

EAST AFR. PROT.

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National Bank
of Africa Ltd

1919

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Last previous Paper

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11140

currency

Submits, further attention on the a. proposals

See - 11172293

Subsequent Paper.

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The National Bank of South Africa Ltd.

INCORPORATED IN THE TRANSVAAL
 WITH WHICH ARE INCORPORATED THE BANK OF AFRICA LIMITED, THE NATAL BANK LIMITED AND
 THE NATIONAL BANK OF THE ORANGE RIVER COLONY LIMITED

CAPITAL AND RESERVES
 £3,715,000

Circus Place London Wall,

London, E.C.2.

16th December, 1919.

CONFIDENTIAL

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Under Secretary of State,
 Colonial Office,
 S.W.

It is averred that the appreciated quotation of the Rupee acts detrimentally to the welfare of settlers in the East African Territory, and, further, that it mitigates against the advancement of that country. It may be assumed that could this be proven all interested in the Territory would welcome an alternative coin token which would have the effect of improving conditions, even if it entailed some sacrifice. It will be well to mention this so that it may be understood that the currency difficulty is realised and sympathised with. It is an incontrovertible fact that what affects settlers also affects bankers, their respective interests being common. Unfortunately, the East African Territory is not alone in its currency difficulties. There is no country where these difficulties do not presently exist. Some in a much more aggravated form than in East Africa. It is suggested that the means of relieving the position is to be found in the introduction of a token to be called East African Rupee, or other term, containing a low moiety of silver,

so low as to safeguard the Government against loss in the event of a further appreciation in the value of that metal. These coins to be legal tender at the rate of 15 to the £ sterling.

It is also suggested that current Indian Silver Rupees in circulation be called in and exchanged for the aforesaid coin, plus a premium yet to be determined upon. Existing Notes, however, not to be so treated, but to be called in and exchanged for a new East African issue. It is surely very unfair to regard holders of Notes as being in a different category from those holding Silver. What will be the result: depositors at the Bank will immediately withdraw their balances. Obviously, each will demand Silver and there will, in consequence, be a great deal of unpleasantness, Debtor balances to the Bank to be repaid in a lower value coin (less premium).

The point now to be decided upon is whether settlers are under disability owing to the Rupee being so high in quotation, in which case will the suggested remedy alleviate or aggravate conditions.

It has been mentioned that a person remitting money from this country to East Africa would lose 62½% of his capital. This calculation presupposes the value of the Rupee to be 1/4d., the pre-War Rate, at which no longer exists. Such a calculation must be regarded as fallacy. Whatever the rate of the Rupee is, it has its counter value, and the value of commodities and property of any description are insured thereby.

In all countries where Silver is a basis of currency un-

supported by Gold Reserve, there exists an unsettled exchange, which is affected by a rise or a fall in the value of Silver. Could the price of this metal be universally stabilised, preferably in its relative value to Gold, fluctuations in exchange would travel in very narrow limits.

Imports into East Africa are at present greater than its exports. Probably in neither case has the importer or exporter sustained loss, excepting, perhaps, in a few instances which, if examined, may be found to be due to other causes than exchange. The exporters from this country to East Africa and others draw in sterling and are paid in that currency, the amount being remitted at the rate ruling on the date debts become due. If the rate for Rupees be high, the prices of commodities rise accordingly. It may be that East African importers do not readily respond to falling exchange, i.e. in falling prices of commodities, but rather take advantage of the rates, which means profiteering. If such is practised, and to such an extent as to be against the interest of the community, a remedy may be found in controlling prices locally, such as is being done in this country and elsewhere, basing the prices of imported commodities on an average rate of Rupee over a given period.

A real difficulty to be faced is the wastage of Silver Coin due to its enhanced value. The export of Silver or Silver Coin, if it has not already been done, should be prohibited and the melting of it declared a penal offence. Possibly the Government might consider

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Under Secretary of State, Colonial Office.

