IMF Plan Hurts Nations Needing Most Help

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What a great idea it sounded!

The International Monetary Fund (IMF) brought warm flushes to the hearts of the worlds do-gooders when it announced that it would sell-off some of it’s gold reserves and give the money to the ‘poor people of the undeveloped countries’.

Gold prices are now hitting records lows, pushed down the by the IMF’s sell-off plan and moves by several central banks to sell portion of their gold reserves and replace them with U.S. Treasury bonds or other interest-bearing securities.

These sales are sparking concern in South Africa and elsewhere. The gold auctions are hurting the poor nations that wealthy countries vowed to help in the first place. Of the 41 countries targeted for relief, 36 are gold producers. With gold prices hitting 20-year lows, industry analysts warn that another 80,000 workers at South Africa’s marginal mines may lose their jobs if the price stays at current levels. South Africa is the world’s largest gold producer, and this attack on the pillar of their economy comes just when a new government is struggling to find solutions for joblessness and poverty among its black majority.

Simultaneously the African, Caribbean and Pacific (ACP) Group have issued a statement after a two-day meeting of their Ministers, voicing concern that the ‘dumping’ of gold reserves on the market by industrialised countries was depressing the gold price. The ACP Group includes leading producers such as South Africa and Ghana and many other countries which rely on raw materials for a large slice of their export revenue. These gold producing countries have been reeling from bullion prices at two-decade lows after the Bank of England sold 25 tonnes of it’s gold reserves in July. The ministers have urged ‘that a moratorium be placed on all official sector gold sales until a representative forum is speedily established to explore a central mechanism that can be put in place to ensure that gold sales take place in a structured and orderly manner.”

In July 1997 the Australian Reserve Bank proudly announced that it had sold 66% (167 tonnes) of its gold reserves, without ‘coming clean’ about them investing the sale proceeds in Thai Bahts just before the Asian currency crisis torched this currency.

The net result of this dubious move is that it created long term damage to Australian’s gold industry (the Nation’s second highest mineral commodity export earner) and left Australia with a fist full of depreciated paper currency.

Perhaps history will be equally harsh in its judgement of other central bank gold sales?