CHAPTER II

THE INDIAN MONEY MARKET

The two main financial centres in India are Bombay and Calcutta. They represent the characteristic credit institutions and financial relationships within the country. These being the most important centres of industry and trade, banking facilities are concentrated in these two cities. Both have developed stock exchanges and gilt-edged markets. Of the two the Calcutta market is older and has been the larger; but the importance of the Bombay money market has increased and is increasing considerably.

Various factors account for the growing importance of Bombay. First, the head offices of the principal financial institutions, including the Reserve Bank of India, the State Bank of India, many leading commercial banks, the Life Insurance Corporation of India, the Industrial Credit and Investment Corporation, the Refinance Corporation etc. are situated in Bombay; secondly, the Bombay market is much better organised. It is characterised by a larger supply of funds for genuine investment. Investors are more investment-conscious there. As a result, Bombay has the best-organised stock market and gilt-edged market in the country.
In contrast, a large volume of investments in the Calcutta market are either in government securities or in speculative transactions. Again, inspite of its small size, the indigenous organised bill market in Bombay has no parallel throughout the country. As the centres of the country's export and import trade respectively, both Calcutta and Bombay have quite developed bullion markets. Bombay is, however, growing in importance on account of the situational advantages of the Bombay port. The links between the organised and indigenous sectors are closer in Bombay. This, and a greater supply of funds account for a more rational interest rate structure there.

Neither of the two centres are, however, comparable in importance to the London and New York money markets from the point of view of the funds handled and of the degree of integration achieved.

**Nature of the Money Market.**

The Indian money market as a whole is marked by its motley pattern and loosely integrated character. Credit agencies in this country differ much in their origin, purpose and methods of business. The institutions providing banking facilities can be roughly divided into two categories: first, those carrying
on business in the way it is understood in Western countries; secondly, there are the credit agencies — purely indigenous in origin and carrying on their business according to traditional customs. These have been satisfying the credit needs of people over centuries. A predominant position is occupied in this category by the village money lenders. They are an indispensable part of the rural credit structure. There are also the indigenous bankers (also known as shriffs, Kothiwals or chettis) who, in addition to money-lending perform the functions of receiving deposits and/or dealing in hundis. The indigenous bankers finance both trade and industry, but more particularly trade. Their business is often hereditary and confined to a few communities such as Multanis, Jains, Marwaris, Chettis etc. The money lenders and the indigenous bankers together finance the bulk of agriculture and internal trade. Their simple and informal methods of business, easy accessibility, flexible lending policies, special facilities offered to and closer personal contacts with their customers make them formidable competitors to the organised section of the money market. Due to their antiquated methods of business and adequacy of their own capital, they are virtually independent of the Reserve Bank's control.

There is thus a dichotomy between the central money market and a "bazaar money market." The importance of the organised

joint stock banks in the Indian money market is rather limited. Connection between the westernised and indigenous sectors is loose and imperfect. Closer links between the two and an extension of the scope of activities of the organised sector are vitally necessary if the monetary and credit institutions are to serve as the vehicles of an accepted economic policy.

With an expansion in the range of activities of cooperative and commercial banks, the relative importance of the indigenous banking sector has been gradually declining. According to the Central Banking Enquiry Committee the unorganised sector financed more than 90% of the total internal trade in India in the thirties. Compared to this, according to Mr. Iengar, former Governor of the Reserve Bank of India, they financed about 55% of the total internal trade in the fifties. Inspite of some encroachment upon their domain by the commercial banks, the indigenous bankers undoubtedly still finance a substantial part of India's internal trade. The exact date of their operations cannot be determined due to the non-availability of statistics. However, information supplied to the Shroff Committee by the Bombay Shroffs Association showed that the annual turnover of the members of that Association alone could be placed at around Rs. 100 crores. The annual turnover of another class of indigenous banks, viz. the multani shroffs has been estimated at Rs. 150 crores, covering about 4 lacs of borrowers. (1)

Indigenous bankers, as distinct from money lenders, are a useful part of the country’s banking mechanism, while their operations are free from unnecessary rigidities and delays, their high standards of efficiency and business honesty secure people’s confidence in them. They have established several associations in recent times, such as the Multani and Shikarpuri Bankers’ Association in Bombay, Shroffs’ Association in Bombay, Ahmedabad and Calcutta, the Marwari Chamber of Commerce etc. The indigenous bankers play a part of undeniable importance in financing small businessmen and retail traders in rural and semi-urban areas. They thus fulfil the credit needs of a class of people to whom approach to organised institutional agencies is very difficult.

