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July 13, 1954

The Flow of Gold to Non-Monetary Uses:
An Overall Appraisal -- 1931-1953
Frank M. Tamagna and Margaret Garber 13 pages

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<u>The Flow of Gold to Non-Monetary Uses: An Overall Appraisal -- 1931-1953</u>

Frank M. Tamagna and
Margaret Garber

The past decade has witnessed an unprecedented movement of gold to non-monetary uses throughout the world. As private demand for gold subsides, it seems appropriate to assemble available information and statistical data that can contribute to an assessment of the amount of the metal involved in these operations and the direction of its movements. This article analyzes the sources and uses of gold during the period from January 1931 to December 1953. 1/

<u>Summary and conclusions</u>

During this entire period some $3 billion of gold accrued to the world non-official holdings; this resulted from large transfers from Middle and Far Eastern countries to European countries in the thirties and from net additions to private holdings, in both the East and the West, after 1943. This amount of gold represents about one-seventh of an aggregate gold production of $21 billion from 1931 to 1953. About the same amount of gold ($20 billion) had been produced in the years between 1900 and 1930, and some $10 billion were produced in the 19th century. Production throughout the preceding three centuries is rated at a few billion dollars only. It may be surmised, therefore, that gold production over the past four centuries and a half aggregated perhaps $55 billion, of which some $37 billion were acquired and are presently held as reserves by monetary authorities. On this basis, the total disappearance of gold since the discovery of America into private holdings, artistic and industrial uses, and waste and destruction may be placed at around $18 billion.

The following facts and conclusions emerge from the statistical and other information presented in this article for the post-war years.

(1) The many and varying factors which contributed to the high level of private demand for gold in this period may be related to monetary disorders, political fears and dangers of war. The first of these factors appear to have been the most pervasive, as nations showing high preference for gold had generally in common governmental policies of monetary inflation and loss of public confidence in their currencies. On the other hand, traditional and psychological factors seem to have conditioned nations differently, as in many cases the reaction to monetary disorders was flight of capital into foreign assets, domestic investments and consumer goods rather than into gold.

(2) The existence of restrictions on exchange and gold transactions during this period led to the establishment of "free" gold markets, restricted in their operations by government controls. In London, while the gold market

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1/ Gold movements from 1931 to 1937 were reviewed in the <u>Federal Reserve Bulletin</u> of August 1937. Material for the period 1937-1947 was presented in November 1948 in an internal paper on "Gold Hoarding -- An Overall Estimate" by Mary Maroney.

For purposes of convenience, all figures are in dollars, on the basis of the present gold valuation of $35 per ounce.

had been closed since 1939, authorized dealers were permitted to act as agents in arranging transactions between non-residents. Switzerland provided facilities for domestic as well as external gold transactions. In other countries, such as France and India, transactions were permitted on internal markets. The operations of these "free" markets involved frequently illegal transactions, particularly with respect to international movements of gold.

(3) Gold was dealt in these markets at premium prices -- i.e., at prices higher than its official monetary value. These prices reflected in part the effective depreciation of the currencies used in the operation, in part the risks involved in the illegal nature of the market transactions, and in part simply a speculative preference for gold. Prices varied greatly with respect to various currencies and in various markets, and they fluctuated widely from time to time.

(4) South Africa and Latin America were the leading producing areas supplying the gold markets; other important producers (Canada and the rest of the Sterling Area) played a lesser role in this field. Gold moved from these producing areas to industrial countries, such as the United States, the United Kingdom and other European countries (France, Switzerland, Italy, the Netherlands), for processing into forms which the markets could handle.

(5) Part of the gold so processed appears to have been retained in Western Europe, being held in the United Kingdom exclusively for foreign accounts, in France largely for internal account, and in Switzerland without limitation as to holders. The rest of the gold moved toward Tangier, which had become a major depository center for the West, or toward the Middle and Far East.

(6) The movement of gold to the East could be traced through certain transit points -- namely, Beirut and Kuwait in the Middle East, and Hong Kong, Macao and Bangkok in the Far East. It appears that China ceased to be one of the most important net buyers after 1949, and that India became thereafter the major recipient of gold.

