CHAPTER VII.

RESERVES, ADVANCES AND CONTROL ON ADVANCES.
In the preceding chapter, we have discussed the liabilities side of the banks. There have also been important developments in the assets of the Indian banks in the postwar years. In this chapter we shall confine our discussion to reserves and advances only. We shall discuss reserves, advances and control on advances in part I, part II, and part III respectively.

**PART I**

**BANK PORTFOLIO PROBLEMS IN AN UNDER-DEVELOPED COUNTRY:**

The importance of a bank does not depend only on the size of its resources, but also upon the distribution of its assets. The distribution of money among different assets is the main problem facing bank management. With due regard to liquidity, assets are distributed in such a manner as to yield maximum profits. In an advanced country, there are varied types of assets and the bank management is faced mainly with the problem of making a selection out of these assets. In the under-developed country, however, there are other problems too. Scarcity of different kinds of assets, with varying risks and maturities, compels banks, in these countries, to transact business with rigidity—leaving money idle at times with the consequent loss of earning capacity. As will be discussed subsequently, there is the gap of secondary reserves. This makes bankers overcautious, as a result of which primary reserves (completely idle balances) are maintained in high proportions. Then there is the scarcity of credit worthy borrowers, which, in turn, compels banks to grant secured loans mainly. In secured
loans also, banks have to maintain high margins due to the great fluctuations in prices and lack of facility for storage. All these difficulties restrict bank business, with the result that the banks in under-developed countries become inflexible.

**HIGH RATIO OF PRIMARY RESERVES:—**

It may be contended that the primary reserves are the first line of defence of the banks. As all deposits are withdrawable, banks are, therefore, required to maintain some amount to meet current withdrawals. The size of these primary reserves is governed by many factors, such as the size of secondary reserves, habits of withdrawals, nature of accounts (distribution of deposits between demand, time and savings deposits), the number of deposits and the extent of the use of credit money as a medium of exchange.

In view of these considerations, the banks in an under-developed country, have to maintain high proportions of primary reserves to deposits. In the first place, the gap of secondary reserves compels the banks to be overcautious, because in case of depletion of cash in hand, funds cannot be made available to them easily. In the second place, the high potentiality of redemption (conversion of credit money into cash) and more use of currency than credit money as a medium of exchange, explain the reason for maintaining high ratios of primary reserves. However, the increased appropriation by time and savings deposits relative to demand deposits in recent years has helped the banks in reducing the ratio of primary reserves. Partly, the reduction of this ratio is also
the result of the growing rise of use of credit money as a medium of exchange in recent years. This is clear from table below-

<table>
<thead>
<tr>
<th>Year</th>
<th>Indian scheduled Banks</th>
<th>Foreign Banks</th>
<th>Non-scheduled Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>9.6</td>
<td>9.5</td>
<td>9.6</td>
</tr>
<tr>
<td>1955-56</td>
<td>8.4</td>
<td>6.8</td>
<td>6.9</td>
</tr>
<tr>
<td>1960-61</td>
<td>6.8</td>
<td>5.6</td>
<td>7.5</td>
</tr>
<tr>
<td>1961-62</td>
<td>6.5</td>
<td>5.8</td>
<td>7.9</td>
</tr>
<tr>
<td>1962-63</td>
<td>6.3</td>
<td>5.3</td>
<td>6.3</td>
</tr>
<tr>
<td>1963-64</td>
<td>6.8</td>
<td>4.3</td>
<td>6.9</td>
</tr>
<tr>
<td>1964-65</td>
<td>6.5</td>
<td>4.6</td>
<td>6.6</td>
</tr>
<tr>
<td>1965-66</td>
<td>5.9</td>
<td>4.7</td>
<td>6.8</td>
</tr>
<tr>
<td>1966-67</td>
<td>6.6</td>
<td>4.4</td>
<td>8.6</td>
</tr>
<tr>
<td>1967-68</td>
<td>5.9</td>
<td>4.7</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Source: 1) Reserve Bank of India Bulletin, September 1960, (Table 7, 8 and 9).

The table does not represent the whole amount of primary reserves. It excludes balances with the state bank (which is the agent of the Reserve Bank), demand deposits maintained with other banks and cash items (mainly cheques) in the process of collection. Together with these amounts, the ratio of primary reserves to deposits would naturally be still higher.

Primary reserves have also been large in the United States. The ratio of cash balances (cash in vault, legal reserves, balances with domestic banks, balances with foreign banks and cash items in the process of collection) to deposits was as high as 24.4% at the end of 1955. But, this had been necessitated by different factors, for instance, high legal reserve requirements, the larger number of unit banks and the
recent development (as compared with the European countries) of the bill market. However, this practice of maintaining large primary reserves is not looked upon with favour. It is thought that under normal conditions, a wise long-run reserve programme for American banks would be to place greater stress on secondary reserves and to diminish the present emphasis on primary reserves.

LIMITED USE OF SECONDARY RESERVES:

Secondary reserves are the second line of defence of a bank. A peculiar feature of this asset is that it has combined both liquidity and profitability. Being conscious of the fact that the money deposited with them is withdrawable, bankers pay full attention towards liquidity, but finding that it is possible to redeem employment of secondary funds, when needed or at short notice, they are prompted to maintain secondary reserves. This means that these reserves can replenish primary reserves, whenever needed. The importance of this asset lies in the fact that the primary reserves can be maintained at a low level. Although liquidity rather than profitability is the first concern in maintaining this asset, yet it yields a small income to the bank. In short, secondary reserves provide flexibility in the banking operations. The lack of these reserves in adequate quantity raises a problem in an underdeveloped country, such inadequacies in bank portfolios necessitate shorter maturities of loans, because additional funds are not available in time.