Some indigenous bankers provide the only connecting link between the Westernised and indigenous sections of the money-market in as much as they obtain cash credit and discounting facilities from the bigger joint stock banks, including the State Bank of India. Such borrowing is, however, insignificant and irregular as the indigenous bankers prefer to rely upon their own funds or upon borrowings among themselves. The rate of interest charged by joint stock banks and the rigidities insisted upon by them are felt to be too prohibitive for the indigenous banks.

In the interest of better integration of the Indian money market, what is essential is not that the indigenous bankers...
should lose their special character and follow the methods of business of the commercial banks, but that indigenous banks and joint stock banks should come closer to each other. Because most of the indigenous banks combine non-banking with banking functions, it is not possible for the Reserve Bank to provide them direct accommodation. Nor would it be possible for the indigenous bankers to give up their non-banking business. Provision of more liberal lending or rediscounting facilities by joint stock banks to indigenous banks is therefore an essential step. For this purpose some suggestions are that Multani hundis should be regarded as part of a bank's liquid assets under section 24 of the Banking Companies Act or that the amount of Multani hundis discounted by commercial banks should be exempted from the purview of the Reserve Bank's directives restricting clean advances. (1) While for most indigenous bankers banking business is inseparably connected with trading and other activities, the Nattukottai Chettis of Madras and Multani Shroffs of Bombay are important exceptions. They confine their business only to banking.

Even within the organised sector, there is some lack of cohesion. Until 1935, there was no central authority in the money market. The Imperial Bank of India served as Government's

bank and bankers' bank. But it did not have powers of credit control and it could never exercise a unifying influence because of the sense of rivalry among other banks. The Reserve Bank of India Act, 1934 and the Indian Banking Companies Act, 1949 have brought about a considerable extent of integration. Still the control of the Reserve Bank over the organised financial institutions is not complete. Until recently, the Indian banks worked with a high and fluctuating cash reserve ratio which hampered the successful implementation of the quantitative measures of credit control. So, the Reserve Bank of India is making experiments with selective control in recent years.

The organised section of Indian banking has failed to imbibe that attitude of close coordination with the Central Bank which characterises the London or New York money markets. Originally transplanted from foreign soil, organised banking had to work in an absolutely unfamiliar milieu; one part of it is of comparatively recent growth and although of native origin, it is replica of its foreign model, without a background of traditions and rules absolutely its own. This section of the money market has not, therefore, been able to forge strong links with the older indigenous section which is more deeply embedded in the soil.

The organised joint stock banks' working is further complicated by a lack of co-operation and feeling of competition
among themselves. The banks differ too much in size and range of operations. As a result, deposit rates have been looked upon as an allurement to depositors and they have varied according to the size of bank, the area and nature of its operations. Deposit rates and the banks' lending rates thus have not that close connection with Bank Rate which is to be found in England. The commercial banks form a highly heterogeneous group, with the Reserve Bank exercising different degrees of control over them. Since October, 1958, the joint stock banks are evincing a consciousness of the need to fix deposits rates by joint action and have done so voluntarily. The rates are, however, still different for different classes of banks.

Among scheduled banks, the exchange banks have been largely independent of the Reserve Bank's control in the past due to the vastness of their resources and connections with foreign financial centres. But as they are doing deposit banking quite seriously now-a-days and their connection with foreign money markets is becoming looser, the Reserve Bank's control over them is following.

The imperfectly integrated character of the Indian money market is evident not only from the cleavage between the central money market and the bazaar money market, but also from differences in the structure of interest rates prevailing in the two major financial centres, viz., Bombay and Calcutta (both in
the organised and unorganised sectors). For the major scheduled banks, differences in rates for the same type of business are not very large and the differences can be accounted for by the cost of transfer of funds and the varying degree of risk attached to business. In the case of the smaller banks and the bazaar section of the money market, however, local factors are more important and these account for significant differences in rates.

In a highly developed money market funds should flow to centres where money rates are higher. But in India, call money rates appear to be lower in the Calcutta market than in the Bombay market and vice versa for advance rates.

