

THE DEVELOPMENT OF AGRICULTURAL CREDIT AGENCIES  
IN THE NETHERLANDS

by

J.T.P. de Regt ec. drs.



Introduction

The Economisch Statistisch Maandbericht of 31st March and 28th April 1939 contained articles dealing with the development of agricultural banking during the depression of the 'thirties 2). The review given below aims at continuing the course of development so outlined until the end of 1952. For this purpose the balance sheet figures of the two central agricultural credit banks and their affiliated local banks have been examined in some detail.

Bij their nature both central banks have the task of supervising the local banks and of acting as their bankers, thereby carrying on the activities of clearing houses and of investment institutions for the local banks' surplus funds; consequently attention will first be given to the evolution of local agricultural banks and secondly to the operations and importance of the central organisations. This will be followed by an examination of the liquidity and solvency of agricultural credit agencies and their relative importance in the Dutch credit system.

A. The evolution of agricultural banks.

1. Agricultural banks as savings banks.

Because they have no paid-up share capital of any magnitude the local banks have to obtain savings deposits in order to grant credit facilities. Development as savings institutions is therefore of major importance to the agricultural banks. Our first step, therefore, will be to review the trend of savings deposits at agricultural banks.

TABLE I : SAVINGS DEPOSITS AT AGRICULTURAL BANKS (Fl. Millions)

31st Dec.	Utrecht Group.	Eindhoven Group.	Agricultural Banks Combined
1930	344	140	484
1935	308	120	428
1940	319	123	442
1946	1054	512	1566
1947	1042	519	1561
1948	985	507	1492
1949	1031	519	1550
1950	1046	527	1573
1951	1045	536	1581
1952	1142	574	1716

1) This article has been compiled at the Institute of Agronomics. Its preparation has been considerably facilitated by the assistance of the Coöperatieve Centrale Raiffeisen-Bank of Utrecht and the Coöperatieve Centrale Boerenleenbank of Eindhoven.

2) Prior to the Second World War the Economist devoted several interesting articles to agricultural credit agencies; we might mention those by Dr H.J.M. Janzen in Year 1934, pp. 497 - 535 and Dr G.W.M. Huysmans in Year 1941, pp. 369 - 401.



It follows from this table that there has been a considerable increase in savings deposits at both groups of banks as compared with pre-war. The increase was greater in the Eindhoven group; at 31st December 1952 the balance of savings there was 4.7 times that in 1940, whereas it was 3.6 times at the local banks affiliated to the Central Bank, Utrecht. If we relate these figures to cash disposable for domestic expenditure, which also increased considerably during the period, - in 1952 it was 3.5 times as high as in 1930 - we can conclude that there was in fact a real increase in savings deposits at the Eindhoven group. This is not quite definitely the case at the Utrecht group, however. Comparison of the trend of savings deposits with the trend at the Post Office Savings Bank and the Special Savings Banks together nevertheless shows a relative gain in importance of the savings bank function of both groups of agricultural banks since the 'thirties. This is clear from the following table in which savings deposits at the organised agricultural banks are shown as a percentage of savings accounts at the Post Office Savings Bank and Special/Banks together./Savings

TABLE II : SAVINGS DEPOSITS AT AGRICULTURAL BANKS AS A PERCENTAGE OF THOSE AT POST OFFICE SAVINGS BANK AND SPECIAL SAVINGS BANKS TOGETHER.

31st Dec.	Utrecht Group	Eindhoven Group	Agricultural Banks Combined
1930	43	17	60
1935	30	12	42
1940	33	13	46
1946	42	20	62
1947	41	20	61
1948	40	20	60
1949	41	20	61
1950	42	21	63
1951	44	22	66
1952	46	23	69

As compared with non-agricultural savings banks too the growth at the Eindhoven group is relatively greater.

