

## LBMA Bullion Market Forum Singapore

### Indian Bullion Industry – Trade Perspective

25th June 2014

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#### THE ROLE OF GOLD IN INDIA'S HISTORY

- India → *The Golden Bird*
- Indians are known world-over for their affinity to Gold
- Farmer → Housewife → Industrialist, unanimous preference for Gold over other investment vehicles
- Demand for Gold has soared in the last decade

#### PANIC MODE: WHAT FOLLOWED THE SOARING DEMAND

- Lack of new investment products at the time
- RBI indicated the expected imbalance much earlier
- Situation spiraled out of control and panic set in
- Action taken: Government issued 13 new notifications in the year 2013



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## SUMMARY OF THE NOTIFICATIONS

- Consignment imports were prohibited
- Gold loans were prohibited
- Duty on gold was increased from 2% to 10%
- 80:20 Rule was put into effect
- List of importers reduced from 45 to 4



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## THE REPERCUSSIONS FOR THE INDUSTRY

- Smuggling of Gold increased → Significant loss of revenue to the government → Real trade procuring smuggled gold to keep themselves afloat.
- Inadequate supplies → Unemployment of artisans increased → Loss of millions of jobs.
- Gold Premium/troy oz. → increased to USD 180 from USD 3 - 4.
- India, a known exporter started to import gold jewellery to circumvent the 80:20 Rule.
- Existing Bullion sector investments perished and no new investments were initiated.
- Inward remittances of about USD 65 billion from Indians working abroad started to fade away → switched to smuggled Gold.



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### THE 80:20 CONDITION- A DOUBLE EDGED SWORD

- Only 4 entities were entitled to conduct business as per the regulation
- Import of Gold vs. Export of Jewellery : Different fields of expertise
- Two major setbacks: Consignment import and Gold loans→Brought the industry to a standstill
- The Industry lost confidence→Most big players suffered significantly
- Urgent need to bring price transparency and efficiency into the industry to save it from permanent collapse



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### THE BALANCED ROUTE INDIA SHOULD HAVE TAKEN

- Allowed import of Gold through licensing system (as in China) in order to control outflow of foreign exchange
- Duty should not have been increased from 2% → Control smuggling
- Should not have curtailed number of importers from 45 to 4→Unfair increase in margins
- No prohibition of consignment import
- No prohibition of gold loans in domestic market including jewelers



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## LONG TERM PERSPECTIVE IN THE INTEREST OF TRADE

- Let market forces determine the course of the industry
- Business should not be forced to go underground
- Avoid unnecessary conditions like 80:20 that complicate business
- Revitalize institutional infrastructure like electronic exchanges to ensure transparent price discovery and improve business confidence
- Remember: No industry survives without the ultimate consumer → ease of business is important to ensure growth of the industry



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**THANK YOU!**

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