(7) The unprecedented private demand for gold in the post-war years has apparently led to the accumulation of considerable amounts of metal in the hands of dealers in far distant depository and trading places. The subsiding of the demand and the reopening of the London market in 1954 have brought about some dishoarding, accompanied by occasional declines of foreign gold prices below the dollar parity.

(8) The subsiding of private demand for gold and the decline of market prices to the official valuation of gold in terms of dollars and certain other currencies have occurred along with the progress of financial stabilization and the relaxation of exchange and trade restrictions in Western Europe and the Sterling Area. With the restoration of currency convertibility, a free gold market would again, as in the thirties, operate along with the free exchange market in influencing fluctuations of exchange rates. The existence of these twin markets would offer a broader scope of operations to monetary authorities and is likely to become again, as in the past, an important factor in the course of international exchange developments.

General trends of supply and demand 1/

The statistical analysis presented in the table on the next page indicates that the aggregate supply of gold for the 23-year period (1931-1953) may be placed at $23.2 billion, of which $21.1 billion was obtained from new production and the rest from other sources. From this has been deducted an estimated increase in the world's monetary reserves of $18.6 billion (from $18.1 billion in 1930 to $36.7 billion in 1953), and the industrial consumption in the United States ($1.8 billion). This leaves a residual of $2.8 billion, which was presumably used in arts and industries or added to private holdings outside of the United States over the entire period.

There is no basis, because of lack of information, for estimating the current industrial consumption abroad independently of other types of private demand. Prewar experience would show that approximately the same amount of gold was normally used in arts and industries in the rest of the world as in the United States. In practice, the combination of foreign industrial consumption and additions to private holdings appears to be a more reliable yardstick because of the growing difficulty of distinguishing between these two categories of gold use and also of their limitless interchangeability.

The figure of gold absorbed by private demand abroad would be somewhat higher if account were taken of sales by the USSR on the gold markets over the past few years. The USSR apparently ceased selling gold

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1/ Statistical basis of analysis -- The figures appearing in this article are based in part on regularly reported statistics and in part on incomplete data and estimates. Information on gold relates primarily to supply factors and monetary reserves; the non-monetary demand is determined as the difference between additions to supplies and changes in monetary reserves. No attempt has been made to estimate the USSR production, consumption and holdings of gold, nor USSR sales on gold markets.

Figures for gold production are believed to be sufficiently reliable, since all of the major producing countries report their output. Other sources of supply include transfers of gold from USSR to other monetary authorities and the estimated return of coin and scrap gold.

Changes in gold reserves are based on reported gold holdings of central banks and governments and international institutions, unpublished holdings of various central banks and governments, and estimated holdings of countries from which no reports have been received.

Changes in private Middle and Far Eastern gold holdings have been estimated on the basis of available information on local production and sales by monetary authorities within individual countries, as well as of movements of gold to and from other areas. Estimates of these movements have been derived from officially reported trade statistics or unofficial information from various sources. Owing to the inadequacy of data, these figures are obviously subject to a wider margin of error. Private gold demand from the rest of the world is the residual item; any errors in the other estimates would result in an opposite error in this residual.

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## Estimates of Supplies and Uses of Gold, 1931-1953
(In millions of dollars at $35 a fine ounce)

