

ing the year. And latest of all, the decision was taken during the year to provide some dean accommodation to marketing and processing societies and to extend to them medium term credit on the same terms as are applicable to small scalp industries. While this facade is imposing, the scale of operations is not. The credit limits sanctioned by the Bank to all types of cooperative units during 1961 amounted to Rs 24.6 crores. On the other hand, the Bank's advances to 'Industry' rose to Rs 191.2 crores (against Rs 143.3 crores in the previous year) and formed 70.3 per cent of Bank's total advances. This is a rather high proportion as compared to the average for the Indian banking system. In April 1961 the advances of all scheduled banks to 'Industry' were only 52.5 per cent of their total advances. Another factor, noted in the State Bank's Report, is that while credit limits granted to cooperatives have increased, outstandings continue to be small and that "the matter has been receiving the attention of the Bank".

All of this only goes to show that it is impractical to expect a commercial bank — nationalised not doubt, but functioning as a commercial bank — to be positively "knowledgeable and responsive" to rural needs. But with the principal architect of the Rural Credit Survey assuming the office of the Chairman of the State Bank, more fundamental changes may be in the offing.

Branch Expansion : Well Done

IN regard to its other major objective, the extension of banking facilities—which was incorporated in its statute—the State Bank has done more than well. The initial phase of branch expansion was over with the first five years of its operations ending 1960 and the target of 400 branches was reached (actually, at the end of June 1960 the total of new State Bank branches opened during 1955-60 was 416). To review the advance, take stock of the position and determine the programme for the next phase, a sub-committee of the Central Board of the State Bank, headed by Prof D G Karve, was constituted in 1960. This committee recommended the target of 300 branches for the period 1960-65 with the pro-

gramme so phased as to have a relative respite in the first two years and accelerated increase in the last three. This is to facilitate appropriate organisational arrangements and the provision of required trained personnel.

As a nationalised institution, the State Bank in its branch expansion has not been weighed down by commercial considerations—available scope for expansion of business through deposits, advances, etc. The object of the State Bank's programme has all along been the extension of banking facilities. The Rural Credit Survey had also wanted it to take over cash work from non-banking treasuries and sub-treasuries. The Karve Committee pointed to other factors to be considered, such as the extension of remittance facilities, provision for the need of cooperatives and small industries and the mobilisation of savings. These criteria fit into the special developmental role cast for the State Bank by the Rural Credit Survey.

in practice, the Bank's expansion may be influenced by other factors, arising out of its substantial financing of industry and commerce. And hence there is the danger of competition with the rest of the banking system. This is apt to be more pronounced if the Reserve Bank continues its present policy of restraint in permitting scheduled bank branch expansion. Some of the policies of the State Bank in the last year such as raising interest rates on various classes of deposits and acceptance of call deposits—all measures designed to attract more deposits or to prevent deposits going elsewhere—might create misgivings. True, the State Bank is a commercial bank and not a non-profit organisation; and there is obviously some need to tone up its operations since in the last year growth in its deposits was poor, compared to other scheduled banks. With the rising tempo of economic activity and with over 1,400 townships without any banking facility, there is vast scope for expansion of banking. Nevertheless, a clash of interest is entirely possible which could be avoided with some imagination and foresight on the part of those who determine the development of our banking.

Deposit Rates : How Many Tiers?

SHOULD there be two tiers of deposit rates as at present, one for the big banks, and a slightly higher rate for small banks or should there be a third tier in between for the medium banks? This has been a subject of controversy among the bankers for some time. The controversy was started off when the medium size banks, who are members of the Inter-Bank Agreement on deposit rates, wanted the latitude to quote a slightly higher rate than the Agreement allows.

The Chairman of the Bank of India, one of the 'big five', entered the lists to oppose this demand and he has been supported by the Managing Director of the United Bank which stands on the fringe of the lug bank category. The latter has gone further and argued that even the small banks should not have the present latitude and that too in their own interest, as the heavier interest burden will be a millstone round their necks.

Those who oppose the demand of the medium and small banks take their stand on the hypothesis that the volume of bank deposits is a function of the services rendered by the banks concerned and not of the rate of interest offered by them. No statistical verification has yet been found for it. There is no doubt that depositors are influenced by the size and quality of services offered by banks but to say that they are not affected by the interest differential at all is going rather too far. Broadly speaking, different categories of depositors are pulled by different attractions. Those who have a current account think only of the services rendered and accommodation facilities offered while those who go in for fixed or short-term deposits are drawn primarily by the interest rate; for them the size of the bank or the facilities offered by it are perhaps only a secondary consideration.

The setback in the growth of deposits of the State Bank of India in 1961 as compared with that of the other banks makes one thing clear; in spite of its large size and a considerable expansion of its services, the interest differential offered by the other banks does matter to the depositors.