In India the only component of secondary reserves is the money at call and short notice and the Treasury bills. Even in money at call and short notice, the business was mostly done by foreign exchange banks, because the business itself was confined to only important port-towns i.e., Bombay, Calcutta and Madras, where the foreign banks had their stronghold. But recently Indian banks have taken increasing interest in this business, as is clear from the table below:

**TABLE II**

<table>
<thead>
<tr>
<th>MONEY AT CALL AND SHORT NOTICE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amount in lakhs of Rs.)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Last Friday</th>
<th>Indian scheduled banks</th>
<th>Foreign banks</th>
<th>Non-scheduled banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>650</td>
<td>665</td>
<td>12</td>
</tr>
<tr>
<td>1962-63</td>
<td>138</td>
<td>441</td>
<td>236</td>
</tr>
<tr>
<td>1963-64</td>
<td>359</td>
<td>1154</td>
<td>55</td>
</tr>
<tr>
<td>1964-65</td>
<td>2661</td>
<td>961</td>
<td>113</td>
</tr>
<tr>
<td>1965-66</td>
<td>2217</td>
<td>180</td>
<td></td>
</tr>
<tr>
<td>1966-67</td>
<td>2424</td>
<td>2466</td>
<td>159</td>
</tr>
<tr>
<td>1967-68</td>
<td>2999</td>
<td>987</td>
<td>139</td>
</tr>
<tr>
<td>1968-69</td>
<td>4200</td>
<td>1561</td>
<td>35</td>
</tr>
<tr>
<td>1969-70</td>
<td>2021</td>
<td>1137</td>
<td>61</td>
</tr>
<tr>
<td>1970-71</td>
<td>3108</td>
<td>1029</td>
<td>66</td>
</tr>
</tbody>
</table>

- SOURCE:- 1) Reserve Bank of India bulletin, September 1960, (Table 7, 8 and 9).
- 2) Reserve Bank of India bulletin, June 1968, (Table 4, 5 and 7).

Compared with the small number of exchange banks and small share of these banks in the total deposits, Indian banks business in this item is quite small, though quantitatively it has recently exceeded the business of foreign banks. Foreign banks, therefore, maintain comparatively small cash in their portfolios. However, it has to be remembered in this connection that the
foreign banks maintain greater ratio of secondary reserves owing to the fact that they deal with bills to a large extent.

Here, it is necessary to discuss some of the improvements made by advanced countries in respect of secondary reserves. In the United States, a number of devices have been evolved for the employment of funds, redeemable at short notice. Widely accepted components of secondary reserves are:— (i) Open Market commercial paper (ii) short term United States security (iii) bankers acceptances and (iv) call loans to security brokers and dealers.

Open market commercial paper consists of promissory notes, issued by corporations, which want to borrow for short periods. These notes which are usually unsecured, promise payment of round sums, such as $5000, $10000 and $25000. They are customarily made payable to the borrowing corporations, which endorse them— an arrangement which makes it possible for them to pass from hand to hand without further endorsements. As these notes do not bear interest upon their face, they change hands on discount basis. Open market papers are not of one kind. Banks select different classes of open market notes and use different methods of selecting such papers. Practically all banks, which buy these papers, have to meet increased demand for cash from the customers at certain seasons of the year. Therefore, they customarily select papers with maturities and

1) ORDER, ALBERT C., The Commercial Paper House in the United States, (Harvard, 1933), chapter IV.
in the amounts best adapted to enabling them to meet, in part at least, the increased demands made on their resources at such times.

Bankers acceptances, which have usually been used in the international trade, have also been utilised in the internal trade in the United States. These acceptances have increased because the Federal Reserve Banks are the principal buyers of these acceptances. Commercial banks buy these acceptances freely with the knowledge that they can sell them to the Federal Reserve Banks. Moreover, the banks may sell their holdings to the latter under the repurchase agreements, by which they reserve the right to retake the acceptances at any time up to ninety days. A sale under a repurchase agreement is equivalent to the negotiation of a loan at the Federal Reserve Banks for the carrying of acceptances.

Similarly, British banks have a long established tradition of lending large amounts to discount houses for short periods or redeemable at short notice. In December, 1961 the eleven clearing banks had about 7½% of their own deposits on loan to a discount market. This shows that the bill market is highly developed in that country and great use of bills in discount houses does not, therefore, find the British banks in the difficulty of employing their funds for short periods. Similarly, some flexibility in the bank portfolios was shown by British banks by employing their funds in Treasury deposit receipts. These receipts appeared as bank assets for the first time in

July 1940 and represented direct borrowing of government from the banks. They were issued for periods of five, six and seven months, yet the liquidity was ensured by permitting a bank to cash them at the treasury if it found difficulty in augmenting its cash.

Summing up, one of the many reasons for the low earning capacity of Indian banks is the lack of adequate use of secondary reserves. It may be contended that cash credit system provides some of the facilities of secondary reserves in so far as funds can be requisitioned at short notice, but that can be done when the funds of the bank are not used properly. Here the consideration is not the provision of liquidity, but the avoiding of the loss to the bank.

PART II

CLASSIFICATION OF ADVANCES:

Having explained primary and secondary reserves, we may now turn to the discussion of advances. Broadly speaking, bank advances are classified as industrial, commercial, agricultural, personal and professional.

As is clear from the table III, significant changes have taken place in the distribution of bank advances to different sectors of economy in the Post-War (2nd) years. The most important and clearly noticeable change is the tremendous increase in industrial advances.

TABLE III

DISTRIBUTION OF SCHEDULED COMMERCIAL BANK CREDIT TO VARIOUS SECTORS.

<table>
<thead>
<tr>
<th>Sector</th>
<th>March 1951 Amount</th>
<th>Percentage to total</th>
<th>March 1967 Amount</th>
<th>Percentage to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>198.9</td>
<td>34.0</td>
<td>1748.0</td>
<td>64.3</td>
</tr>
<tr>
<td>Commerce</td>
<td>210.6</td>
<td>36.0</td>
<td>586.8</td>
<td>19.4</td>
</tr>
<tr>
<td>Financial</td>
<td>74.0</td>
<td>13.7</td>
<td>96.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Personal</td>
<td>39.7</td>
<td>6.8</td>
<td>114.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12.4</td>
<td>2.1</td>
<td>56.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Government</td>
<td>-</td>
<td>-</td>
<td>13.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Others</td>
<td>49.0</td>
<td>8.4</td>
<td>161.8</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>584.6</strong></td>
<td><strong>100.0</strong></td>
<td><strong>2717.3</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


Industrial advances of scheduled commercial banks which stood at Rs.198.9 crores (34% of the total advances) in March 1951 increased to Rs.1748 crores (64%) at the end of March 1967.