| Year | Supplies of gold: New production (excl. USSR) 1/ | Supplies of gold: Other 2/ | Supplies of gold: Total | Uses of gold: Changes in monetary reserves (excl. USSR) | Uses of gold: U.S. industrial consumption (gross) 3/ | Uses of gold: Changes in private Middle and Far Eastern holdings | Uses of gold: Residual 4/ |
|---|---|---|---|---|---|---|---|
| 1931 | 720 | 205 | 925 | 510 | 50 | -200 | 565 |
| 1932 | 775 | 310 | 1,085 | 1,150 | 35 | -475 | 375 |
| 1933 | 795 | 310 | 1,105 | 455 | 30 | -300 | 920 |
| 1934 | 825 | 280 | 1,105 | 1,460 | 15 | -250 | -120 |
| 1935 | 885 | 170 | 1,055 | 975 | 25 | -200 | 255 |
| 1936 | 970 | 90 | 1,060 | 1,595 | 35 | -125 | -445 |
| 1937 | 1,040 | 325 | 1,365 | 1,715 | 40 | - 75 | -315 |
| 1938 | 1,140 | -375 | 765 | 295 | 30 | - 75 | 515 |
| 1939 | 1,220 | 90 | 1,310 | 1,925 | 40 | -175 | -480 |
| 1940 | 1,310 | 85 | 1,395 | 1,710 | 40 | - 50 | -305 |
| 1941 | 1,265 | 75 | 1,340 | 1,210 | 70 | 25 | 35 |
| 1942 | 1,125 | 60 | 1,185 | 980 | 75 | 25 | 105 |
| 1943 | 870 | 15 | 885 | 905 | 95 | 150 | -265 |
| 1944 | 775 | 25 | 800 | 385 | 125 | 175 | 115 |
| 1945 | 740 | 30 | 770 | 390 | 140 | 125 | 115 |
| 1946 | 755 | 90 | 845 | 350 | 200 | 125 | 170 |
| 1947 | 765 | 75 | 840 | 420 | 100 | 50 | 270 |
| 1948 | 805 | 45 | 850 | 385 | 90 | 225 | 150 |
| 1949 | 840 | 40 | 880 | 475 | 150 | 175 | 80 |
| 1950 | 865 | 35 | 900 | 410 | 135 | 150 | 205 |
| 1951 | 840 | 35 | 875 | 150 | 105 | 200 | 420 |
| 1952 | 865 | 30 | 895 | 310 | 125 | 150 | 310 |
| 1953 | 865 | 100 | 965 | 430 | 95 | 125 | 315 |
| Total (23 yrs.) | 21,055 | 2,145 | 23,200 | 18,590 | 1,845 | -225 | 2,990 |

1/ 1931-1937, estimates of U.S. Mint; 1938-1952, estimates of U.S. Bureau of Mines; 1953, Fed. Res. Board estimate.

2/ Includes return of coin through 1939 and scrap (in U.S.,1931-1953 and other countries,1931-1936), plus net receipts from USSR,1931-1947 and 1953. Return of coin and scrap based partly on reported statistics and partly estimated. Net receipts from USSR based on reported U.S. receipts and incomplete data and estimates on receipts by other countries. Estimated outflow from USSR has been adjusted in 1938 to include receipt by USSR of $521 million of Spanish gold alleged by Bank of Spain to have been sent to the USSR.

3/ Estimates for 1931-1952 published by U.S. Mint; 1953, Fed. Res. Board estimate.

4/ Includes changes in private holdings of Western Countries, foreign industrial consumption, and errors and omissions.

to other monetary authorities in 1947, but in 1953 around $75 million of Russian gold was reportedly received by a foreign central bank. Apart from these operations, which have been accounted for in estimating gold supplies, there have been indications of recent Russian sales in free markets, the extent of which cannot be accurately gauged. On the basis of press reports in the latter part of 1953, such sales may be placed in a range of between $50 and $100 million for that year, and perhaps they were somewhat lower in the few preceding years.

The changes in private demand -- The statistical and other information available thus leads to a conclusion that the net addition to the world's non-official gold holdings for the period 1931-1953 was around $3 billion.

The entire period may be divided into two phases. The first phase -- 1931 to 1943 -- was characterized by a massive liquidation of private holdings in Middle and Far East countries, substantial accretions to private holdings in other areas, and a moderate net liquidation on balance. The second phase -- 1945 to 1953 -- witnessed the unprecedented growth of private demand in both East and West. On balance, for the period as a whole, there seems to have been only little change in private Eastern holdings, so that the whole net addition to the world's non-monetary gold presumably accrued to private holdings outside the East -- principally in a few countries of Western Europe.

In the first phase, it is estimated that during the years 1931-1940 the liquidation of private gold holdings in the East reached almost $2 billion, while private holders in other areas accumulated about $1 billion of gold. In the first half of the thirties, when the fall of prices affected severely raw material producing countries and deteriorated their terms of trade vis-a-vis industrial countries, Eastern holders liquidated about $1.5 billion while other holders acquired about $2 billion of gold. From 1936 to 1940, as exchange regulations were tightened in European countries and a flight of "hot" money toward the United States ensued, liquidation of gold holdings became important in Europe -- reaching about $1 billion -- while it declined in the East to some half billion dollars.