The lower call money rates in Calcutta may be accounted for by the fact that the published rates in Calcutta are those quoted by the exchange banks who, by agreement, quote a lower rate. Actually, member banks may borrow at higher rates from banks outside the Association. In Bombay, on the other hand, rates are fixed by the free forces of the market.

More significant are the differences in rates on advances. The differences are particularly marked for the bazaar rates. They owe their origin to different supply and demand conditions in the two markets. In Bombay the supply of funds is more abundant than demand while in Calcutta the force of demand exercises the greater
influence. The head offices of many of the major financial
institutions are situated in Bombay. This and the greater
marketability of government securities (which adds to the
liquidity of financial institutions) account for an easier
supply of funds in the Bombay market. In Calcutta the pressure
of demand is greater due to the presence of a wider network of
trade and industry. More important is the fact of a smaller
supply of funds because the Bengalee investor is more interested
in government securities and landed estate than in business; the
lower standards of business morality also account for a smaller
supply of funds to business. Secondly, the link between the organised
and unorganised markets is weaker in Calcutta so that the flow of
funds from the former to the latter is restricted.

To a large extent the imperfect contact among different
parts of the money market is compensated by the activities of the
stock brokers. They are very important borrowers in the important
financial centres and are responsible for the orderly working of the
market. They provide specialist service to financial institutions
and keep market trends healthy.

THE BILL MARKET IN INDIA:

Apart from its disintegrated character, the Indian money
market is characterised by the absence of a bill market and the highly
seasonal character of many financial operations. Absence of a bill market similar to the discount market in London is usually pointed out as a sign of underdevelopment of the Indian money-market. Lack of a bill market is not necessarily a sign of underdevelopment. What is important is a system of organised relationships and a specialisation of function. "By such criteria, it may well be claimed that in certain respects the main Indian money markets are more highly developed than those in existence in all but the most mature financial centres. It would seem more appropriate, therefore, to seek the weakness of the money market organisation in the looseness of its arrangements and the lack of integration rather than in the presence or absence of this or that form of activity." (1) The loosely integrated character of the Indian money market is, however, closely connected with the development of a bill market. For, the only type of bill in which there is some semblance of a market is the multani hundi. It is through the use of the multani hundi that different parts of the money market come into contact with each other.

A developed bill market is important both because it provides commercial banks with a very liquid asset and because it helps the central bank to make its open market operations effective.

The bill market is rather underdeveloped in India. Banks prefer lending in the form of cash credits and overdrafts to lending through bills. (1)

The types of bills to be found in India are the multani hundis, other inland trade bills, agricultural bills, Treasury bills and foreign trade bills. Of these, only the first and the last are of any consequence. Apart from multani hundis, inland trade is largely financed by indigenous bankers or by joint stock banks directly without the intervention of trade bills. A proper market in agricultural bills has never grown up because agricultural credit is the least institutionalised of all finances. Most of the agricultural requirements are financed directly by money lenders and indigenous bankers. Treasury bills are issued usually for three months, to meet the supplementary finance requirements of the Government. They are rediscountable with the Reserve Bank and have served as an excellent opening for the investment of the slack season surplus funds of banks. But the tenders are mostly confined to a few big banks among whom the Imperial Bank predominates. In the absence of any substantial purchaser outside banks, the Government has mainly to depend upon a few big banks. Commercial banks as a whole take up 90 - 95% of the bills sold through tender or through tap. Thus, properly speaking, there is no Treasury bill market in India.

Genuine trade bills arise in connection with the country's foreign trade and they are readily discounted by the Exchange Banks. But further buying and selling in them is not customary. They are either kept in the banks' portfolio till maturity, or are rediscounted in London, in the case of export bills.

The multani hundi is a usance promissory note (or muddati hundi) payable after a certain date (generally 90 days) and drawn in favour of a multani shroff who lends money against it. It is drawn by a small trader, manufacturer or shopkeeper who is the borrower. The borrower and the lending shroff are brought together by the hundi broker. If, after inquiry, the shroff is satisfied about the creditworthiness of the borrower, he accepts the hundi. The multani banker may endorse the hundi and discount it with a scheduled bank upto agreed limits. Thus, the discounting shroff acts as an intermediary between the joint stock bankers and the small borrower, about whose creditworthiness the joint stock bank knows nothing. These bills are more in the nature of accommodation bills than genuine trade bills because they are usually not drawn against value received. But the endorsement of the multani shroff acts as the guarantee against it. The standard of honesty of the multani community lends it an extent of liquidity as good as that of genuine commercial paper. Thus, the shroffs act as the most important link between the different parts of the money market.
In India loans granted in the form of cash credit and overdraft are more important than bills discounted. The latter represent about 3 to 4% of the total accommodation granted by banks. Only four or five big scheduled banks discount the true or usance hundi. The largest number is discounted by the Imperial Bank of India. Next in importance are the Bank of India and the Central Bank of India. A small residue is handled by the Bank of Baroda and the Hyderabad state Bank. Most of the other banks deal in the demand or darshani hundi, which is more in the nature of an advance than a bill of exchange.

