Money Market

Gold Sales By Reserve Bank

DR. Johns Matthai's two-day visit in the City has encouraged fantastic rumours in money market circles. There has been no official statement about the purport of his visit; nor has there been any official *communique* at the conclusion of his deliberations with the authorities of the Reserve Bank and of the Imperial Bank. However, it is widely believed that the Finance Minister has had discussions on a more effective method of financial control with the authorities of the Reserve Bank.

Devaluation is likely to encourage inflationary tendencies. It is, therefore, natural that the Finance Minister will be interested in discussing ways and means of curbing such tendencies through a more rigid control of credit facilities In the present context, inflation is mainly a problem of adrmniatrative and physical controls. Yet, it will not be denied that credit control will also be necessary to fight inflationary trends successfully.

It is also known that the Finance Minister is of the opinion that credit and banking facilities in the rural areas will have to be improved in order to mop up increased money incomes of the rural population during and after the war. As the Government are committed to an intensification of; the savings drive, it is probable that the finance Minister must: have discussed the ways and means of stimulating investments.

Money market circles are aware of these possibilities. But their reaction seems to suggest that banking and financial circles remain convinced that only higher interest rates and bank rates can check the prevailing inflationary tendencies as well as lead to a resumed flow of funds into invest-' ment in new and existing loans and securities.

- On Thursday, the market was thick. with rumours that the Weekly Reserve Bank returns were not released for publication on Wednesday, the usual day of the week on which such information is made available to the public officially, because the Finance Minister was discussing the question of a higher bank rate with the Governor of the Reserve Bank. Persistent sates of securities on the London gilt-edged market, the rumour that the British bank rate would be raised and reports of an imminent rise in the bank rate in India caused some selling pressure which led to, a decline in the prices of speculative securities.

This has been a week of rumours and of wishful thinking among market circles. Though the Reserve Bank have denied reports that they are selling gold out of the revalued stock, the market had been anxiously scanning Reserve Bank returns to know whether the Bank's gold holdings had actually been revalued or not. Latest Reserve Bank returns reveal that such stocks remain at the old pre-devalued level.

Though statistical facts and the Reserve Bank's denial have dispelled doubts about possible sales of gold out of monetary stocks, rejection of tenders by the Reserve Bank has encouraged the rumour that the International Monetary Fund have raised objection to sales of gold by the Reserve Bank at prices above the fixed, parity prices for gold. This is a completed problem and recent experience suggests that IMF have not always been able to ensure that their directives are complied with by member countries.

Whether the Reserve Bank or the Government of India can sell gold at "free" market prices even as agents, is an intriguing query. However, it is a known feet that, though Mysore has now merged with the Indian Union, Mysore gold has been, and is being, sold in Bombay markets freely. And, no objection has yet been raised by the International Monetary Fund. Those who are circulating rumours about IMF objection to sales of gold by the Reserve Bank are, perhaps, ignoring that the Reserve Bank have announced their intention to sell gold not as agents of the Hyderabad Government but of His Exalted Highness the Nizam.

Estimates of the gold that can thus be thrown upon the market by the Reserve Bank vary from 3¼ lakhs to 25 lakhs of tolas. Even if the sales approximate to the higher estimate, the volume thus offered to the market is not likely to break the morale of the market, though prices are likely to remain subdued during the period of gold .sates by the Reserve Bank.

More interesting is the query-whether the announcement of gold sales at this juncture reflects the authorities' view that the gold boom is nearing its end. Devaluation of major currencies of the world in relation to -the dollar lends support to such an assumption. Yet, there is reason to believe that the belief in an ultimate devaluation of the dollar in terms of gold persists; that,

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