In fact, the industrial advances have taken major share in the increase of total deposits in the post-war years. Though quantitatively advances to other sectors (represented in the table) have also increased in 1967 over the figures of 1951, proportionately their position has only deteriorated because of the tremendous increase in industrial advances. The great growth in industrial advances is the result of the growing industrial base of this country. The largest share (Rs.432.8 crores) of industrial advances goes to the engineering industry, followed by cotton textile industries (Rs.268.8 crores), sugar industries (Rs.107 crores), iron and steel industries (Rs.99.1 crores) and jute textile industries (Rs.77.4 crores).
Comparison of Scheduled Commercial Bank Credit to Various Sectors

March 1951

March 1967

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Industry
Commerce
Financial
Personal
Agriculture
Govt.
Others
Commercial advances of scheduled banks have also increased considerably. Though in percentage to total advances they have decreased in 1967 as compared with 1961, yet in amount they have more than doubled during the period i.e. from Rs. 210.6 crores in 1951 to Rs. 526.5 crores in 1967. Major share of commercial advances was used in wholesale trade i.e. Rs. 476.3 crores, the rest i.e. Rs. 49.7 crores was shared by retail trade at the end of March 1967. Analysing the commercial advances further, we observe that 63.3% of these advances were shared by partnership concerns and only 22.4% went to limited concerns (both public and private). This is in sharp contrast to industrial advances where 70% was shared by limited companies and only 14.5% by partnership concerns.

In regard to agricultural advances, banks have not made any substantial progress during the post-war years. Partly, it is the result of the banking policy of the country and partly, it is because of the numerous difficulties involved in agricultural advances. Until recently, the banking policy of the country was to leave agricultural and rural sector for the cooperative institutions, who were thought fit to cater to the special needs of this sector. Rural credit survey committee, 1954, endorsed this view and suggested important measures for the strengthening of the cooperative movement. In fact, the reorganization of the biggest commercial bank i.e. the former Imperial Bank was suggested by the committee only with a view

providing to/help towards strengthening the cooperative system and even when it was assigned an important role in regard to agricultural finance, it was only supplementary and not competitive to that of cooperative system. However, the cooperative system could not make substantial progress in this agricultural financing sector and thus and also as a matter of urgency to improve agricultural sector speedily the outlook of the government and the Reserve Bank has changed. The National Credit Council set up by the Government of India under the scheme of 'social control on banks' emphasized at its second meeting held at New Delhi on July 4th, 1968 that the banks should increase their involvement in the financing of agriculture as a matter of urgency and indicated certain minimum targets of lending to agriculture during 1968-69 by commercial banks. It suggested that the commercial banks should increase their assistance to the agricultural sector to the extent of Rs. 35 to 40 crores for financing the distribution of fertilizers and other inputs and for meeting the direct short and medium term needs of the farmers.

This was to be in addition to the finance normally provided by banks for marketing of agricultural produce, to plantations and subscriptions to debentures of land mortgage banks.

The outlook and policy in regard to commercial banks for agricultural advances has no doubt changed, because it was felt that there was urgency to improve agricultural production speedily, but even then efforts will have to be made

simultaneously to remove numerous difficulties of commercial banks in providing agricultural finance. One of the fundamental problems is that of security. Land is the main security available in the agricultural sector, but the various legislative provisions have placed restrictions on mortgage of land in favour of lending agencies other than government and the cooperatives or sale of land. This has inhibited the free entry of commercial banks in the agricultural credit. It is, therefore, necessary to encourage banks in the field of agricultural finance, and towards this some basic difficulties in the way of banks in extending their involvement in agricultural advances need to be removed. For instance, privileges and concessions such as exemption from stamp duty, registration fees, free access to land records for ascertaining the title to land, extended by state governments to cooperative financing agencies should also be extended to commercial banks. The other security available from the agriculturists to the commercial banks is the standing crops. Here also, there are problems because of the dependence of agriculture on various chance factors such as monsoons. A crop insurance scheme will go a long way in removing the difficulties of banks in accepting standing crops as security for agricultural advances.
An important achievement of the Indian banks in the post-war years is the increased appropriation of foreign bills business. This is clear from the table below:

<table>
<thead>
<tr>
<th>Average of Fridays/last Friday, $</th>
<th>Indian scheduled banks</th>
<th>Foreign banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-66</td>
<td>1732</td>
<td>2357</td>
</tr>
<tr>
<td>1966-67</td>
<td>2300</td>
<td>2712</td>
</tr>
<tr>
<td>1967-68</td>
<td>2541</td>
<td>2637</td>
</tr>
<tr>
<td>1968-69</td>
<td>2084</td>
<td>1913</td>
</tr>
<tr>
<td>1969-60</td>
<td>2125</td>
<td>1906</td>
</tr>
<tr>
<td>1960-61</td>
<td>2977</td>
<td>1947</td>
</tr>
<tr>
<td>1961-62</td>
<td>2761</td>
<td>2089</td>
</tr>
<tr>
<td>1962-63</td>
<td>2503</td>
<td>2109</td>
</tr>
<tr>
<td>1963-64</td>
<td>1941</td>
<td>1859</td>
</tr>
<tr>
<td>1964-65</td>
<td>5531</td>
<td>1776</td>
</tr>
<tr>
<td>1965-66</td>
<td>6011</td>
<td>1880</td>
</tr>
<tr>
<td>1966-67</td>
<td>9577</td>
<td>2037</td>
</tr>
<tr>
<td>1967-68</td>
<td>9961</td>
<td>2164</td>
</tr>
</tbody>
</table>

Average of Fridays up to 1969-60 and last Friday from 1960-61.

*Source:* 1) Reserve Bank of India bulletin, November 1960, (Table 4 and 5).

2) Reserve Bank of India bulletin, May 1968, (Table 4 and 5).

Until recently, the purchase and discounting of foreign bills was mainly controlled by the foreign banks. In spite of a small number of such banks working in this country compared to a greater number of Indian banks, the foreign bills business was generally controlled by these foreign banks. But the position has changed a lot during the post-war years, especially during the sixties of the present century. Now, the foreign banks are
no more in a controlling position. They have gradually been reduced to the position of smaller partners in this business.

This is the result of growing foreign bill business of this country as a result of great increase in foreign trade and also because of the consolidation of Indian banks as a result of which they have faced the competition of foreign banks in this business.

Having studied the distribution of bank advances, we shall now discuss the securities of bank advances. Banks, no doubt, grant unsecured or clean advances also, but the percentage of those advances is insignificant compared to secured advances. Banks grant advances against the securities listed below in table.

**Table V**

**ADVANCES OF SCHEDULED BANKS ACCORDING TO SECURITY.**

(Amount in crores of Rs.)

