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National Bank
India Ltd.

1919
7th Dec.

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Currency

Submits further obs on C.O. 72272

See on M/72273

National Bank of India Limited
20, Bishopsgate, E.C. 2
London

17th December 1919

The Under Secretary of State
Colonial Office,

S.W. 1

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Sir,

At the close of the Meeting at the Colonial Office on 12th instant the Banks were invited to put into writing their views of the proposed Scheme for the reorganisation of the Currency of the British East Africa Protectorate, and we now beg to do so. We may be going over part of the ground dealt with in our letter of 15th inst which was written in order to clear up at once an apparent misconception. If so, the gravity of the outlook to us is our apology for any reiteration of our views.

The Banks contend that if the Scheme put before them were carried out there would probably be a run on their British East Africa branches and that certainly there would be large withdrawals of deposits in anticipation of the change coming into effect.

They claim that the full redemption of the present Silver Currency and Note Issue should be provided for before any new form of currency is adopted. Any Scheme which does not provide for such redemption and for a guarantee against all loss due to the change of Currency would amount to confiscation, and to irreparable damage to the

Banks. It may be advisable to point out that the British East Africa Branches of the National Bank of India, who are the Government Bankers and the pioneer Bank in the Protectorate, are not self-supporting, or in other words that their public deposits or working Capital are small in proportion to their advances to Settlers and others. They have therefore been obliged in order to assist in the development of the British East Africa Colony to borrow very largely from India. These borrowings for which they pay 5% interest are in the form of Rupee loans which must eventually be repaid to our Indian Branches. Any profit derived from lending at a higher rate is very moderate after taking into account establishment charges and the usual risks. It is essential that this should be made quite clear as the Acting Secretary of State for the Colonies seemed to be under the impression that this Bank in British East Africa reaped a great advantage by the rise in the value of the Rupee in regard to advances. Nothing is farther from the actual fact. This Bank's Capital is entirely in this Country. It derives no benefit whatever from the increased value of the Rupee in respect of its advances to Settlers.

To make this point clearer let us suppose that the National Bank of India Branches in British East Africa have borrowed from their Indian Branches 100 Lacs of Rupees, and lent that amount in British East Africa to Settlers and others on the security of land, produce &c. Unless the British East Africa Branches of this Bank call up these advances and pay off their borrowings from India before debased Rupees are substituted for those they have lent they will lose nearly half of the total amount of their advances. They cannot square

their obligations to their Indian Branches by tendering debased Rupees for the Indian Silver Rupees which they borrowed from India, and lent out in British East Africa. It seemed to us that this vital point had not received the serious consideration of the Colonial Office. It is however of superlative importance to this Bank.

We would take this opportunity of calling attention to the uneasiness created by an account published in "The Times" recently of a meeting at the Colonial Office where it was stated that a deputation of Settlers were led to expect some change in the British East Africa Currency to their benefit. If any such change is brought about it must not be at the expense of the Banks.

For some time past Settlers have been encouraged to deposit Securities in London against advances from the Banks in British East Africa by rumours of steps being imminent or under contemplation to fix the Rupee there at 1s.4d. Consequently they have endeavoured to obtain from the British East Africa Banks advances in Rupees of a value greatly exceeding 1s.4d, which they hoped to repay by the same number of debased Rupees later on. It would be well to allay this uneasiness by declaring that no change is possible meantime and it seems only reasonable to await the recommendations of the Indian Currency Committee recently appointed by Government to suggest means for the fixity or otherwise of Indian exchange before moving further in the matter.

Unless we are assured that this Bank will not suffer through the projected Scheme we shall be forced to call up existing advances to Settlers and to decline any fresh business of that nature. We see no alternative. The Banks in London will also find it necessary to cease to purchase drafts drawn in Rupees against goods shipped or consigned to British East Africa if there is any probability of such drafts being paid for by debased

Rupees. In short the uncertainty will paralyse exports from this country, just as it will naturally on the other hand induce exporters from British East Africa to refrain from shipping so long as there is a prospect of much lower exchange being had by postponing shipments.

As regards the advantages or disadvantages of the recent upward movements in the exchange value of the rupee it must not be forgotten that there are two sides to the question. The rise stimulates imports into British East Africa the Rupee having greater purchasing power, and it should benefit the consumer provided that profiteering, if any, is checked by the Protectorate Government, and due allowance is made at same time for the enhanced cost of production in manufacturing Countries.

Moreover the official and salaried classes in British East Africa derive advantage from the rise in exchange when remitting to other Countries, or for home and family requirements.

