

THE TIME VALUE OF MONEY

Why a Rupee Today Is Worth More Than a Rupee Tomorrow

By SubbuS, Retired Banker | July 2026

“Remember that time is money.”

— Benjamin Franklin, Advice to a Young Tradesman (1748)

Every one of us has, at some point, faced a simple choice: take the money now, or take a little more of it later. A maturing fixed deposit, a pension commutation option, a property buyer offering staggered payments — the dilemma is the same. The concept that helps us decide is one of the oldest and most useful ideas in all of finance: the **time value of money (TVM)**.

In over three decades of banking, I found that customers who understood this one idea consistently made better decisions — about deposits, loans, insurance and retirement — than those who did not. This article explains the concept in plain language, with current Indian interest rates and worked examples, so that you can put it to use in your own financial life.

1. What Is the Time Value of Money?

The time value of money is the principle that **a sum of money is worth more today than the identical sum received in the future**. This is not merely a preference for instant gratification — it is hard arithmetic, and it rests on three pillars:

- **Earning capacity:** money in hand can be put to work immediately. ₹1,00,000 in a bank fixed deposit today starts earning interest from day one; the same amount received a year later has lost a full year of earnings.
- **Inflation:** prices rise over time, so a rupee buys a little less every year. Money received later arrives with reduced purchasing power.
- **Uncertainty:** a promise of future payment always carries some risk of delay or default. Cash in hand carries none. “A bird in hand is worth two in the bush” is the folk version of this principle.

The core principle: a rupee today can be invested to become more than a rupee tomorrow. Equally, a rupee promised tomorrow is worth less than a rupee today. Every EMI, pension, bond and deposit in the financial world is priced on this single idea.

2. India Today: The Numbers That Drive TVM

Time value calculations are only as good as the rates you feed into them. Here is a verified snapshot of key Indian rates as of **early July 2026**:

Indicator	Rate (p.a.)	Remarks
RBI repo rate	5.25%	Held steady at June 2026 MPC; neutral stance
CPI inflation (May 2026)	3.93%	Fifth straight monthly rise; near RBI's 4% target
RBI inflation projection, FY2026-27	4.6%	RBI's CPI forecast for the current fiscal year
SBI fixed deposit (1 to <5 years)	6.25–6.30%	+0.50% for senior citizens
SBI fixed deposit (5 to 10 years)	6.05%	7.05% for senior citizens
Public Provident Fund (PPF)	7.1%	Jul–Sep 2026 quarter; tax-free
Senior Citizen Savings Scheme	8.2%	Highest among small savings schemes
National Savings Certificate	7.7%	5-year tenor

Sources: RBI Monetary Policy (June 2026); MoSPI CPI release for May 2026; SBI published deposit rates; Ministry of Finance small savings notification for Q2 FY2026-27.

Inflation: the silent thief

Of the three pillars, inflation is the one savers most often underestimate, because it never sends a debit alert. At the RBI's projected inflation of 4.6%, **₹1,00,000 kept idle will buy only about ₹63,800 worth of goods after 10 years, and roughly ₹32,500 worth after 25 years.** Prices, in other words, double roughly every 15–16 years even at moderate inflation. This is why “keeping money safe” in a locker or a low-interest account is, in real terms, a guaranteed slow loss.

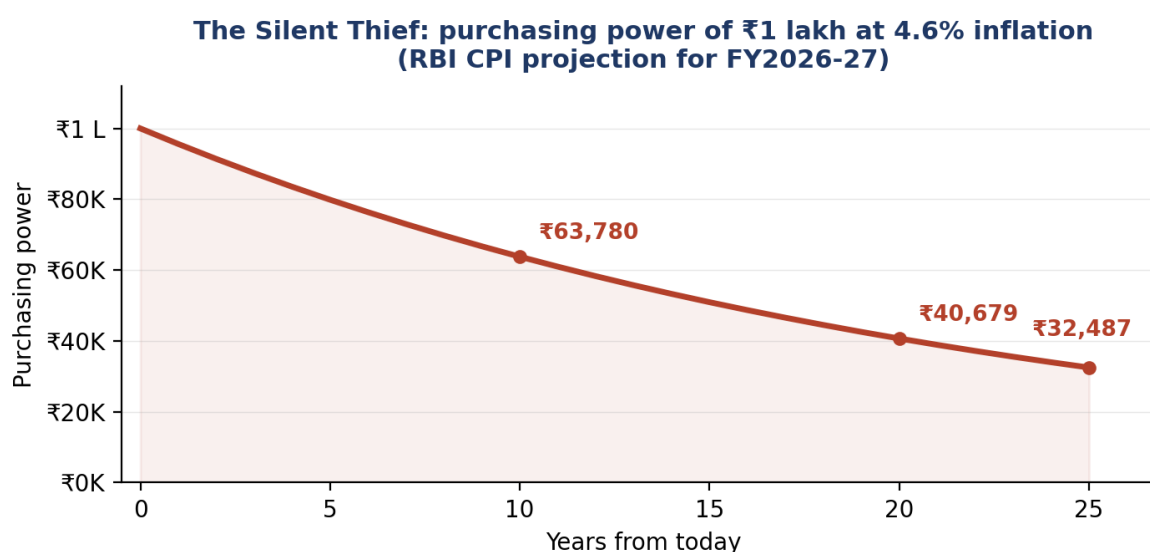


Figure 1: How inflation quietly erodes the purchasing power of ₹1 lakh (at RBI's 4.6% FY27 projection).