<table>
<thead>
<tr>
<th>Security</th>
<th>December 31st, 1961</th>
<th>Percentage to total secured</th>
<th>December 31st, 1967</th>
<th>Percentage to total secured</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Govt. and Trustee Security</td>
<td>49.5</td>
<td>9.5</td>
<td>27.4</td>
<td>1.0</td>
</tr>
<tr>
<td>2. Gold and silver bullion</td>
<td>3.4</td>
<td>0.7</td>
<td>2.1</td>
<td>-</td>
</tr>
<tr>
<td>3. Gold and silver ornaments</td>
<td>12.6</td>
<td>2.4</td>
<td>26.3</td>
<td>1.1</td>
</tr>
<tr>
<td>4. Shares and debentures of joint stock companies</td>
<td>51.4</td>
<td>9.9</td>
<td>12.4</td>
<td>4.9</td>
</tr>
<tr>
<td>5. Merchandise</td>
<td>303.1</td>
<td>59.6</td>
<td>156.4</td>
<td>6.4</td>
</tr>
<tr>
<td>6. Real Estate</td>
<td>24.8</td>
<td>4.3</td>
<td>32.7</td>
<td>2.3</td>
</tr>
<tr>
<td>7. Fixed Deposits</td>
<td>11.8</td>
<td>2.3</td>
<td>63.7</td>
<td>2.7</td>
</tr>
<tr>
<td>8. Other secured advances</td>
<td>63.2</td>
<td>12.2</td>
<td>506.3</td>
<td>21.8</td>
</tr>
<tr>
<td></td>
<td>516.8</td>
<td>100.0</td>
<td>2356.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source:*  
1) Trend and Progress of Banking in India, 1952.  
2) Reserve Bank of India Bulletin, April 1968,  
(figures adapted from table 8).
Advances of Secured Commercial Bank According To Security

31st December 1951

29th December 1967

INDEX
- Govt. & Trustee Security
- Gold & Silver Bullion
- Gold & Silver Ornaments
- Shares etc. of Joint Stock Co.
- Merchandise
- Real Estate
- Fixed Deposits
- Other Secured Advances
A number of observations can be made from Table V. In the first place, one of the significant features of the secured advances of the Indian banks is that the merchandise form the bulk of security of the advances. This item of security has shown further increase during 1951-1967, both in amount as well as in percentage. i.e., from Rs. 303 crores (59.6% of the total secured advances) in 1951 to Rs. 1566.4 crores (66.4%) in 1967. In the second place, advances against government and other trustee security have shown significant fall both in amount as well as in percentage. In the third place, other items of security (represented in the table) have shown steady increase in amounts in 1967 over the figures of 1951, though in percentage to total secured advances their position in 1967 is not as favourable as in 1951, because all other forms of security have yielded ground to merchandise/security.

ADAPTABILITY OF INDIAN BANKS:

Advances against merchandise need detailed study. This is, firstly, because merchandise form the bulk of security of bank advances in India. Secondly, because greatest adaptability to the requirements of the country ever shown by Indian banks is in regard to advances against merchandise.

Banking authorities of the earlier date, say, Gilbert and Hutchison did not favouroods or documents of title to goods as security. Some modification was made by Sir John Page, when he opined in favour of documents of title to goods as security,
but it may be remembered that he too did not favour goods as security. This modification of Sir John Paget favoured mainly the British banking system, because in United Kingdom, which is mainly a manufacturing country, depending upon other countries for raw materials, bank advances are mainly made against documents of title to goods. These documents represent produce imported from abroad, whether in transit or under storage in warehouses. In the United States also advances against documents of title to goods are facilitated by adequate provision of grain elevators and warehouses. This is because growth and movement of crops and other manufactures is facilitated by bank advances against bills drawn on the security of produce, stored in the abovementioned houses. In the absence of grain elevators and adequate warehouses, banks in India could not but to take actual or constructive possession of goods. Thus, Indian banks have evolved a system of their own. This is because merchandise is not a good security, especially when it is stored in pits and godowns, loose and in bags and when markets are not organized, but, in spite of these and other difficulties, Indian banks have adapted their services to the requirements of the country by

1) The following are the words of Sir John Paget:

"Provided the banker is dealing with honest and responsible persons, documents of title to goods, such as bill of lading, delivery orders, warehousemen's certificates, dock warrants and letters of lien or hypothecation are convenient securities for advances. By means of them goods can be effectively pledged, which otherwise cannot be so utilised by reason of their bulk or location".

accepting merchandise as security in a large proportion. Though much loss had to be undergone in the evolution of this new system in India, none the less, we cannot lose sight of the advantages which its establishment has brought forth to the country. By gaining experience of such advances, banks in India are taking more and more to this line of business as is revealed by considerable increase in figures i.e. from Rs.303 crores in 1951 to Rs.1565.4 crores in 1967. A detailed picture of advances against merchandise can be seen from the table overleaf.

<table>
<thead>
<tr>
<th>Security</th>
<th>Amount</th>
<th>Percentage to total advances against merchandise</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Paddy and Rice</td>
<td>1655</td>
<td></td>
</tr>
<tr>
<td>(b) Wheat</td>
<td>2469</td>
<td></td>
</tr>
<tr>
<td>(c) Other cereals and pulses</td>
<td>1481</td>
<td></td>
</tr>
<tr>
<td>(d) Sugar and Khandsari</td>
<td>5801</td>
<td></td>
</tr>
<tr>
<td>(e) Oil</td>
<td>193</td>
<td></td>
</tr>
<tr>
<td>(f) Vegetable oil including vanaspati</td>
<td>1716</td>
<td></td>
</tr>
<tr>
<td>Total Food Articles:</td>
<td>13315</td>
<td>8.5</td>
</tr>
<tr>
<td>II.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Ground nuts</td>
<td>966</td>
<td></td>
</tr>
<tr>
<td>(b) Cotton seeds</td>
<td>327</td>
<td></td>
</tr>
<tr>
<td>(c) Other oil seeds</td>
<td>551</td>
<td></td>
</tr>
<tr>
<td>(d) Cotton and Yamas</td>
<td>9633</td>
<td></td>
</tr>
<tr>
<td>(e) Raw jute</td>
<td>3154</td>
<td></td>
</tr>
<tr>
<td>Total Industrial raw materials:</td>
<td>14531</td>
<td>9.3</td>
</tr>
<tr>
<td>III.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Tea</td>
<td>6643</td>
<td></td>
</tr>
<tr>
<td>(b) Cashew nuts</td>
<td>626</td>
<td></td>
</tr>
<tr>
<td>(c) Coffee</td>
<td>726</td>
<td></td>
</tr>
<tr>
<td>(d) Other plantation products</td>
<td>1171</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8127</td>
<td>6.2</td>
</tr>
<tr>
<td>IV.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Cotton textiles</td>
<td>81081</td>
<td></td>
</tr>
<tr>
<td>(b) Jute textiles</td>
<td>5576</td>
<td></td>
</tr>
<tr>
<td>(c) Other textiles</td>
<td>4876</td>
<td></td>
</tr>
<tr>
<td>(d) Iron and steel</td>
<td>16171</td>
<td></td>
</tr>
<tr>
<td>(e) Engineering products</td>
<td>34672</td>
<td></td>
</tr>
<tr>
<td>(f) Other metals and metal products</td>
<td>5533</td>
<td></td>
</tr>
<tr>
<td>(g) Coal</td>
<td>2304</td>
<td></td>
</tr>
<tr>
<td>(h) Vanaspati, other minerals and mineral oils</td>
<td>3689</td>
<td></td>
</tr>
<tr>
<td>(i) Chemicals, dyes, paints, drugs, and pharmaceuticals</td>
<td>11169</td>
<td></td>
</tr>
<tr>
<td>(j) Electric goods</td>
<td>7342</td>
<td></td>
</tr>
<tr>
<td>(k) Other manufactured goods</td>
<td>9790</td>
<td></td>
</tr>
<tr>
<td>Total I+II+III+IV</td>
<td>156544</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source:* Reserve Bank of India Bulletin, April 1968, (Figures calculated from table B).
that, however, is to be noted from the table is that manufactures and minerals form the bulk of security of merchandise i.e. 77% for bank advances. Industrial raw materials come next in importance. Food grains as security for bank advances is also increasing gradually.