Special circumstances appear to explain the substantial liquidation in the West indicated for 1939 and 1940. Many private holders in Europe presumably preferred to dispose of their gold in order to shift into overseas assets that seemed to afford greater security from risks of the war. In addition, various governments took measures requiring the surrender of gold held by their nationals, and the German forces requisitioned gold in occupied countries.

Results for the years 1941-1943 show revival of private demand in the East, and some further Western liquidation. The American, British, and Japanese Governments sold gold during those years to raise local currency funds in the Middle East, India and China without adding to inflationary pressures in those countries.

The second phase, from 1944 to 1953, was characterized by rapidly advancing inflationary pressures in the early postwar years and sharp changes in economic and monetary conditions over the rest of the period; it was not until 1952 that the process of stabilization appeared strengthened in most of the leading countries and in the world at large. During this entire period, it is estimated that around $3.6 billion of gold went into private holdings, representing the equivalent of around 50 per cent of new foreign production. The peak of private demand appears to have been reached in 1951, when 80 per cent of new foreign production went into industrial uses or private holdings, or was otherwise unaccounted for.

There have been a number of specific developments in these years which affected the supply and demand on gold markets. In a statement of June 1947 regarding transactions in gold at premium prices, the International Monetary Fund recommended that all of its members take effective action to prevent international transactions in gold at premium prices with other countries or with the nationals of other countries. In compliance with the Fund recommendations, there was a general tightening of controls on gold transactions by member as well as certain non-member countries.

Despite these measures, the amount of gold flowing into private holdings in 1948 reached the highest level in many years, and in the first half of 1949 the flow continued at about the same level. This higher demand was accompanied by a rising price until the end of June 1949, when the international dollar price reached $50 per ounce, as shown in the chart on the next page.

