Money Market

Melting Point Of The Rupee

WHILE the decline in scheduled banks' deposits and in the Reserve Bank's "balances held abroad" continues, there is now a wicker realisation of the nature and origin of these phenomena. Thus, the psychological effects on short-term money rates of falling bank deposits have Worn off. And, with the onset of the monsoon, the money market is fast returning to normal conditions. There is not yet a plethora of idle cash resources available to the money market, but the demand for funds has subsided, and money is flowing back from the interior to the cities.

As a consequence, the decrease in loans and advances by scheduled banks continues unabated; in the fortnight ended May 27, 1949, the volume of advances has registered decline of over Rs. 20 crores. Those who are preoccupied with possible repercussions of a business recession can argue that this is what is to be expected: when business arcitivity is at a low ebb, traders do not seek bank accommodation; instead, they pay off their bank loans.

It is too early to know for certain whether the decline in bank advances in the past few weeks reflects the coming slump in business or is merely a reversal of the trend in imports. There are, however, indications that it is a refraction of the latter phenomenon. In retrospect, it is apparent that the pace of imports has slackened down; that the import demand for funds is no longer insistent; that some of the money locked up in financing imported stocks is now being realised through sales of such goods; that, in the circumstances, earlier borrowers are repaying their bank debts.

So far, not so bad. But, the main money market trend persists, and is likely to continue. As long as imports of capital goods continue the falling trend in bank deposits must persist. Imports of capital goods are desirable, but such imports cannot continue without leading to monetary deflation. How far, and to what extent, the money market repercussions of this natural process should be insulated is an interesting problem. Meanwhile, it is high time for the money market to get used to the existing influences. Thus alone can the market avoid the psychological reactions to a gradual shrinkage in the volume of surplus cash available to it.

If imports continue, money may no longer remain unemployed. But, increased demand for funds need not necessarily lead to an undue rise in short-term money rates. To some extent, the stiffness in short-loan money rates can be minimised by increased use of money. Though diminishing, the volume of total resources is still adequate to cope with all normal demand for funds. During and since the war money has not been much in use. By reverting to pre-war practices, the money market can help business as well as itself.

While panicky withdrawals of deposits and the import demand for funds are subsiding, the money market is now under the threat of a possible flight of funds off the rupee coin—if one may say so—as a result of the continued spurt in the price of silver. This week's rise in silver has encouraged the belief that unless something is done to check the rise, silver prices may reach the melting point even of the quaternary rupee. The old rupees containing a tola of silver 11/12th fine disappeared from circulation long ago.

Rupee coins of 50 per cent metallic content are still in circulation. And, if silver improves, beyond Rs. 210, it may be profitable for holders to melt these rupees and sell them as bullion. Barring the temporary panic and dislocation, such an eventually, even if it materialises, is not likely to have any long term effect on the money market. On the contrary, it may ultimately enhance the resources of the money market by thawing out hoards.

That apart, fears of a flight from the rupee in this sense are not only imaginary and fanciful, but have no factual basis. For, the present rupee is entirely made of nickel and does not contain any silver at all, and the threat to the internal or the external value of the rupee from a possible rise in silver prices to the theoretical melting point has been permanently removed since 1947. Those who are now expressing concern about the relation of silver prices to the melting point of the rupee are ignorant of the elementary fact that the rupee no longer contains silver and that "rupee coin" holdings of the Reserve Bank also include one-rupee notes!