NEED FOR LIBERALISATION OF ADVANCES POLICY:

In the changing economic context of Indian economy, banks are called upon to liberalise their advances policy. In the present context, when priority sectors like agriculture, small scale industry and exports are to be adequately attended to even by the banks, it would not be worthwhile to grant advances only for the extension of business to those clients, who prove satisfactory that they have enough means and are borrowing only because such has been the practice in the past. As new business and new entrepreneurs are coming up, adequate attention will have also to be paid to them. In fact, banks shall have to exert themselves more fully and try to build up new entrepreneurial ability. Thus, advances are to be diverted from the projects which are not worthwhile, even though these are managed by the established entrepreneurs, to the projects which are worthwhile even though managed by unknown entrepreneurs but who have skill and ability to promote the projects. This in turn calls for more supervised credit and closer understanding of the entrepreneurs and their projects. Banks will have, therefore, to equip themselves with the technicalities of such supervision. The extreme concern for the security against which the advances are to be granted will
have to be relaxed in relevant cases and adequate attention paid to the technical and entrepreneurial capacity.

Indian banks no doubt grant advances against many types of securities, but, with the advancement of the country, there is great need of finding new types of securities and adjusting the existing securities with the requirements. For instance, advances against real estate and other fixed assets are comparatively smaller at present, but, in the agricultural sector, where banks are called upon to increase their involvement, this is the main security available, even in extending their help for medium term needs of the industries, the real estate and other fixed assets would form the bulk of security. Banks must, therefore, equip themselves with tools to assess the real estate and other fixed assets.

Scope for government guarantees of advances has increased with the realisation of the importance of selective credit controls for the under-developed countries. An important method of controlling the direction of credit, lies in the provision of government guarantees to commercial banks in respect of preferred advances.

PART III

CONTROL ON ADVANCES:-

Having considered advances in part II, of this chapter, we will now consider the question of control on advances in part III. Control on advances is justified on two grounds. (i) It saves the banks from losses. (ii) It serves as an instrument of credit control. It is true that banks, out of
a desire to get higher profits, sometimes consciously grant unsound advances, but, sometimes a bank is not able to distinguish properly between sound and unsound advances. Advances, however, sound in the beginning, may, under changed circumstances, become unsound. A central bank, owing to its capacity to form right judgment, can warn the banks against the grant of unsound advances and thus avoid losses.

However, the main purpose of this action of a central bank is to serve as an instrument of credit control. The way for this action was prepared by the Federal Reserve System of the United States, through the Securities Exchange Act, 1934. The Act authorised the Federal Reserve authorities to restrain the use of bank credit for speculative purposes like trading in securities and real estate. The Banking Act of 1935 further strengthened the authority of the Federal Reserve Board for the control on advances. The banking authorities of the under-developed countries owe a great deal to the Federal Reserve System in the policies that they have followed, but, the authority granted to the Federal Reserve System of the United States was too limited to be given full credit. Recently, it has been adopted by the under-developed countries in an extensive form. This is clear from the fact that the central banks in these countries have been given, either by statute or by mutual agreement, the authority to exercise general control over the lending policies of the

commercial banks, the central bank may not only prevent, but also
direct the flow of bank credit towards desirable directions.

Broadly speaking, there are two methods of control on
advances—variable capital assets ratios and variable
portfolio ceilings. Under the first method central bank may
change the minimum ratios which the capital and surplus of
banks must maintain with the volume of assets. For instance,
if the central bank is satisfied that large bank funds have
been loaned out to stock market, it may require the banks to
maintain higher percentages of capital and surplus to these
types of assets while leaving other ratios unchanged.

Considering the applicability of this method, it can
be observed that the system is not suitable to Indian banks.
This is for the following reasons:—(1) the method itself
is too complicated, because fixation of different ratios
of capital and surplus for different categories of assets and
then alteration in these ratios from time to time will create
difficulties. Complications will arise from changing ratios
now and then and thus bringing about great changes in the size
and structure of assets, other difficulties would arise because
of the size and number of banks in this country. Indian banks
range from the biggest banks like the state bank of India and
other major Indian scheduled banks to the smallest non-
scheduled banks. Thus different banks will be effected

1) "E.N. S, Central Banking in Underdeveloped Money Markets,
(Calcutta, Fookland Ltd., 1952), p. 159.
differently and strict control over a large number of banks may be rendered difficult. (ii) There are also varied types of banks, employing their funds in different assets. Employment of this method will affect the different types of banks differently. For instance, any change in the ratio of capital and surplus of bills of exchange will have major effect on foreign exchange banks relative to the Indian banks. (iii) Further, there will arise difficulties because of the procedures of advances. As is well known, Indian banks show great preference for cash credits and overdrafts. Any commitment of a bank to its customers, under these arrangements, may involve the bank in difficulties, if the ratio is changed.