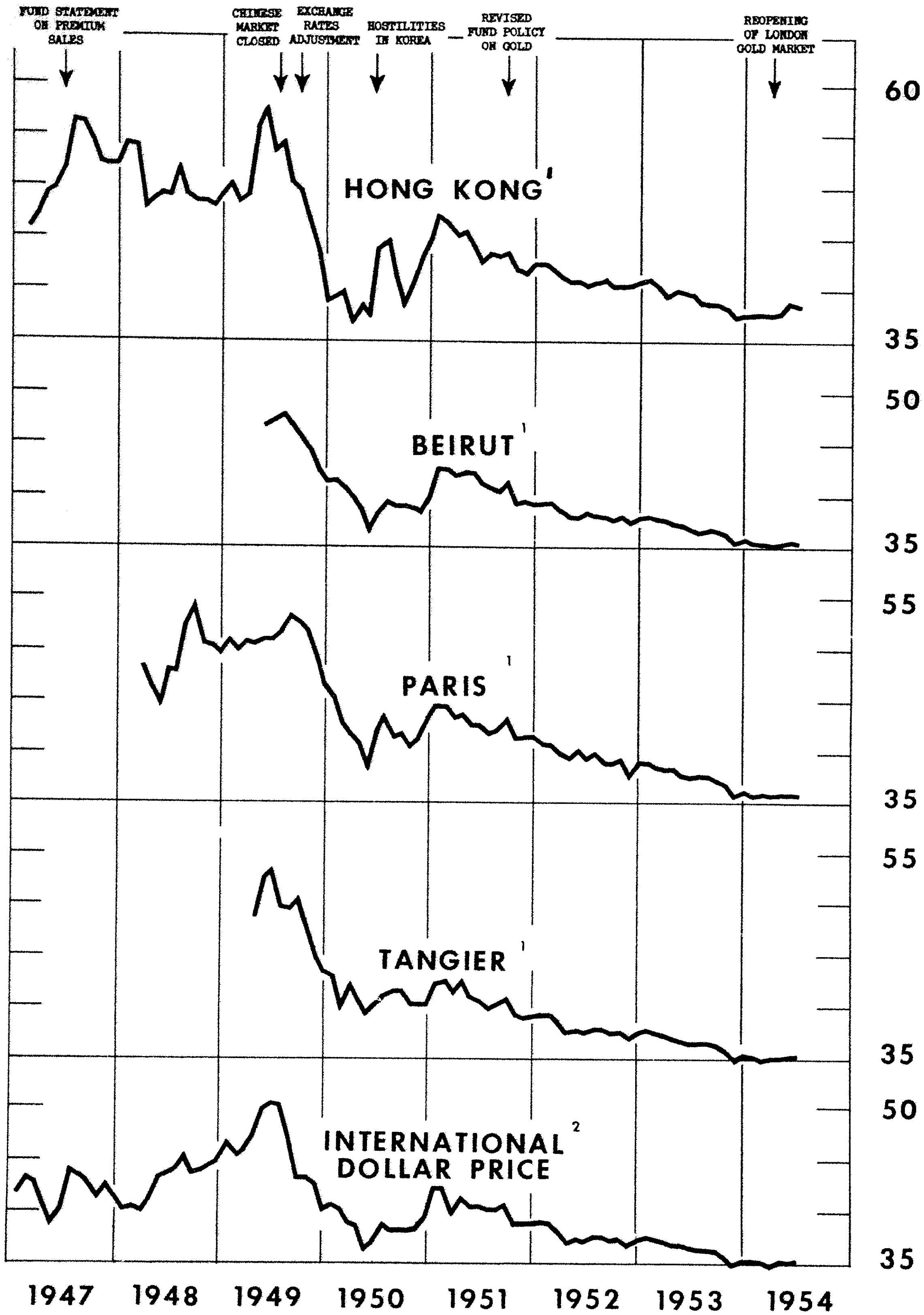
This was followed by a rapid decline in the price of gold, as supplies increased and demand showed a tendency to fall. The supply of gold was increased significantly by the decision of the Union of South Africa to permit the export of fabricated and semi-processed gold for sale on the free markets; by 1951 such sales reportedly amounted to about $160 million (based on 40 per cent of South African production). At about the same time, the demand from Chinese sources ceased. For several years China had imported large quantities of gold but in mid-1949, following the establishment of Communist control, the movement was reversed and some gold began to move out of the country. Demand for gold in other countries also declined sharply, after the world-wide currency adjustments which took place in September 1949. This combination of factors drove the price downward until May 1950, when it fell to around $36 per ounce.

With the outbreak of hostilities in Korea in mid-1950, there was an immediate and widespread renewed demand for gold. It is estimated that the amount of gold flowing into private holdings in the second half of 1950 was about $275 million, as compared with around $75 million in the first half. Correspondingly, the price rose until January 1951, when it was about $42 per ounce.

In 1951, as the amount of gold entering private channels reached a new high, its price fell, the sharpest drop taking place after September. At that time the International Monetary Fund announced that it would leave to member countries the decisions pertaining to the regulations of gold transactions in free markets. Following this announcement, the gold producers of Canada, Australia, Southern Rhodesia, and West Africa were given

# BAR GOLD PRICES

Dollars per fine ounce, End Of Month




1/ Quotations in local currency converted into dollar equivalents at "free" or "black" market rates; except Tangier -- beginning December 1950, direct quotation in dollars.

2/ Price at which gold was traded in various markets directly for dollars; beginning February 1953, price in Zurich.

SOURCE:
International Monetary Fund.

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permission by their respective governments to sell gold in processed form on free markets. There was no limit placed on the amount Canadian and Australian producers could sell; however, Canadian producers who elected to sell gold on the free market were to forego subsidies. Restrictions on sales by Southern Rhodesian and West African producers, who were limited to 40 per cent of their output, were removed in 1952. Furthermore, the provision that gold had to be in processed form was removed in Australia, Southern Rhodesia, and West Africa in 1952 and in South Africa and Canada in 1953, thus leaving producers free to sell gold in fine bar form.