The total volume of bills handled, therefore, is very small. Secondly, although the buying and selling of these is a highly specialised business, there is no market in them, properly speaking. Once bought, the banks either hold them on until maturity or, in the case of foreign bills, rediscount them at the London money market. The rediscounting facilities of the Reserve Bank of India are used only as last resort accommodation.

The absence of a bill market and the seasonal character of financial operations have been responsible for credit stringency in the busy season. To impart the necessary degree of elasticity the Reserve Bank of India took up the Bill Market Scheme in 1952. It encouraged the scheduled banks, under the grant of some concessional
facilities, to borrow from the Reserve Bank against the usance promissory notes of their customers, a part of the demand promissory notes of the banks' customers being converted into usance promissory notes (i.e., time bills) for that purpose. The scheme failed to create a genuine bill market in India. It encouraged scheduled banks to lend against time bills, but it did not create a market for such paper. These papers tended to lie with the Reserve Bank once they were taken up by it. It was an artificial instrument, not a genuine trade bill. It did not link the joint stock bank, the indigenous banks and the small tradesman or producer in the same way as the multani hundi did. So, it failed to bring about any amount of cohesion in the money market.

Therefore, one possible way of securing an integrated market is an increased use of the multani hundi. It will link all the different parts of the money market and although it is not always a bill drawn against value received, such bills have never been dishonoured in the past. Unfortunately, credit limits granted by scheduled banks to multani bankers against this type of paper have declined instead of increasing, in recent years. This is due to the weakening of the financial foundations of the community with partition and claims made by the Hindu joint family system and secondly, due to a deterioration in the ethical standards among the newer entrants to the business. Wilson hopes for a revival of this type of business. The hundi itself remains a
highly important means of financing the internal trade of the country and given a return to the high standards of business ethics that formerly obtained and acceptance of the hundi (supported ex by the indorsement of a scheduled bank) as eligible for rediscount at the Reserve Bank, this would be an appropriate means of establishing a true bill market in India based on a credit instrument that is adopted to the needs of the local environment. " (1)

As early as May, 1937, the Reserve Bank tried to create closer links with the indigenous bankers by giving them direct loan and rediscount facilities against Government Securities and remittance facilities. A draft scheme was formulated for this purpose. But all these were conditional, subject to the indigenous banks' giving up their non-banking business, maintaining proper books of account for inspection by the Reserve Bank and periodic filing of statements. The indigenous bankers preferred to continue the existing arrangements under which they would obtain accommodation from the Imperial Bank and other scheduled banks. The offer still stands open.

The Shroff Committee also recommended direct linking between indigenous bankers and the Reserve Bank, and pending such direct linking, rediscounting of usance bills of indigenous bankers through organised banks. (2)


As the indigenous bankers render a distinct type of service characterised by efficiency and flexibility at the same time, it is doubtful whether much would be gained by enforcing upon them the rigid and formalised modus operandi of commercial banks. It would therefore, be more useful to encourage commercial banks to form closer connections with them than to prepare the indigenous banks for direct access to the Reserve Bank of India.

**JOINT STOCK BANKS IN INDIA.**

Organised banking in India consists of several types of units. At the open of the whole banking structure is the Reserve Bank of India. Foremost among joint stock banks is the State Bank of India. It is the biggest bank, with a long history behind it. It has its origin in the Imperial Bank of India which was itself a result of the amalgamation of the Presidency Banks of Bengal, Bombay and Madras. It was originally intended to be a Central Bank, but from the beginning it combined central banking with commercial banking functions. In June 1955, the Imperial Bank was nationalised by the State Bank of India Act and the State Bank of India came into existence. The aim was to extend credit facilities
to the rural areas through the branches of the State Bank. At the same time it continued acting as an agent of the Reserve Bank of India in places where the latter did not have a branch.