Under the second method i.e. variable portfolio ceilings, a central bank may fix a ceiling over or a general limit to the aggregate portfolios of banks. The banks, would, thus not be able to increase their advances beyond this limit. Similarly, a central bank may fix ceilings for specific groups or categories of assets. The method is not without defects, because, if the ceilings are fixed on the basis of any particular day, the difficulties accruing from previous commitments on cash credit and overdraft systems cannot be overlooked. In this respect, it would also affect adversely those banks whose advances are smaller than those of the banks whose advances in this particular asset (the ratio of which is changed) may have reached large amounts. However, whatever be the defects of this
variable portfolio ceilings method of the advances control in general, the method has been used by the Reserve Bank in the most simple and flexible form. This we shall explain subsequently.

**RECORD OF THE RESERVE BANK'S ACTIONS:**

Reserve Bank's control on advances of banks has been enforced with the object of curbing speculation and hoarding mainly in agricultural commodities and thus bringing about stability in prices. These controls have been imposed only when the Reserve Bank found that the bank advances against these commodities were setting abnormally high and were contributing to excessive build up of inventories and thus price rise. Even among the agricultural commodities the most important and the most prolonged has been the control on food grains. This is because the emergence of inflationary pressures owing to an excess of monetary demand in relation to available supplies especially of wage goods mainly of food articles has been a familiar occurrence. At the secondary stage this has led to the building up of inventories financed by bank credit, thus further aggravating the imbalance between the aggregate demand and supplies.

The systematic control on advances of banks through raising or lowering of margins and fixing proportionate ceilings against particular advances was initiated only from 1956, though frequent advices for restricting credits from particular fields or directing credit to some desired fields were given by the Reserve Bank of India right from the
devaluation of Rupee in 1949. From 1956, it has been a continuous story and it is not possible to record all these actions of the Reserve Bank here. We shall only confine our discussion to salient features in respect of each category of advance which has been subjected to regulation in the post-war years.

(i) Food Grains:

Control on advances against paddy and rice was introduced in May 1956. There was increase in such advances from Rs. 11.6 crores at the end of March 1956, indicating a rise of Rs. 5.6\%.

In view of such increase in relation to the deteriorated supply position due to poor harvests, scheduled banks were directed not to sanction fresh credit limits exceeding Rs. 50 thousand and to raise the margin by 10\%. The response from banks was satisfactory because such advances of scheduled banks decreased from Rs. 26.30 crores on April 30th to Rs. 14.99 crores on June 20th, 1956 i.e., a reduction of 43\% in May and June. This was partly due to these restrictive measures and partly due to the setting in of the slack season. The control after being withdrawn in November 1956 was reimposed in February 1957. Two important features of the control measures this time were (i) fixing of minimum margin at 30\% and (ii) bringing down advances to 75\% of the level prevailing in the corresponding week of the previous year. Despite these measures advances against paddy and rice which stood at Rs. 29 crores, were 97\%.

higher than the corresponding level in 1955 and 84° of the 
abnormally high level in 1956.

Simultaneously, however, advances against wheat, gram 
and other cereals recorded a rise of 8 to 9 crores of rupees 
within a fortnight. The Reserve Bank, therefore, made the 
measures more stringent by covering all food grains and 
fixing the margin at 40° for all advances against such food 
grains. ceilings for wheat and other cereals were fixed at 
60° (as against 75° of paddy and rice) of the corresponding 
period of the last year. another nobility in the control 
measures introduced this time was regional discrimination. 
The Reserve Bank learnt that banks while reducing their 
outstanding advances on an overall basis had allowed them to 
remain high in surplus states. Thus the regulations were 
tightened in surplus states of Madhya Pradesh and Andhra in 
respect of paddy and rice and Punjab in respect of wheat in 
1958. This discriminatory method had the desired effect which 
is clear from the fact that advances against foodgrains hardly exceeded Rs. 36.2 crores at the end of May 1958 as against Rs. 40.3 crores a year before.

During 1960, the regulations of advances against foodgrains 
was modified in the light of schemes of procurement of paddy 
and rice and wheat by some of the states. As the procedures 
of procurement and methods of reimbursing wholesalers varied from 
state to state, credit ceilings for individual banks were fixed

2) Trend and Progress of Banking In India, 1968, p. 4.
According to major central regulations regarding margins, were also relaxed for licensed dealers of paddy and rice in Punjab (26° as against 40°). With the improvement in supply position of foodgrains, control measures were withdrawn for wheat and other cereals, but were only relaxed (both by reduction in margin (40° to 35°) and increase in ceilings in 1961, for rice. For rice, control measures were only relaxed (both by reduction in margin (40° to 35°) and increase in ceilings in 1961. For rice, control measures were withdrawn for rice but were only relaxed (both by reduction in margin (40° to 35°) and increase in ceilings in 1961.

For rice, control measures were withdrawn for rice but were only relaxed (both by reduction in margin (40° to 35°) and increase in ceilings in 1961.

For rice, control measures were withdrawn for rice but were only relaxed (both by reduction in margin (40° to 35°) and increase in ceilings in 1961. Higher ceilings were allowed from September to December 1961. Higher ceilings were also provided to banks in crises from May 1962 to February 1963 in view of expansion in the capacity of rice mills and the consequent demand for bank credit.

An important change in control on paddy and rice and other foodgrains (excluding wheat) was brought about in 1963 by withdrawing the exemption of margin in respect of advances against warehouse receipts and fixing it at 25° instead of 35° for other advances. This was prompted by large increase against such receipts, which until then (as in the case of advances to cooperative marketing and processing societies) was exempted both from ceiling level and margin requirements.

In 1964, control measures were reimposed on wheat in view of increase in its price and also due to sharp rise in the prices of other foodgrains. The margins on advances against foodgrains were raised from 35° to 50° and ceiling was also

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1) Reserve Bank of India bulletin, January 1960, P. 25.
2) Trend and Progress of Banking in India, 1960, P. 19.
reduced. For licenced dealers in foodgrains concessional margin of 25% was imposed from November 1966. However, these concessional margins were withdrawn in August 1966, after there was evidence of considerable hoarding of foodgrains especially wheat in Punjab and rise of prices of foodgrains.