From 1930 to 1940 the percentage for all agricultural banks together averaged 44 as against 63 from 1946 to 1952. In 1930 it is noticeable that the percentage rose - and the same applies to one or two earlier years - to a height that was never reached again before the Second World War and was not exceeded until the years after the war. In the early 'thirties savings accounts at agricultural banks developed contrary to those at the Post Office Savings Bank and the Special Savings Banks; a fall at the first category was opposed by an increase in deposits at the other banks, especially in 1931 and 1932. One cause of the varying trend of savings is likely to be the force with which the depression hit agriculture in particular. Again, the fact that depositors at the P.O. Savings Bank are largely fixed-income earners who are able to save more at times of falling prices may have contributed to the development outlined above. Furthermore in times of severe crises the official character of the P.O. Savings Banks may exercise a greater pulling force on savings deposits than does the agricultural bank. The decline in savings at agricultural credit agencies early in the 'thirties as compared to other banks was not made good - as the Table shows - until the Second World War. This is possibly the result of prosperity being more evenly divided between urban and rural areas.

After the war and until 1950 there seems to have been some measure of consolidation in the ratio of deposits as between agricultural banks and others; later however savings at agricultural banks made a greater relative advance than those at other savings banks.

In determining credit policy, one of the things the agricultural banks will have to allow for is the average period during which savings are disposable. The table below gives an impression of the average currency of savings deposits, the currency of deposits at the P.O. Savings Bank and Special Savings Banks being included for reference. The figures were obtained by dividing the average outstanding savings account in the year by withdrawals during that year.

TABLE III: AVERAGE CURRENCY OF SAVINGS (in years)

Year	P.O.S.B.1)	Special Savings Banks	AGRICULTURAL BANKS		
			Agricultural Banks 1) together	Utrecht Group 2)	Eindhoven Group 2)
1930	2.7	2.1	2.1	2.1	2.2
1935	2.9	2.0	2.6	2.6	2.6
1940	2.0	2.0	2.2	2.1	2.4
1947	3.8	2.7	2.0	1.7	2.2
1948	3.2	2.3	1.7	1.8	1.5
1949	4.0	2.6	2.0	2.1	1.9
1950	3.3	2.4	2.2	2.3	2.0
1951	3.3	2.3	2.2	2.2	2.1
1952	3.6 3)	2.4 3)	2.3 3)	2.2	2.2

Calculations for the post-war years are faced with a difficulty arising from blocked accounts. The arrangements have been allowed for in that average savings accounts do not include blocked balances. It was not possible, however, to isolate all the movements in blocked accounts from figures available for withdrawals. This inaccuracy has caused a drop in currency calculated for the post-war years. Generally speaking, however, we have the impression that the average duration of savings at agricultural banks has undergone no change compared with pre-war. It is slightly more than two years. On the other hand examination of the figures for non-agricultural savings agencies reveals for both Post Office Savings Bank and Special Savings Banks an extension in duration. Whereas the average duration of savings at all agricultural banks combined before the war was in between that at the P.O. Savings Bank and the Special Savings Banks, it was shorter after the war than at the Special Savings Banks. In regard to the shorter average currency of savings at both agricultural banking organisations since the war, it might be added that this is caused particularly by the fact that deposits at agricultural banks were more severely affected by the blocked account regulations and the resulting "creaming off" effect, than were

- 1) Taken from figures given in Savings Banks Statistics. In these statistics, too, blocked accounts have been left out of account. "Agricultural Banks" together includes banks not affiliated to one of the central organisations. This is one reason why all the figures in Column 4 are not comparable with the average of columns 5 and 6. Apart from this comparison would only be permissible, however, after computation of a weighted average of the two latter columns.
- 2) These figures have been computed from the organisations annual reports.
- 3) Taken from the annual report for 1952 of De Nederlandse Spaarbankbond.

those at other banks. The average amount outstanding per savings book at agricultural banks far exceeds amounts at other savings agencies. Liability to injury by the blocked account regulations was therefore unusually great. The following table will illustrate this.

