Money Market

Technique of Open-market Operations

PARADOXICAL as it may seem, the security market has tended to steady down at lower levels, despite the slight increase in the demand for funris. In the week ended December. 1, 1950, scheduled banks' advances increased by Rs. 5½ crores. Reserve Bank returns for the week ended December 8, 1950, indicate that the demand for funds continues, as is evident from a decline of Rs. 7¾ crores in banks' balances with the Bank

In the fortnight, therefore, there has been an increase in the demand for funds, irrespective of the reasons behind this rise, to the extent of Rs. 13¼ croresh This should have had an adverse effect on short as well as long-term money rates. In the short-term money market, easiness continues to prevail. And, the fall in the gilt-edged market has been halted.

There are two reasons for the steadiness in the gilt-edged market. In the fortnight ended December 8, 1950, the Reserve Bank's investments registered an increase of Rs. 4,22 crores. It is apparent in retrospect that, though open-market operations have not led to a rise in security prices, they have succeeded in halting the downward trend. The soiling pressure was never aggressive. With moderate support, the market steadied up.

Steadiness in securities at relatively lower levels is, in the second place, due to currency expansion. In between the middle and the end of November, the volume of notes in circulation declined by Rs. 14 crores. However, in the fortnight ended December 8, 1950, the volume of, notes in circulation improved by Rs. 27 crores. Moderate open-market operation; and currency expansion helped to check the downward trend in security prices.

Two questions arise out of recent financial developments. In recent weeks the Reserve Bank have been criticised for not lending support to the market earlier. Feeling is abroad that the Bank have, wittingly or unwittingly, fostered the impression by their inactivity in the past few months that the monetary authorities were not interested in maintaining security prices.

Opinion differs. Presumably, the authorities would retort that, though they arc interested in stabilising interest rates, they are not anxious to iron out speculative or temporary fluctuations in gilt-edged prices. This is an arguable viewpoint. In comparison with the technique of open-market operations in, say, Britain since the beginning of the Korean war, the end-result achieved by the monetary authorities in India does not compare unfavourably.

Even so, it may not be out of place to point out that it is bad tactics to advertise openly the limitations of the Reserve Bank in relation to open-market operations. Experience suggests that even moderate support to the market can achieve desired results. And, the criticism of the monetary authorities' policy is not that they should have enforced a more positive open market policy but that they were, perhaps, wrong in the timing of such operations.

There is an implied hint in recent monetary developments that the authorities prefer straight currency expansion as opposed to open-market operations. They have been honest in expanding currency against additions to holdings of foreign securities. Apparently, they accept the criticism that currency expansion should not involve a simultaneous increase in the public debt, in the shape of *ad hocs*, though many would fail to endorse the implications of this distinction without a difference.

Remains the problem of dealing with currency expansion against open-market operations. In recent weeks, currency has been expanded against transfers of foreign securities from the Banking to the Issue Department. There is scope for such *per contra* additions to currency, hut it is not unlimited. Nor is the scope or need for currency expansion large. Even so, in the context of recent developments, it would have been wiser to expand currency against open-market operations. That would not have involved heavier currency expansion, but would certainly have helped the gilt-edged market to regain confidence.

The Indian Commerce Conference

THE fourth session of the Indian Commerce Conference will be held under the auspices of the University of Allahabad on December 27, 28 and 29, 1950. The Conference will be inaugurated by Hon'ble Shri Sri Prakasa Commerce Minister, Government of Indja. Prof. B. N. Das Gupta of Lucknow University will deliver the presidential address. The following are the subjects which will be discussed: —

(1) Rural Savings and Investments in India',
(2) Interest Rate Policy in India,
(3) Public Corporations, and
(4) Railway Accounts..