An attempt has been made in this thesis to survey the trends and progress of banking in India in the context of her swiftly changing economy. Apart from an introductory part consisting of two chapters - one dealing with the importance of monetary factors in economic development and the other with the nature and composition of the Indian money market - the whole work is divisible into three parts. One of these (Part II) surveys the impact of development efforts upon banking business, more precisely upon the structure of assets and liabilities of banks. Part III deals with changes in the attitudes and activities of the banking system, including both the Reserve Bank of India and the joint stock banks. Thus Chapter V provides an account of the transformation through which central banking is passing. Chapter VI and VII deal with the assistance that is being or may be rendered by banks to vital but credit scarce sectors of the economy, such as industry, or agriculture. Finally, Part IV, Chapter VIII analyses the organisational aspects of joint-stock banking in India - its structural defects, their causes and remedies.

This survey of Indian banking shows that the years of planned economic development have been years of hectic growth for Indian banking.
This period has witnessed more than a doubling of the total deposit resources and credit created by banks. Banks have undoubtedly been the most important source of external finance for the private sector. Yet their importance as financiers and to the public sector has not declined and they are now holding a much larger volume of Government securities than ever before. Their operations have expanded not only in volume but also in variety. They are granting newer types of loans and creating new clientele.

The transition of the Reserve Bank of India has been none the less remarkable. Not only has there been a broadening of its ordinary regulatory activities, but it is spanning new horizons as an agency for economic development. All these have raised the Reserve Bank to a position of much greater authority and prestige than it was enjoying before. An expansion of the public sector is, in itself bound to lead to greater reliance upon the Central Bank by the Government and thus to add to its importance. But this importance has been further enhanced by the new conception of central banking which has been taken up by the Reserve Bank of India.

To a large extent, banking development during the decades of economic growth has been moulded by the growing mass of banking legislation enacted during this period. To this has been added a greater degree of caution and vigilance on the part of the Reserve Bank of India.
The rapid strides made by the Indian banking system should not, however, lead us to overlook the fact that the growth has not been even or desirable in all respects. There are many loopholes yet to be fulfilled and many defects yet to be remedied.

(a) Economic development and Organised Banking Facilities.

Among other things, extension of organised banking facilities and the growth of the banking habit have not been commensurate with the increase in national income. Even after a decade and a half, large areas of the economy are still outside the scope of organised banking facilities of any type. This is more true of the rural areas, but even in urban areas, a large part of internal trade is still financed by unorganised financial agencies. To the extent that credit requirements are met by the unorganised sector, the financial mechanism embodies all the defects of an undeveloped banking system such as a rigid and sometimes exorbitant interest rate structure, inadequacy of credit facilities, insufficient control exercised by the Central Bank, etc.

(b) Joint Stock Banking and Economic Development.

The money and credit mechanism is expected to act as an important catalytic agent in drawing out resources from some directions and employing
them in others. Thus joint stock banks should mobilise resources which would otherwise remain idle or be frittered away in unproductive activities and channelise them to productive uses. But achievement has, at times, fallen short of this ideal. Even after a decade and a half of banking development, banking habit has not been instilled more extensively than before. Mobilisation of savings has not thus always kept pace with increases in income and money supply. Nor has credit extended always been of the desired type.

To some extent the disadvantages of inadequate mobilisation of resources have been offset by a larger rate of growth of time deposits than of demand deposits. But much of the growth of time deposits is actually statistical, a part of savings deposits being included among the time deposits and the time of distinction among demand, savings and time deposits is rather vague.

Moreover, it is being questioned now and then whether a larger rate of growth of time deposits is a desirable feature. An increase in time deposits adds to the expenditure of a bank because of the higher interest payments involved, while the volume of its earning assets remains the same. If higher interest rates mean a diversion of funds from non-bank to bank sources, it may be of advantage to the bank. If they simply mean a shift from demand to time deposits, banks
lose by the change. It is further argued that not only the banks, but the whole economy loses by the change. For, transactions velocity of time deposits is zero and, therefore, if an expansion of time deposits is not accompanied by an increase in the velocity of demand deposits sufficiently to compensate for this, aggregate demand would decline. It is, however, Chandler’s guess that a refusal by commercial banks to hold savings deposits would not lead to increased holding of demand deposits but to a shift of funds to other financial institutions.

He also feels to be in the public interest for banks to accept savings deposits since banks serve a much wider range of purposes than other financial institutions. Ultimately, much would depend upon first, whether the choice of the public is simply that between demand and time deposits or that between time deposits in a bank and a holding of assets of other financial institutions; secondly on the extent of credit expansion that banks are allowed to make in order to compensate them for an increase in costs on account of higher interest charges. In India, permissible limits of credit expansion are wide enough since the Reserve Bank is eager not to let any shortage of credit to hamper genuine productive activities. It is also encouraging recently an increase in interest rates to attract more deposits and the larger rise in time deposits is a response to the

1) (a) R.J. Pritchard - Profit or loss from time deposit Banking (pp 125-139)
(b) L.V. Chandler - should commercial Banks accept savings deposits
    (pp 147-154) in Money, Financial Institutions and the Economy
    Crutchfield, Henning and Pigott (Prentice - Hall Inc.)
to the increase in interest rates. But the policy of raising interest rates in order to encourage the expansion of deposits has important limitations.