3. The Simple Arithmetic

Two small formulas do all the heavy lifting. You do not need to be a mathematician — every bank and every online calculator uses exactly these.

Future value: what today's money grows into

$$FV = PV \times (1 + r)^n$$

where PV is the amount today, r the annual interest rate, and n the number of years. **Example:** place ₹1,00,000 in a fixed deposit at 6.25% for 5 years (compounded annually for simplicity) and it grows to **about ₹1,35,400**. Banks actually compound deposits quarterly, which works slightly in your favour: at 6% p.a., ₹1,00,000 over 5 years becomes ₹1,33,823 with annual compounding but ₹1,34,686 with quarterly compounding.

Present value: what tomorrow's money is worth today

$$PV = FV \div (1 + r)^n$$

This is the same formula in reverse, called **discounting**. **Example:** if you need ₹1,00,000 for your child's school admission three years from now and can earn 6% p.a., you need to set aside only **₹83,962 today**. Discounting is how you should compare any offer of future money — an insurance payout in instalments, a deferred property payment — against cash now.

The Rule of 72 — a banker's shortcut: divide 72 by the interest rate to estimate how many years money takes to double. At PPF's 7.1%, money doubles in about 10 years. Used in reverse with inflation: at 4.6%, prices double — i.e., money halves — in about 15½ years.

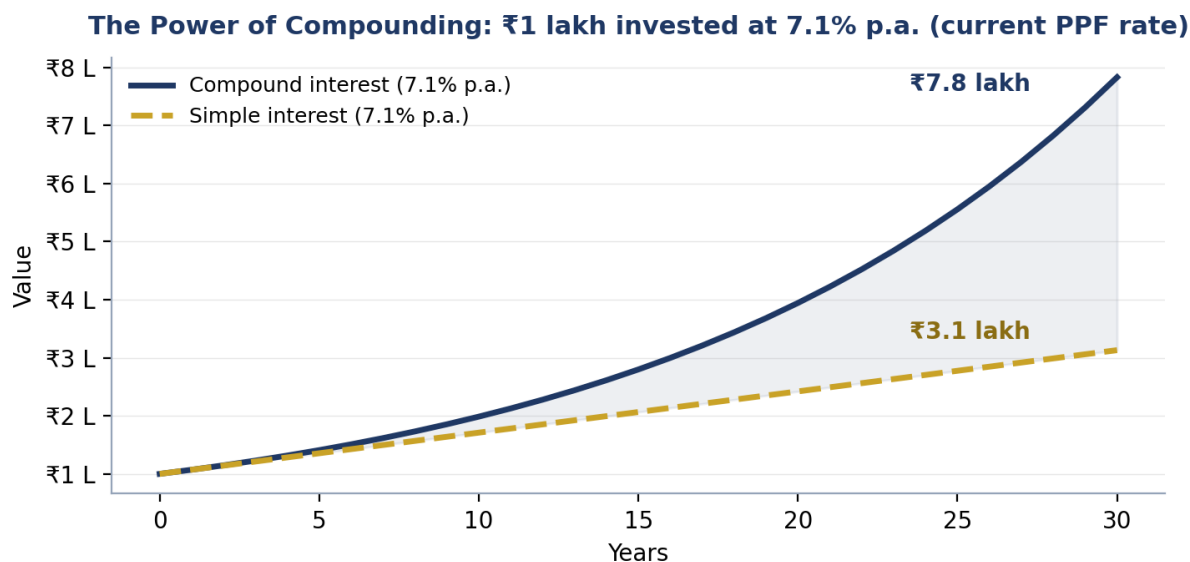


Figure 2: Compounding means interest earning interest — ₹1 lakh at 7.1% becomes ₹7.8 lakh in 30 years, versus ₹3.1 lakh on simple interest.

“Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it.”

— Popularly attributed to Albert Einstein (attribution unverified — but the arithmetic is sound!)

4. TVM in Everyday Life

Loans and EMIs: you are on the paying side

When you borrow, the time value of money works against you. Consider a ₹30 lakh home loan at 8% p.a. for 20 years. The EMI works out to about **₹25,093 per month** — but over 240 instalments you repay roughly **₹60.2 lakh: ₹30 lakh of principal and ₹30.2 lakh of interest.** The interest exceeds the amount you borrowed. This is also why even small prepayments early in a loan's life — when the outstanding balance is largest — save disproportionately large amounts of interest.

