was a 2.75% interest on the bonds in the first five tranches of issue and 2.5% in the subsequent two, sovereign gold bonds are handicapped by the fact they are, as structured at present, not liquid in the manner physical holdings are.

The ease of holding gold, and anonymously, will fade with the limits on cash payments and inclusion of gold in GST, but the bonds scheme remains stilted in comparison. It is difficult to get investors interested given there is an eight-year lock-in—premature redemption is permitted from the fifth year, but intent to redeem has to be notified a month before actual redemption. This means paper gold can't be sold in emergencies like physical gold often is.

Besides, though these are tradeable if held in the demat form, given there is almost no secondary market at the moment, bond-buyers are stuck with these till they get them redeemed. And then, purchase/redemption is not at spot-price—price is fixed on the basis of the average of the past five days. This means the seller can't capture the gains from a sudden price-rise. With their sheen thus dulled, it is unlikely greater awareness can do the schemes much good.