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New Banking Legislation

THE Government has introduced two amending bills in the present session of the Parliament relating to the banking companies, the Reserve Bank of India and the State Bank of India. The Reserve Bank is to be empowered to give accommodation to scheduled banks for export finance for 180 days (the present limit is only 90 days) and on the strength of only one endorsing signature, the State Bank will be empowered to grant medium term export credit up to .seven years (in place of the present limit of 6 months). These two measures are long overdue. The eligibility conditions in regard to export bills had hitherto been so restrictive that no such bills had been discounted with the Reserve Bank.

This paper has long been advocating the rediscounting of export bills by the Reserve Bank as a measure for saving foreign exchange; currently, unless export bills are held till maturity, either by the exporters or the discounting bank, they are rediscounted in the London Market and the country loses foreign exchange through rediscount charges. This avoidable drain on foreign exchange will now be prevented. For promoting some types of exports, it is necessary to grant medium term export credits; the measure enabling the Slate Bank to extend such credits was also therefore very necessary.

An amendment to the Banking Companies Act makes it obligatory for banks to raise the ratio of their capital and reserves to their total deposits to 6 per cent. This. too. is a welcome measure as it would strengthen the financial basis of the banking system. The earlier move on the part of the Reserve Bank to secure this through voluntary agreement was obviously misconceived, as later experience painfully brought out.

This provision for strengthening the capital base of banks is also to apply to the banking companies incorporated abroad. Currently, foreign banks operating in India have to maintain a balance with the Reserve Bank of about Rs 20 lakhs in the form of cash or approved securities in lieu of paid up capital and reserves. This balance is to be gradually raised by transferring 20 per cent of profits every year to it till such time as the Reserve Bank feels that the amount is adequate. The building up of these balances by the foreign banks will mean that either they will bring out funds or reduce their remittance of profits. In either case, apart from strengthening their own financial position in the eyes of their Indian depositors, this measure would contribute to the country's foreign exchange resources.

Another amendment relates to the cash balances to be maintained by the banks with the Reserve Bank, The present system of two different ratios — one for demand and the other for time liabilities — is to be simplified and replaced by a single ratio of 3 per cent against total liabilities, demand and time. Apart from simplifying the procedure, the amendment will also put an end to artificial inflation of time liabilities and weaken somewhat the competitive biddings on occasions by banks actively canvassing for deposits.