The amount of gold entering private holdings in 1952 was substantially less than in the previous years. Demand was off throughout the East, particularly in India. Apparently there was also less demand for gold in France until the latter part of the year. In fact, some gold was released from private holdings in the latter country in connection with the Pinay gold loan; around 34 tons of gold ($38 million) was acquired by the French Government. Reflecting the decreased demand, the price of gold in the various markets also declined. After reaching a low point of $36.75 in November, the international dollar price for gold closed the year at around $37.50.

In the year 1953, private holders probably absorbed about the same amount of gold as in the previous year, but while in 1952 the rate of absorption was evenly distributed throughout the year, in 1953 demand was stronger in the first half and declined thereafter, and by the fourth quarter only about $50 million of gold apparently went into private holdings. As supplies increased and demand contracted, the dollar price of gold in European markets for the first time fell below the official dollar parity in November. By the end of the year, the price had increased to slightly above $35 an ounce, following the withdrawal of South African sales from the market.

Geographic distribution of private holdings

From available information, it appears that private demand for gold in the West has been largely concentrated in a few countries. From all indications, the greatest demand for gold apparently originated in France, and there has been evidence of persistent demand from Italy. For some years there was an active demand for gold by the Greek public, which was met through sales of sovereigns by the Bank of Greece. In London, gold has been customarily held by licensed banks and firms for the account of non-residents. Zurich and Amsterdam have also been important international gold centers. Gold is also held for the account of non-residents in Tangier. There is no statistical evidence of any significant demand for gold in other Western European or in Latin American countries.

Private holdings in Middle and Far Eastern countries are more widespread, since there have been few effective restrictions. From the end of World War II until the end of 1951, Egypt appeared as a leading importer of gold, but the imposition of restrictions in March 1952 resulted in cessation of open imports. In Saudi Arabia and few other countries in the Middle East gold coins are used principally as a medium of exchange. Until the middle of 1949, most of the gold entering the Eastern markets reportedly was destined for China and India. After the closing of the

Chinese market in 1949, the main flow apparently was directed toward India, but this has gradually declined with the subsiding of inflationary pressures.

The sources of gold -- Gold entering private channels either for industrial consumption or other uses comes from two sources, new production or sales by monetary authorities from official reserves. Until the latter part of 1953, the Union of South Africa reportedly was selling about 40 per cent of its annual production of over $400 million on the market, but the amount of sales by producers in other Sterling Area countries and Canada has not been disclosed.

In the United States, somewhat more than the equivalent of new domestic production is used in industry and the arts. A substantial part of the production of Latin America and Asia has found its way into non-monetary uses through the United States. In the years 1948-1953, over 77,000 kilograms ($87 million) of gold-bearing materials was sent to this country, most of the refined gold being re-exported to Eastern countries.

There is very little information on sales of gold by monetary authorities. It is known that the Bank of Greece acquired gold sovereigns for sale to the public for a number of years, such sales being reported at around $70 million from 1946-1952. Gold sovereigns were also acquired by the Government of Saudi Arabia in payment of oil royalties; most of these sovereigns were exported for sale at a premium while some became part of the local currency in circulation. The payments of oil royalties may have amounted to $85 million in a few years up to the middle of 1950, when such payment began to be settled in dollars and other currencies. From time to time there have been reports of intervention by various central banks in local gold markets.

It is practically impossible to estimate accurately the movement of gold from one country to another. A few countries publish customs figures on gold movements, but there are so many gaps in the data that they are of limited value only. Furthermore, since many countries control strictly the import and export of gold, a considerable part of the movement is carried on in a clandestine manner. With these limitations, an attempt is made, on the basis of scattered data and information, to determine the general direction in which gold has been flowing in recent years.

The destination of gold: Western Europe -- Semi-processed gold from South Africa, the principal source of gold to free markets, appears to have moved largely to a few European countries. It would seem that France, Switzerland, and the Netherlands have been the immediate recipients and principal transit countries, and that in many cases the United Kingdom has been the country destination of such gold.

The United Kingdom publishes very little information on gold movements, but reports from other countries indicate that a substantial amount of unrefined and semi-processed gold moved into the United Kingdom. Gold imported for refining and processing could be exported, subject to license, to any country outside the Sterling Area provided the country permitted the import. Gold could be held in the United Kingdom for account of non-residents and such gold could be exported to any destination named by the foreign owner. Although there are no estimates available, it would appear that there is a considerable amount of gold held in London bank vaults for the account of foreigners.