The major part of the organised banking sector consists of the Indian joint-stock banks. These are of Indian ownership and management, carrying on ordinary commercial banking functions. Many of them are highly organised and have been formed in the pattern of British commercial banking.

The list of commercial banks also includes certain banks incorporated abroad. These are the foreign exchange banks so-called because they deal mainly in foreign exchange and finance foreign trade. In recent years these banks are emerging as keen competitors of the Indian commercial banks in the field of internal finance. They are attracting large volumes of deposits and they grant advances quite apart from the needs of foreign trade.

All joint stock banks, including the exchange banks, are divided into two categories. Banks with total paid-up capital and reserves of Rs. 5 lakhs and over are included in the second schedule of the Reserve Bank of India. They are known as scheduled banks. They have to maintain fixed percentages of their deposits as reserves with the Reserve Bank of India. Banks with paid-up capital and reserves of less than Rs. 5 lakhs are non-scheduled.
All the bigger banks, including the state Bank of India and the foreign banks are scheduled banks. Non-scheduled banks although more numerous than scheduled banks, actually perform an insignificant part of the total banking business. Inclusion in the second schedule of the Reserve Bank is not simply a question of adequate capital and reserves. It is also necessary that the Reserve Bank should, after thorough inquiry, be satisfied that the bank is conducting its business in a proper manner.

Apart from the state Bank of India, Indian joint stock banking comprises of a variety of units, ranging from very big concerns like the Central Bank of India or the Punjab National Bank, their network of branches spreading over the whole country to petty institutions hardly worth the name of a bank.

Of the scheduled bank there are eight, which command the largest volume of deposits. They have their branches spread widely over the country. These are, in order of importance, the state Bank of India, the Central Bank of India, the Punjab National Bank, the Bank of India, the United Commercial Bank, the Bank of Baroda, the United Bank of India, the Allahabad Bank and the Indian Bank. The Allahabad Bank is not Indian in management and control. It is affiliated to the Chartered Bank of India, Australia and China.
The "Big Eight" are not, however, comparable to the "Big Five" in England from the point of view of their control over the banking business of the country. The importance of small banks is no less in the Indian economy than that of big banks. Indeed, commercial banking in India is neither of the American nor of the British variety. Here the bigger scheduled banks have quite a number of branches, but these do not serve local needs all over the country. Various small banks set up in different parts of the country are of equal significance as the big banks.

A notable characteristic of commercial banking in India is a topsided distribution of branches. In some big cities like Calcutta, Bombay, Madras, Nagpur etc. there is overconcentration of branches and keen rivalry for business among all banks. On the other hand there are many small towns - not to speak of rural areas which have no banking facilities. The rural areas have been major victims of the unbalanced banking development. As a result the village people are left at the mercy of money-lenders with their exorbitant rates of interest and other unfair practices.

Unequal competition with foreign exchange banks has made it very difficult for Indian banks to enter foreign exchange business. The former enjoy an advantage over the Indian joint-stock banks on account of their strong capital and reserves structure.
long-standing reputation and the consequent public confidence enjoyed by them. In recent years foreign banks are taking over even the financing of internal trade. An outcome of this sort of combination is that for some time past, both Indian joint-stock banks and the foreign banks have been offering expressively high rates of interest in order to attract deposits. This practice often proves uneconomic, particularly for the smaller banks. In view of the great liquidity, safety and profitability of foreign exchange business, the inability of Indian banks to handle this type of business is a great handicap to the development of Indian banking. It has reduced the income of Indian banks and also caused much inconvenience to Indians engaged foreign trade. Indian banks have recently started dealing in foreign bills. But their progress in this field is very slow.

One standing drawback of Indian banking is the frequency of bank failures which undermines peoples' faith in banking. Lack of sufficient caution in policy regarding loans and advances, weak capital and reserves position, inefficiency and lack of integrity of bank management have been contributory factors. The condition of small banks is particularly unsatisfactory. Bank failures take place in spite of the wide statutory powers of control and supervision of the Reserve Bank of India and detailed legal arrangements made to ensure proper working of banks. The Indian Banking Companies Act, 1949.
and later amendments sought to remove many of the inherent weaknesses of the banking mechanism. But this is not a matter of legislative enactment only. There should be conscious effort on the part of banks.