In 1967, control measures for advances were both relaxed and tightened. It was relaxed by exempting authorized dealers of state governments and the Food Corporation of India in hybrid seeds from control measures. But the control measures were tightened for private traders in view of the fact that the larger proportion of transactions relating to marketable surplus of foodgrains was handled by the state governments and the procurement agencies. Thus ceilings were fixed at 65% in Andhra, 50% in Maharashtra and 68% for other states. A uniform additional limit of Rs. 50,000/- was prescribed for new branches to continue the protection to newly established branches.

(ii) VEGETABLE OIL AND OIL SEEDS:-

The control on advances against oil seeds was enforced from February 1969, though speculative tendencies in the market for oil seeds were noticed in September 1966 and the Reserve Bank simply issued a warning to banks that time not to finance speculative trading in mustard seeds and oil. In 1969, however, forward and spot prices of ground nuts showed contra seasonal rises, which stemmed from speculative activity aided to some extent by bank finance. Bank advances against ground nuts increased

from Rs. 9 crores to Rs. 20 crores from 1st to 30th January, 1962. Major consideration in effecting control measures was not to effect exports of vanaspati. Thus margins were fixed at 45% and ceilings placed at 1957 or 1958 level except vanaspati manufacturers and holders of licence for exports. In spite of these measures, price level remained high. Thus, in December the margins and ceilings were fixed on all oilseeds and lower ceilings were fixed for groundnuts. The ceilings on groundnuts were raised to 105% of the levels maintained in March 1961—February 1962 in view of the anticipated larger output in 1961–62 agricultural season. In view of considerable rise in bank advances against the security of groundnuts and the consequent prevailing high price level, margins were raised in March 1964 from 45% to 50% and the ceilings which had been withdrawn in February 1963 were reimposed and placed at 13% for March–April 1964 and 12% for each subsequent two months period of 1963. In spite of these control measures advances against groundnuts remained at 170% in January 1964 of the corresponding previous period. Margins against other oilseeds were also raised to 50% in July 1964, but ceilings on these other oilseeds (excluding groundnuts and cotton seeds) was fixed for the first time in August 1965 which were placed at 90% of the level prevailing in 1964. In July 1967, measures were tightened due to rising trend in prices. Thus, ceiling

for other oilseeds (excluding cotton seeds) was lowered from 90% to 78% of the actual levels in 1964-65. Advances against warehouse receipts of oilseeds and vegetable oil, which were exempted till then, were made subject to both margin and ceiling requirements. This was because the sharp rise in advances against warehouse receipts indicated that the traders were taking advantage of the exemption granted in respect of bank advances against warehouse receipts for stocking purposes.

However, with the improvement in supply position major relaxations in control measures were effected from January 1968, especially to manufacturers, exporters and those against warehouse receipts.

(iii) SUGAR AND GUR:

Control on bank advances against sugar was imposed in June 1957. The method of control was similar i.e. fixing margins and ceilings. As a result of sharp rise in prices of sugar, margin was fixed at 38% and ceiling placed at 10% above the level of corresponding period of the previous year. Immediately, however, these regulations were modified for manufacturing concerns in view of the regulated releases of sugar and transport difficulties. In 1958, in view of high advances against sugar, part of which was used to finance speculative stockpiling of sugar, measures were made more strict by raising the margin to 45%. Against the backdrop of comfortable supply position of sugar, margins were lowered from 45% to 25% in December 1960.

and the control measures were completely withdrawn in April 1961. In April 1963, margins of 48% were again reimposed on parties other than manufacturing concerns. In August 1963, advances to consumer cooperative stores came under the exempted category.

Advances against our were under these control measures for the first time in November 1967 in view of the phenomenal rise in prices of our. A ceiling of 70% of the last year’s outstanding level and a margin of 50% were imposed to discourage the use of bank advances for speculative build up of the our stocks.

(iv) Cotton Textiles Including Yarn and Kapas:

Control measures on advances against cotton textiles including yarn (except advances to Mills and for exports) were imposed for the first time in September 1966 by raising the margins by 10% of the previous level maintained by the banks. No ceiling was placed except that the banks were asked to keep it at a level not substantially higher than that of the previous year. Control measures were immediately withdrawn in February 1967 due to decrease in such advances. For some time till 1965, such advances were free from any control measures of the Reserve Bank, but in August 1965 margin requirements were imposed on cotton and kapas to parties other than cotton Mills. These margin requirements were, however, relaxed, immediately i.e. in September 1965, for advances for importation of cotton and for new crops of cotton of 1965-66 season.
In view of continuing shortage of raw cotton stricter measures were imposed in April 1967. Banks' advances to mills and trade against indigenous cotton and kapas were required to be made only against stocks covered by permits for purchase/movement issued by the Textile Commissioner, Government of India. Ceilings were also fixed at 85% of the level outstanding in the corresponding period of the previous year. Exemptions from directives were, however, simultaneously provided in the cases of imported cotton and advances for pre-shipment credit for cotton exports with the proviso that such advances were made against firm export orders and were subsequently extinguished by negotiation by reference to relevant export bills. In November 1967, margin requirements were imposed on mills also though it was only 25% as against 35% of trade advances. Subsequently, as a result of decline in cotton prices, control measures were relaxed by raising the ceiling to 110% and margins for trade advances were lowered and made at par with mill advances at 25%.

(V) RAW JUTE AND JUTE GOODS:

As in the case of advances against other commodities, control on advances against raw jute and jute goods was occasioned by sharp rise in such commodities facilitated to some extent by bank advances. Over the year November 1960, prices of raw jute and jute goods had risen by 72% and 54% respectively.

Bank advances increased by 31% and 77% respectively over the level of previous year. Thus control measures were effected in December 1960. There is no doubt that the prices of other commodities also were driving upward at this time, but jute was picked up for control because of its export potential. This was done by fixing margin of 40% and ceiling of 130% of the corresponding previous level of 1960. For raw jute discriminatory margin of 25% and 40% were imposed for mills and others respectively. The margin requirements for jute goods were relaxed for established shippers from 40% to 25% in February-April 1961. As a result of fall in prices of both raw jute and jute goods, the control measures were withdrawn by stages from June to August 1961 and were not re-imposed thereafter till 1967.