Until the end of 1948, when controls on gold movements were instituted, Switzerland had been the principal transit center in the movement of gold from the West to the East. Since 1949, when South Africa began selling gold from new production on the markets, Switzerland has been associated with activity in the semi-processed and fabricated gold traffic, as shown by reported statistics. In 1952, the Swiss National Bank removed all controls over the import and export of gold, including bars and coins.

A free gold market has existed in France since early 1948 but legally the market is an internal one only; no one is permitted to import and export gold without permission of the Bank of France. This reportedly has led to the clandestine movement of gold across the borders, but no estimates are available as to the volume of such traffic.

According to Italian statistics, a considerable quantity of gold coins were imported into Italy from the Netherlands and France in 1950 and 1951, and in 1952 a small amount was imported from the Netherlands and Belgium. According to statistics of other countries, semi-processed gold has also moved into Italy in considerable amounts. It is not possible to trace any movement of gold from Italy. Presumably gold was fabricated and re-exported, since it is reported that the Italian Government granted licenses only for the importation of industrial gold into the country for fabrication and re-export.

A market, although outside of, but closely related to, Europe, is that of Tangier. The exchange and gold markets in Tangier have remained completely free, and gold could be held there indefinitely without payment of duty. During the post-war years, an active gold market developed there with well-organized financial houses, adequate storage space, and diversified facilities for international transfer and settlement of gold transactions. From 1948 to 1953, net imports into Tangier for storage were about 53,000 kilograms ($60 million). Imports came mainly from France, the United Kingdom, and Switzerland.

<u>The destination of gold: The Middle and Far East</u> -- Since early 1949, Beirut has become a primary in-transit center in the movement of gold from West to East. At that time, the Government of Lebanon liberalized the transit of gold, permitting traders to keep gold there for a period up to four months, and to export the gold to any destination. In 1952 the period was extended to six months to aid Beirut gold traders who were having difficulty in moving their stocks owing to falling Indian demand. From 1950 on, an average of 75,000 kilograms ($85 million) of gold reportedly passed through Lebanon each year. The principal countries of origin were the Netherlands, France, the United Kingdom, and Switzerland, and it was indicated that most of the exports were destined for Kuwait.

In the Far East, Macao served as the main distribution center and a point at which gold coming from Europe and the Western Hemisphere was converted into bars and shapes acceptable to local traders. Closely associated with the Macao market has traditionally been Hong Kong, which provides the facilities for arranging and financing the international gold transactions. Gold could be shipped to and from Macao with little restriction, but until recently imports and exports of gold from Hong Kong were prohibited; gold may now be imported under license for re-export to any destination in the world with the sole exception of Kuwait.

Prior to the middle of 1949, China was the principal market for gold imported to Macao. However, with the establishment of Communist control and the exodus of refugees, the movement was reversed and gold began moving out of China to Hong Kong and Macao. During the first half of 1950, there was less activity in the two markets, but with the outbreak of hostilities in Korea gold trading began to flourish again. According to estimates of Hong Kong bullion dealers, gold imports into Macao during the period 1948-1951 totaled almost 300,000 kilograms ($338 million) of which about one-third were imported in 1951. Imports declined somewhat in 1952, and in 1953 were only about 30,000 kilograms ($34 million). Gold was imported into Hong Kong from Macao and the Philippines. Until November 1952, Bangkok ranked along with Singapore as the principal destination for most of the gold exported from Hong Kong. Since then Burma, Indonesia, Indo-China, and Japan have replaced Bangkok as destinations.

Bangkok served as a transit point in the movement of gold and also as a center for gold redirected to India. Until 1952, the import and export of gold were illegal. In October of that year, a syndicate of Thai banks was granted permission to import up to 100,000 ounces ($3.5 million) of gold per month. Imports by private merchants continued to be officially forbidden. According to reports from Hong Kong, Europe has replaced Hong Kong as the principal gold supplier to Thailand.