Investing: time matters more than timing

On the earning side, the same force works for you — and the earlier you start, the harder it works. Compare two friends who each invest ₹5,000 a month at a 10% annual return until age 60. The one who starts at 25 invests ₹21 lakh in all and retires with about **₹1.91 crore**. The one who starts at 35 invests ₹15 lakh and ends with about **₹67 lakh**. A ten-year delay cost nearly **₹1.24 crore** — far more than the ₹6 lakh of extra contributions.

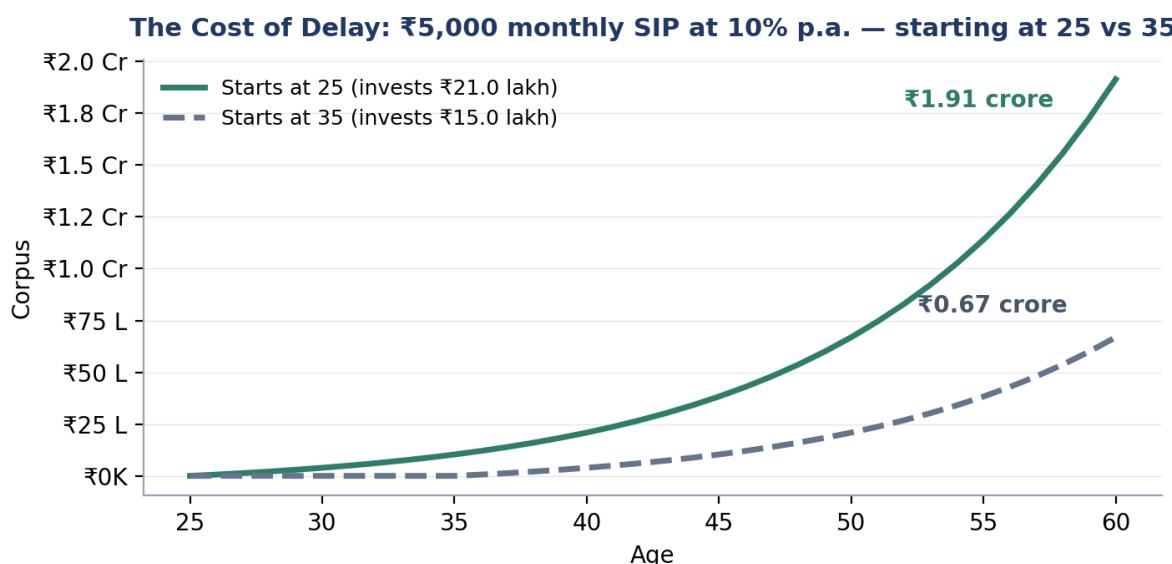


Figure 3: The cost of delay — starting a ₹5,000 monthly SIP at 25 instead of 35 nearly triples the retirement corpus. (10% p.a. assumed; market returns are not guaranteed.)

Real returns: always subtract inflation

A deposit rate that beats inflation grows your purchasing power; one that does not merely slows the shrinkage. At today's rates, a 1-year SBI FD at 6.25% against projected inflation of 4.6% yields a **real return of only about 1.6% p.a.** Senior citizens (6.75–7.05%) and small savings investors (PPF 7.1%, SCSS 8.2%) fare better. The lesson: judge every investment by its **real** (inflation-adjusted) return, not its headline rate.

“Someone's sitting in the shade today because someone planted a tree a long time ago.”

— Warren Buffett

5. Five Practical Lessons for the Everyday Saver

1. **Start early, even if small.** Time is the most powerful ingredient in compounding, and it cannot be bought back later. ₹5,000 a month from age 25 beats ₹10,000 a month from age 40.
2. **Never leave large sums idle.** Money in a locker or a basic savings account loses to inflation every single day. Sweep surplus funds into FDs, PPF or other instruments suited to your horizon.
3. **Compare everything in present-value terms.** Whether it is “₹10 lakh now or ₹12 lakh in five years,” discount the future amount at a realistic rate before choosing. At 6%, ₹12 lakh in five years is worth under ₹9 lakh today.
4. **Prepay expensive debt early.** Interest on loans compounds against you. Prepayments in the early years of a home loan save several times their amount in future interest.
5. **Chase real returns, not headline rates.** Subtract inflation (and tax) from every quoted rate. A “safe” 6% that nets 1.5% real growth may need supplementing with other suitable assets for long-term goals.

In a nutshell

Money has a time dimension. A rupee today is worth more than a rupee tomorrow; interest is the rent paid for time; inflation is the tax time levies on idle cash. Start early, stay invested, discount all future promises, and let compounding — the most patient force in finance — do the heavy lifting.

About the author

This article is prepared by SubbuS, a Retired Banker with vast experience in Banking and Personal Finance.

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