(VI) SHARES:-

Reserve Bank seems to have been concerned about bank advances against shares only in April 1957, when banks were urged to be cautious in their lending policy against shares. In July 1959, banks were further asked to avoid advances to such parties as were inclined speculatively. Subsequently, the Reserve Bank asked for certain returns from the bank to apprise itself of the bank's role in financing budle transactions. These returns revealed that the budle financing was 30% of the total advances to share and stock brokers and that there was concentration in a few leading scrips of such finance. Thus,

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2) Budle transactions means purchase of shares in the bank's name for the current settlement and sale for the next settlement.
3) Trend And Progress of Banking In India, 1956, p. 6.
Reserve Bank till 1960 was only acquainting itself with the affairs of the banks regarding advances against shares and generally urging banks to be restrictive in their lending. In March 1960, in view of the continuing boom on stock exchanges, margins were fixed at 50% on equity shares. Exceptions to these control measures were (i) advances of Rs. 5000/- or less so as not to hamper small investors (ii) advances to share brokers by way of purchase of demand bills covering stock exchange securities to be despatched from one centre to another. Simultaneously, budlo financing transactions were banned. In October 1963, the control on shares was relaxed. This was prompted by two factors. (i) Stock exchanges since June 1963 were operating under a tighter system of regulatory margins designed to ensure greater discipline than before. (ii) The activity in capital market was at a low level. Thus margins were withdrawn but ban on investment of banks on budlo transactions continued. In November 1967, due to the continued slackness in the capital market, Reserve Bank advised banks to continue to extend credit against shares "as part of their normal service to the community" and provided certain guidelines for such advances towards creating better climate in capital market. It was also emphasized that reasonable credit to sharebrokers to finance budlo operations should not be denied. Thus, this time it was not restricting but encouraging such advances.

CLEAN ADVANCES:-

Control on clean advances of banks was imposed with the objective of preventing possible circumvention of selective controls through the extension of clean advances. This shows that the Reserve Bank was foreseeing the possibility of such advances frustrating the purpose of credit restrictions and was aware that such advances were misused at least by some banks and only advised banks to be cautious in such lending, though such misuse must have been discerned, yet the clean advances had not recorded any abnormal increase until 1960. In March 1960, banks were directed to maintain the same ratio of clean to total advances as was prevailing in the corresponding month of the previous year. However, specific cases of hardship as a result of this control measure were required to be brought to the notice of the Reserve Bank. As a result of the examination of such specific cases of hardships, the banks were permitted an additional amount of Rs.18 crores, over and above the ceiling ratio. Response from banks was satisfactory which is clear from the fact that ratio at 13.9% in March 1961, was well below the ratio of 16.8% a year before.

As already noted control on clean advances was enforced mainly to buttress other control measures. Thus, when greater resort was taken to general credit control measures from 1960 (discussed in Chapter III) which had the similar effect of buttressing the selective credit control measures, it was no longer considered necessary to maintain control on clean

advances and accordingly it was rescinded in October 1961.
Again, as a result of sharp increase of bank credit in 1966-67, especially of clean advances, banks were repeatedly requested to exercise strict control on clean advances. In November 1967, the Reserve Bank allowed certain types of clean advances to be excluded from the total of clean advances.

EFFECTIVENESS OF CONTROL ON ADVANCES:

Now, after having recorded the actions of the Reserve Bank we can judge these actions and find out its efficacy. The control measures have been most flexible for three reasons. (1) Generally, measures were withdrawn swiftly when the situation turned better, though at times it was a hasty step and as such measures had to be reimposed immediately thereafter. (ii) In every category of advance, there were exempted categories or differential measures like cooperatives, exports, warehouse receipts, mills, sharebrokers, small investors, new branches, authorized dealers etc. In fact, in evolving every measure of control, the Reserve Bank was very much concerned for manufacturing, exporting and other priority sectors. There is no doubt that exemptions or relaxations were required for such sectors, yet it had the effect of weakening the impact of control measures. In fact, some concessions like exemptions from control measures to advances against warehouse receipts had the effect of weakening control measures because traders took advantage of exemptions for stocking purposes. Reserve Bank became only wiser through experience and tightened such measures. (iii) The ceilings at times were much liberal
perhaps with the awareness of the difficulties of banks for adjusting to lower ceilings.

Thus with all these measures of flexibility the control measures of the Reserve Bank were liberal and the banks generally complied with the directives through at times it was only after repeated reminders. The response to Reserve Bank directives was quick as well as slow. At times advance levels came down within a month or two and at other times it remained above the desired level for more time causing anxiety to the Reserve Bank of India. However, with all these features, the control measures were generally successful in moulding the policy of banks. But, the prime objective of control on advances i.e. stabilizing price level, was not achieved because even where bank credit was curtailed, credit from various diverse sectors was available especially for hoarding and speculative purposes. This inherent limitation of selective credit controls came to be realised only in 1960. Thus, it became necessary to buttress these selective measures by general credit control measures which also were amended from time to time in the light of experience gained in the emerging situations. In spite of these maximum combined selective and general credit control measures there was no effective check on prices because the Reserve Bank gradually realised that "to the extent that foodgrain stocks are self financed or privately financed, the role of bank finance is comparatively negligible". Even with this realisation, the

Reserve Bank did not relax its efforts to enforce control measures on advances with the contention that the prices would have soared further but for check on bank finance.

CONCLUSION:

Primary reserves are maintained by Indian banks in high proportions. One of the reasons for this state of affairs is that these banks maintain secondary reserves in a negligible proportion. As funds are not available easily in an emergency, banks have to depend mainly on their cash in vaults for the purpose. But, in order to bring about flexibility in the banking system and to increase their earning capacity, Indian banks must develop the practice of maintaining secondary reserves in a larger proportion than they do at present.

Industrial advances have recorded phenomenal increase in the postwar years and have captured a dominating position in the advances structure of banks. This is because of the increased industrial needs as a result of growing industrial base of the country. Banks grant advances against a number of securities, but the advances against the security of merchandise predominate. Here, the Indian banks have shown commendable adaptability to the requirements of the country. However, banks must liberalise the advances policy so as to encourage new and growing business and patronise skill and entrepreneurial capabilities.
The most important development of the postwar years in regard to advances of banks consists in the authority granted to Reserve Bank for the control of bank advances. The Reserve Bank has been enforcing the control measures in the most flexible way. Though this flexible system of controls is a necessity because of the peculiar features of this developing country, yet this flexibility has itself adversely affected the efficiency of these control measures. The Reserve Bank has grown wiser through experience and has evolved measures from time to time in the light of emerging situations. However, the Reserve Bank's control policy has generally been successful in moulding the advances of the banks sooner or later, but the prime objective of controlling prices of these commodities, against which control measures were enforced, could not be achieved. The Reserve Bank did not relax its efforts in enforcing control measures with the contention that in absence of these measures, prices would have soared still further.