Money Market

Return of Treasury Bills

AFTER a lapse of some months, the Government have decided to recommence sales of treasury bills. The issue of treasury bills was temporarily suspended when, a few months ago, money market conditions became stringent as a result of active demand for funds for financing imports and of withdrawals of bank deposits following runs on some small banks.

During the first three months of the calendar year i.e. during the last quarter of the financial year ended March 31, 1949, the Government were not in need of funds as revenue in-gatherings were, and are, brisk during that period. Although revenue in-payments are at their lowest ebb during the first quarter of the financial year and are rather slack even in the second quarter, July to September, the Government have, apparently, refrained from issuing treasury bills in order not to aggravate the money market stringency.

Money market conditions are no longer stringent, but they are far from comfortable. With only Rs. 32 crores offered for conversion, the Government's recent conversion operation cannot be said to have been a success. Nor are provincial loans likely to share a better fate. A major portion of the Bombay loan may be underwritten at between Rs. 99 and Rs. 99-8, but neither the U P. nor the C. P. loan is likely to be subscribed in any substantial measure.

These are indications that institutional investors are not in a mood to invest. For, although the conditions in the short-loan market are neither stringent nor tight, the poor response to the conversion loan and to the provincial loans strongly indicates that the money market is confidently expecting dearer money rates. In the circumstances, is it wise for the Government to decide on sales of treasury bills at this juncture?

There are arguments in favour of the viewpoint that the Government have committed a tactical blunder in entering the short-loan market at the present moment. This decision will naturally be interpreted as an indication that the Government's ways and means position is none too comfortable; that, they are in dire need of funds to finance their 'short-term requirements; that in the circumstances, the Government's decision to recommence sales of treasury bills is a tacit implication that the Government may have been forced to the conclusion that a slight rise in short-rnd-long term money rates cannot be avoided.

Closer examination of relevant factors indicate that this is too biased and jaundiced a view. True, the Government's balances with the Reserve Bank have been falling rapidly; but they are still fairly large at Rs. 130 crores. With such a volume of funds still at their command, the Government should be in a position to reject tenders for treasury bills at unduly low rates.

There are two other factors which suggest that the Government may yet be able to dictate

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terms to the money market. Neither the poor response to the conversion loan nor the lack of enthusiasm for the provincial loans is a reflection of the dearth of idle funds available to the money market. Both reveal that institutional investors are reluctant to lock up funds in long-term investments in anticipation of a rise in interest rates. This does not necessarily mean that they willl not go in for treasury bills, especially as the demand for accommodation from trade quarters is fast diminishing.

Moreover, by August 1, 1949, the market will receive more than Rs. 30 crores through payments to the non-assenters of the 1949-52 Loan. Obviously, the Government have decided to re-enter the short-term market in order to mop up these funds to be shortly released to the money market. And, with the trade demand for funds on the decline, institutional investors should welcome the opportunity now offered to invest funds in three months' treasury bills at reasonable rates of interest.

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