A debased Rupee would inevitably lead to a serious rise in the cost of living and of the wages of labour. The enhanced cost of cultivation would undoubtedly be very serious and would probably counteract any advantage the Settler expects from a lower exchange. In other Colonies where the Rupee is the current coin business is successfully conducted. In Ceylon prosperity has never been greater than during the past two or three years. Since the Rupee broke away from its 1s.4d level in August 1917, which was mainly due to this Country ceasing to be a free Gold market, there has been no abatement of the prosperity of Ceylon.

It should be borne in mind further that the recent great absorption of Silver by China cannot go on indefinitely, but must gradually cease: also that the rise in Silver must stimulate the

production of the metal, of which there are already said to be signs, in Mexico, and that it is hoped in due course to re-establish a free Gold market here.

There are other factors militating against Sisal exports from British East Africa, only one of which we need mention, and that is sea freight, which prior to the War cost 55s.3d per ton, touched 79s.6d during the War, and is still as high as 288s.9d. The rise in exchange should not be blamed entirely but it seems to be the sole objection of the Settler. As a matter of fact sisal growers are regretting the passing away of the fabulous prices obtained in this country during the War, and cannot reconcile themselves to the drop in the value of their produce. In pre-war times Sisal (c.i.f.) was sold in London at £25 per ton. During the War the price touched £99, and it is now approximately £53.

So far as we can gather British East Africa Cotton can be sold here at a very substantial profit to Lancashire notwithstanding the rise in exchange.

As regards landowners in British East Africa who have acquired their properties at any time prior to August 1917 on a 1s.4d Rupee basis they have reaped very considerable advantage by the rise in exchange. Even if they realised their property now and obtained only the actual amount of Rupees paid for it they would benefit considerably by selling and remitting home the sale proceeds, so that they can have little real grievance.

Intending Settlers are certainly at some disadvantage as compared with the earlier Settler, but have not the other exchanges produced the same varying results as regards property in America and in France owned by our Countrymen?

A mistake made by certain landowners in British East Africa was their advertising farms for sale, and encouraging people of very small means to emigrate by understating the amount of original Capital necessary to purchase and stock and work them. There will be complaints from such disappointed people and from certain landowners now desirous to part with their property not finding suitable buyers forthcoming owing to the rise in exchange temporarily prohibiting newcomers.

Have the mercantile Community been consulted, and our Indian fellow subjects in British East Africa regarding the suggested change? Are the Banks not the principal people concerned in any change or reorganisation of currency? Is it necessary to remind the Colonial Office that being previously established in Zanzibar we opened a Branch of the Bank at Mombasa to facilitate the construction of the Uganda Railway by Indian labour and thereafter as occasion arose established other Branches throughout the Protectorate to foster trade in the interior? This Bank has also been able to be of great use to Government in the finance of Military operations in British East Africa for some years, and its services have been acknowledged by the Authorities

We do not object to any reorganisation of the Currency of British East Africa on sound and just lines, but we cannot regard the plan which has so far been only imperfectly placed before us as tending towards solving the exchange difficulty or benefiting the Protectorate in the long run.

All the foreign exchanges have been upset by the recent Great War and their restoration cannot be achieved by a stroke of the pen or by Ordinance, but given a breathing period after such a general upheaval we hope that a safe way will be found out of all present

embarrassments. Sterling exchange itself has declined fully 25% in relation to American money and several Continental exchanges are adverse to us. French exchange has declined 66% in relation to Sterling, and so on. The Rupee could not escape appreciation in view of the prosperity of India, especially after London ceased to be a free Gold market and India was denied the Gold necessary to pay for her enormous preponderance of exports over imports.

A separate system at Zanzibar would complicate matters, business between Zanzibar and British East Africa being very intimate.

We trust that no precipitate action will be taken in the matter. If any change is made of the nature suggested at the meeting on the 12th instant we see nothing but most serious loss staring us in the face.

It is an open secret that the Indian Government in bespeaking the co-operation of the British Banks in India in its efforts to maintain the Rupee at 1s.4d gave them its guarantee against any adverse consequences. Such was their regard for the necessity of their doing nothing to weaken the Banks' financial standing but on the contrary of doing everything to enhance it in public estimation. It appears to us to be of equal importance that any action of the Colonial Office should not subject the Banks in British East Africa to loss or to the weakening of their prestige seeing that they are public Institutions without which no Colony could prosper, and seeing that they have all along been relying on the sufficiency of the existing laws and Ordinances to afford them security in the pursuit of their legitimate business.

I am, Sir,

Your obedient Servant,

H. W. Williams