Since March 1947, when the Reserve Bank of India suspended the granting of gold import licenses, the Indian market has been supplied by newly-mined domestic output (around $8 million annually) and smuggled gold. From all indications, it appears that sizeable amounts of gold reached India each year by clandestine channels. Gold moved into India through two principal ways -- through Beirut and Kuwait from the West, and through Hong Kong and Bangkok from the East. However, this illegal gold traffic apparently began to decrease somewhat at the beginning of March 1952. At that time, a slump in commodity prices was accompanied by a decline of around 15 per cent (to about 235 rupees per ounce) in the price of gold, leading to a settlement crisis in the local bullion exchange. 1/ Forward trading was suspended for two months and after the reopening of the exchange there was a further decline in the price through December, at which time it was about 215 rupees per ounce. In early 1953, the price recovered to 235 rupees and remained around that level until the latter part of the year when it again fell to about 215 rupees per ounce. This relative stability

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1/ The official parity of exchange is 21 cents per rupee, but no attempt is made to convert into dollars the free market price of gold since there is no free exchange rate on which to base such conversion.

of the Indian gold market has coincided with the tapering off of inflationary pressures over the past few years.

Current developments

In the first half of 1954, the price of gold in free markets has remained around $35 an ounce and in the first quarter of the year a movement of only a few million dollars of gold could be traced to private holdings. In the second quarter, a small dishoarding movement may be indicated, as European central banks reportedly have become net purchasers of gold from the market.

The most important development in the year has been the reopening of the London gold market on March 22. While the market had been closed since 1939, authorized gold dealers had been permitted for some time to act as agents in arranging transactions between non-residents. Since access of Sterling Area residents to the market continues to be restricted, the major effect of its reopening is to facilitate London's role as intermediary between foreign buyers and sellers.

The London bullion market consists of the same six firms a s before the war. Anyone may now have access to the market through the medium of all banks in the United Kingdom, which have been appointed as authorized dealers in gold in addition to the six firms. Residents of the Sterling Area may freely sell gold only for resident (i.e., inconvertible) sterling; their purchases of gold are subject to permission of the Bank of England and may be settled in resident sterling only. Residents of all other countries may buy or sell gold freely provided payment is made in American account or Canadian account sterling, or in equivalent registered sterling.

South African gold production remains the most important factor in the supply of gold to markets. With the reopening of the London market, past arrangements whereby South African gold producers were permitted to sell part of their production in free markets, were discontinued. Sales of gold are now effected through the South African Reserve Bank which, according to the South African Minister of Finance, will sell as much gold as possible on the London market. It appears that the Exchange Equalization Account has recently intervened in the market as the purchaser of a considerable portion of this gold.

Private demand for gold is at the lowest point in many years. As a matter of fact, a reverse movement seems to be taking place since gold is now moving from private holdings into official reserves. In addition to United Kingdom official purchases, the French Exchange Stabilization Fund, according to press reports, has taken some fifty tons ($56 million) of gold from the market recently.

Activity in Eastern markets has also fallen off, particularly in Hong Kong. Furthermore, a smaller amount of gold has been moving into India, as the lower price reflects a declining demand and has made smuggling less attractive.

The subsiding of the private demand for gold and the reopening of the London gold market have occurred along with significant moves by the United Kingdom toward restoration of convertibility for sterling. The result so far has been the maintenance of sterling prices for gold and exchange rates for sterling within the narrow margins from parity set forth by the International Monetary Fund. Should demand for gold revive to a point where premium prices would develop anew, they might have an unstabilizing effect on sterling, which foreigners could obtain at lower rates by offering gold to the market rather than by acquiring it with dollars or other currencies at the official fixed rate. Presumably the additional flow of gold to the market might be sufficient to depress its price and to correct any maladjustment of the sterling rate. On the other hand, the existence of twin markets might call for an active intervention of the authorities at times in order to maintain or re-establish orderly movements in gold prices and exchange rates.

Thus the possibility for restoration of currency convertibility is bringing about a situation, as in the thirties, where a free gold market operates along with the exchange market in influencing fluctuations of exchange rates, and creating or correcting temporary maladjustments. As the private demand for gold disappears, the monetary role of the metal emerges and gold is likely to be again, as in the past, an important factor in the course of international exchange developments.