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Office of the
India
1909
19 June
15894

Monetary Convention to Italy.

Recd copy letter addressed to the exchange
proposals of Italian from point of view of
the maintenance of the exchange value of the
Indian rupee. It being that matter will be referred to the
Treasury.

General Dept. to see - + the wait for
The Treasury Reply.

M.S. 21/6

at once
4.2.09

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Copy for 27 Oct 10 31820/10

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INDIA OFFICE,

WHITEHALL,

LONDON, S.W.

It is requested that in any further communication on this subject the under-mentioned letter and number may be quoted, and the reply addressed to

The Under Secretary of State for India,
India Office,

F. 2643.

Whitehall,
London, S.W.


19th June 1909.

Sir,

I am directed to acknowledge the receipt of Mr. Antrobus' letter No. 15894/09 dated the 17th June, and to enclose for the information of the Secretary of State for the Colonies a copy of a letter from the Office to the Foreign Office dated the 18th June, in which the views of the Secretary of State for India in Council on the proposed monetary Convention with the Italian Government are fully set forth.

I have the honour to be, Sir,

Your obedient Servant,


 Financial Secretary.

The Under Secretary of State,
Colonial Office.

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18 June 1900.

Sir,

I am directed to acknowledge the receipt of Mr. Langley's letter No. 17320/09, dated the 11th May, enclosing a copy of a note from the Italian Charge d'Affaires, in which it is stated that the Italian Government propose to substitute Italian rupees for the Maria Theresa dollars at present current in the Senadir Colony, and desire to conclude a monetary convention with His Majesty's Government on the basis of the reciprocal acceptance in the British and Italian possessions in East Africa and Arabia of the silver coins issued by the respective Governments.

2. It will be readily understood that, in dealing with this proposal, His Excellency is bound to consider primarily whether it is free from all risk of prejudicing the maintenance of the exchange value of the Indian rupee: and as at present advised he is not satisfied that this is the case.

3. The chief precautions indicated in the note

The Under Secretary of State,
Foreign Office.

of

of the Italian *Chargé d'Affaires* against a depreciation of the rupee currency of either State consist in the suggested provisions for limiting the issues and for the recovery by the contracting States of their own currency at fixed intervals; but these precautions do not appear to be sufficient to ensure that the proposed Italian rupee shall always remain at its par value. For this purpose it would be necessary not only to restrict the volume of the original issue within the limits of the estimated requirements of trade at the time of the issue, but also to provide for the expansion and contraction of the currency in accordance with subsequent fluctuations of trade demand. In the case of the Indian rupee current in East Africa this is secured by the fact that redundant rupees are worn off by the natural operations of trade in British India, while the demand for additional currency is normally met by the importation of coin from the same country. Further the exchange value of the whole volume of the Indian rupee currency is in the last resort supported by the Indian Government's Gold Standard Reserve.

There is no similar machinery for regulating the exchange value with foreign countries of the proposed Italian ruppe, and it is to be apprehended that it might at any time suffer depreciation, either through an initial over estimate of the requirements of trade in the colony or through subsequent fluctuations in the trade demand. In this event it is probable that the Indian ruppe would be similarly affected and that both coins would circulate at a reduced value in the areas covered by the convention, the probable result being that the place of the Indian ruppe would be taken in British possessions by the undervalued Italian coin, and Indian ruppees would be sent from East Africa to India. This would involve the possibility of an artificial depression of the currency in India. The mere recovery for starting of its own coin by the Italian Government after a stated period would be no sufficient remedy in the case assumed, if the coins so redeemed were immediately restored to circulation in the Italian Colony.

4. Viscount Morley, is therefore constrained to

conclude that the proposed monetary convention could only be made consistent with the general currency policy of the Government of India, if the Italian Government were prepared to include among its terms an undertaking that, in the event of a fall in the exchange value of the Italian rupee they will give sterling money on demand in exchange for the rupees issued by them and will keep the redeemed coins out of circulation until the restoration to par of their exchange value.

It is very doubtful whether the Italian Government would be prepared to accept this condition, and in any case there is a possibility that its enforcement might lead to considerable administrative difficulties, more especially since the responsibility for the maintenance of the exchange value of the Indian rupee rests, not with the authorities of British East Africa but with the Government of India.

5. In view of these considerations Viscount Morley is not, as at present advised, disposed to enter into negotiations with a view to formulating a

convention

convention of the kind suggested. But he will forward your letter to the Government of India and invite their opinion.

I have the honour to be, Sir,

Your obedient Servant,

W. A. GODLEY