Operating techniques of banks are rigid. The formalities imposed by them are unintelligible to uneducated and half-educated people. In contrast, the simplicity and flexibility of the indigenous bankers' mode of working form a very great attraction for them. On the one hand, bank officials lack that close personal contact with their customers that is possessed by the indigenous bankers. On the other, they do not have technical staff sufficiently trained in modern methods of business. The use of the English language in pass-books, cheque books and pay-in-slips creates considerable difficulty for most of the people. On account of this, the Rupee Banking Enquiry Committee recommended that banks should try to introduce the regional language in pass-books, cheque-books et al.

Joint-stock banks in India have mainly followed the British tradition of deposit banking. They deal mostly in short-term funds for trade and commerce. Whatever finance they provide to industry has usually taken the form of working capital. The results of long-term bank financing of industry have, almost always proved disastrous. Neither is the volume of bank advances to
foreign trade or agriculture a mentionable one. In recent years, however, there has been a large increase in the importance of advances to industry and a decline in the importance of advances to commerce.

Lending policy is also rigid in that bulk of the advances are secured. Unsecured advances against properly appraised personal credit of borrowers are lacking. Thus, that close personal contact between the banker and customer, which is the basis of a flexible lending policy, is absent here. This is partly due to the absence of reliable commercial agencies supplying necessary information and partly due to the fact that customers are often unwilling to supply full information about their resources position or working. At the same time it is a fact that unsound advances have often been responsible for the failure of banks in the country. The fact that advances are secured does not guarantee their soundness. In the absence of a properly developed bill marked in India, lending done by loans, cash credits and overdrafts is also more important than bills discounted. As a result, banks lack a very liquid short-term asset.

As regards the second most important item in the assets structure, viz. investments, the policy is much the same as in other countries, the bulk of the investments being in Government securities.
An important organisational lacuna in the Indian moneymarket is the absence of a spirit of cooperation among bankers for the pooling and exchange of information. Indian joint stock banks often are not in a position to maintain technical staff with expert knowledge about problems of credit appraisal. Nor are there technical agencies equivalent to those to be found in other countries. There is no country-wide association of bankers worth the name. The existing Indian Banks Association is loose and rather ineffective. There is a separate organisation of the exchange banks. The foreign experts associated with the Indian Central Banking Enquiry Committee and the Central Committee itself were in favour of an All India Bankers' Association. Agreement about such an association, however, is difficult to achieve because of the heterogeneity of the Indian money market and more particularly, of the rivalry between Indian banks and exchange banks. The major Indian scheduled banks should take an initiative in the matter and press for the establishment of such an organisation.

Joint stock banking in India, as it stands today, has a long history behind it, beginning towards the middle of the nineteenth century. It has passed through different periods of good and bad fortune. On the whole it may be said that the decades of the forties and fifties have been those of steady growth.
for the banking system in India inspite of some undesirable happenings now and then. The impetus to this growth has been provided first by the Second World War and then by the efforts at rapid economic development.

The problem of banking development in the future has two dimensions: first, the expansion of banking and credit facilities all throughout the country; secondly, ensuring of sound banking principles.

In very recent years, Indian joint stock banks are showing a greater awareness of the needs of the economy. They are trying to adjust themselves to the process of development planning. But there are still vast masses in the country who have no connection at all with the banks. Secondly the use of bank deposits as a means of exchange is still very thinly spread. Bank money, even now, constitutes less than half of the total volume of money in circulation. As the economy goes on developing, alternative financial institutions will come to provide an increasing challenge to the banking system over and above the competition offered by the indigenous banking institutions.
Besides the Bill Market, the other important submarket in India is the Call Money Market. In U.K. call money means loans to the discount houses. In U.S.A. it means loans to the stock exchanges. In India, the call money market is restricted almost entirely to dealings between banks, though other institutions and even individuals sometimes come in the market. In the main financial centres, the call money market is quite developed. The exchange banks are the most important borrowers of such funds, both because of the nature of their business and also because they work with lower cash reserves. The importance of the call money market has increased with the establishment of the Reserve Bank as the scheduled banks must show a minimum cash reserve ratio. The banks practise considerable window-dressing too. But as many of the financial operations are seasonal in character, all banks may be similarly affected at the same time. The call money market cannot fully satisfy such requirements. So, call money is used to tide over purely temporary stringencies in the cash position.