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The advisability of calling in Silver Coins and retaining same as a reserve against a new legal Note to be issued, of various denominations, to go down as 50 Cents, also introducing a coin of copper and nickel, to meet every day needs. The local Notes, in the meantime, to be legal tender but inconvertible so far as internal purposes are concerned for a specified time. Foreign adverse balances, however, to be settled by draft on London or India, to be issued by the Government at the request of the local Banks.

A further suggestion was made during the discussion on Friday that consideration be given to the introduction of a coin token of a relative value of 2s/- or ten to the £ sterling, the particular virtue of introducing such a suggestion being that its effect on the community in general would be less harmful than were the rate of the Rupee to be pegged down to 1/4d. I understand from this that the principle of a silver based coin may be approved by some and that the only difference would be that the token of a potential value of 2s/- would contain a little more silver but in the same ratio as that of the proposed token of 1/4d. I am not personally in sympathy with this idea. I should prefer the Rupee continuing to circulate until a sterling basis could be introduced.

I may remind you that in this country it is not at all unlikely that a change of token may be introduced within the next two or three years if the Decial System, which has been strongly recommended, is adopted.

In East Africa Rupees are still legally quoted at 15 to the £.

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As the Gold standard is no longer operative the Currency Order in Council 1905 Section 4 (1) and 13, may perhaps be amended in order to conform with existing conditions. I have recently seen an article by Mr Charles Bowling, which appeared in the Farmers Journal of the 23rd October last, that if a large number of sovereigns could be imported into the Protectorate, one could exchange them at the rate of 15 pence to the £. In other words, a remitter could obtain at the present Rupee value 33/9d., which is the equivalent of 15 Rupees at 2s. 1d. per Rupee. I mention this in order to emphasise the necessity of altering the Law. Gold may be purchased here and exchanged for Sovereigns at a premium of about 25%, so that unless the importation of Gold into East Africa is prohibited, excepting under Special licence and for a specific purpose, a danger exists. I presume safeguards have been taken in this respect in India.

In the article above referred to it is mentioned that it had already been decided in 1913 that the East African Protectorate should break away from the Indian currency system and adopt the £1 sterling as the standard coin of the Protectorate, mainly because the trade of the Protectorate was mostly with Great Britain. It is now proposed to bring this into effect as soon as possible, but, in the meantime, to introduce into the Protectorate, as already stated, an intermediate stage. I believe the introduction of a token having no relation to the value of Gold or to Silver would be disastrous to the Protectorate and would not benefit this country. It would also have a serious
affect/

Under Secretary of State, Colonial Office.

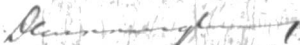
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effect on the Protectorate's trade with India.

It is suggested to adopt a Gold standard as in England, which standard, however, exists only in theory. The currency of Great Britain is at a heavy discount with a number of countries, whereas the Indian currency, on the other hand, is at a premium. I think, therefore, that until there is a real Gold standard in this country, it is inadvisable to think of making a change.

I am, Sir,

Your obedient Servant,


Manager.

The National Bank of South Africa Ltd.

REGISTERED IN THE TRANSVAAL
WITH WHICH ARE INCORPORATED THE BANK OF AFRICA LIMITED, THE NATAL BANK LIMITED AND
THE NATIONAL BANK OF THE ORANGE RIVER COLONY LIMITED.

CAPITAL AND RESERVES
£3,715,000

BRANCHES & AGENCIES IN

- CAPE PROVINCE
- NATAL
- ORANGE FREE STATE
- TRANSVAAL
- WESTERN CAPE PROVINCE
- WESTERN PROVINCE
- WEST AFRICA
- ENGLAND
- INDONESIA
- NEW YORK (CORRESPONDENT)

Courtesy Place, London Wall.

London, E.C.2.

CONFIDENTIAL.

2nd January, 1920.

The Under Secretary of State,
Colonial Office,
S.W.

With reference to my letter of the 16th ulto., upon re-reading my advices I note a typist's error in the following phrase on page 3: "If the rate for Rupees is high the prices of commodities rise accordingly". Will you kindly substitute for the word "rise" the word "fall". The phrase will therefore read: "If the rate for Rupees is high the prices of commodities fall accordingly".

I am, Sir,

Your obedient Servant,

Manager.