(C) The Reserve Bank of India and Economic Development

The proper role of the Central Bank seems to be capable of infinite expansion in underdeveloped economies today. The Reserve Bank of India has been showing great adaptability and versatility as an instrument for assisting economic growth. It has been fostering the growth of institutions for industrial finance and agricultural credit through various types of assistance and share participation, if necessary. While the promotional activities of the Reserve Bank have been highly commendable, in some respects, however, the Reserve Bank's policy is characterised by hesitancy, indecision, and slow action.

Reserve Bank of India and Money Rates

The hesitancy and indecision of the Reserve Bank have been most clearly displayed in its attitude towards interest rates. Until very recently the Reserve Bank had been maintaining a comparatively low discount rate. Until 1963 the basic discount
rate had been low, although since 1960 the Bank had introduced higher slab rates for higher levels of borrowing. In its policy of maintaining low and stable rates the Bank was guided by the consideration of not affecting genuine productive requirements. Yet the situation had tended towards the inflationary since 1956-57. In an inflationary situation low interest rates may lead to an allocation of resources which is far from desirable. Among other things, it facilitates hoarding and speculation in essential commodities.

With regard to deposit rates again, until recently such rates were not looked upon with favour as a means of attracting deposits. The various Inter-Bank Agreements which had been concluded with the sanction of the Reserve Bank had definitely as their aim an ending of continuous tendency of deposit rates to rise. Yet recently the attitude of the Reserve Bank has veered round to encouraging higher rates. In September 1964 the Governor of Reserve Bank made it clear that banks should try to mobilise deposits by all possible means, including a rise in deposit rates. Deposit rates have been raised quite high now a days, but reliance on deposit rates as a means of attracting deposits is a device of doubtful utility.

Reserve Bank and Term-lending by Banks

With regard to term lending business by joint stock banks also the Reserve Bank's attitude has been a shifting one. Until 1962-63 the Bank's policy had been to induce commercial banks more
and more to take up this business. The Reserve Bank of India's Working Group on Processing and Appraisal of Applications for Term Loans held that in view of the prevailing inadequacy of industrial finance, the growing financial requirements during the Third Plan period and recent changes in theory and practices about bank lending in all countries, term lending to industry was a type of business which commercial banks might legitimately take up. Recently, however, the Bank has been feeling that too much of term lending business might be risky for a bank. According to the Annual Report on Trend and progress of Banking, 1964, Indian banks have reached the saturation point so far as such business is concerned.

**Licensing and supervision**

It is in its licensing and supervisory activities that the Reserve Bank has been subject to severest criticism. Legislation in this country has left no aspect of banking business uncovered by the authority of the Reserve Bank. Yet it is felt sometimes that the Reserve Bank has been unduly slow and hesitant in its action.

By the Banking companies Act, 1949, banks which were to do business in India must obtain a licence from the Reserve Bank of India. The Bank was to grant licence only if it was satisfied after inspection
that the business of the bank was not being conducted to the
detriment of the interest of the depositors. But the slow
progress in granting licences is highly unsatisfactory. Of
the total of 261 reporting banks at the end of 1963-64 (1) only
76 were licensed and applications of 75 banks for the grant of
licence were under consideration. The fact that there were still
110 banks working without a licence indicates an extremely
unsatisfactory state of affairs.

Law also gave the Reserve Bank wide powers of inspection,
supervision and regulation. If necessary, it can issue warnings
and take penal action against an erring bank. It can make arrangements
for amalgamation, merger or any other type of reconstruction and:
in the ultimate event, for liquidation of a bank. The Reserve Bank
started with all these powers in a context when much of the
undesirable banking growth of the war and post-war years had been
sped out. Yet throughout the fifties we see that eight or ten banks
have gone into liquidation. Even in 1964 twelve non-scheduled
banks went into voluntary liquidation every year. The Reserve Bank
has been accused of undue delay in taking action against an erring
bank. This was specially marked over the Patna Bank affair. In spite
of all its irregularities revealed since 1951, the bank was not only
allowed to do business, but actually to expand it. The Reserve

(1) Reserve Bank of India Bulletin, April 1965. All Banks Business in India, Table
Banks arrangement was that a precipitate order of liquidation would cause undue hardship to depositors. But the long period of waiting did not mend matters, rather it complicated them more. On the other hand, timely corrective action by the Reserve Bank has helped to restore many banks to a sound footing in recent years. It may be hoped that with increases in the experience and prestige of the Reserve Bank such corrective action will be more timely and adequate in future.