TABLE IV: AVERAGE AMOUNT PER SAVINGS BOOK 1)

Year	Utrecht Group	Eindhoven Group	P.O.S.B.	Federated Savings Banks
1930	1009	879	175	421
1935	841	737	238	398
1940	811	738	221	328
1947	1270	1421	427	501
1948	1159	1356	396	482
1949	1305	1377	380	486
1950	1258	1345	352	466
1951	1238	1334	327	447
1952	1327	1408	325	464

In the agricultural banking organisations there is therefore 3 to 4 times as much saved per book as at the Post Office Savings Bank and the Federated Savings Banks. It is striking that the increase in the amount since the outbreak of the war has lagged behind the increase in nominal national income. In a real sense this means that the amount outstanding per book was less than before the war. What real increase in savings deposits there has been (See Table I) must therefore be attributed chiefly to an increase in the number of depositors.

## 2. Current Account transactions.

Although most agricultural banks provided facilities for current account transactions soon after their incorporation, such transactions lagged behind for a long time in the agricultural sector. The change came early in the 'thirties, when the Agricultural Crises Organisations started using current account facilities for making payments to farmers. Current account transactions in agriculture were stimulated most of all, however, at the time of the Currency Reform when many of the agricultural population got to know of current account transactions from sheer necessity and eventually became quite familiar with them. A further factor is that more and more farming and growing organisations, such as marketing organisations, dairying factories, cattle marketing associations etc. make their payments to farmers and growers via current accounts at agricultural banks. The following table shows this development : -

1) Taken from the annual reports of the Central agricultural banks and De Nederlandse Spaarbankbond.

TABLE V: CURRENT ACCOUNT BUSINESS (FL. Millions)

Year	1)	
	Utrecht group	Eindhoven group
1930	567	78
1935	428	60
1940	621	62
1947	1596	499
1948	2218	801
1949	2559	1053
1950	3129	1328
1951	3558	1664
1952	3957	1907

Current account business in 1952 by the Utrecht group was thus over 6 times as great as in 1940 and that by the Eindhoven group was even more than 30 times as great. The relative increase on 1940 by the latter group is thus much bigger than by the former. This is chiefly because current account business developed later in this group than in the Utrecht group where the volume was 567 million guilders as early as 1930, compared with 78 million by the sister organisations. Owing to this development of current payments transactions the agricultural banks have certain typical features of deposit banks. At 31st December 1952 the balance on current account in the Eindhoven organisation was 83 million compared with 574 million guilders on savings account. In the Utrecht group these amounts were 224 and 1142 million respectively.

Experience has shown current payments business via agricultural banks to be highly important in the formation of savings at these banks. It seems that part of the flow of money passing through the agricultural banks often acquires the character of savings; this makes it possible from time to time to transfer the current account balance to the higher interest-yielding savings account. The importance of current account payment of operating revenues via the agricultural banks was particularly clear during operation of De Nederlandsche Bank's credit restrictions - which have since been withdrawn - inasmuch as the amount of credit which could be granted without reference to De Nederlandsche Bank was made dependent, inter alia, upon an increase in credit funds available.

From the outset of current payments transactions, the agricultural banks realised the fundamental difference between savings and current accounts which was expressed, among other things, in different interest rates being paid on amounts deposited.<sup>2)</sup> This does not mean however that there was a clear distinction before the war in the character of moneys credited to savings and to current accounts.

On the one hand deposits in the former accounts were frequently not real savings and were rather in the nature of temporary agricultural trading surpluses, while on the other hand savings often existed in current accounts. As investment policy depends partly on the permanent core of deposits, the entry of unreal savings in savings accounts endangers the liquid position. Furthermore this state of affairs is undesirable from the earning

- 1) Excluding Agricultural Banks - Trading Associations and the two Dairying Banks as these show a different picture than the other agricultural banks. This provides a better basis of comparison as compared with the Eindhoven group.
- 2) The Utrecht group pays 2.50% to 2.64% on savings accounts and 0.50% to 1% on current account balances.

capacity viewpoint. There are indications, however, that these undesirable features occur less than in the past. For instance, the volume of business on current account has increased substantially more than that on savings accounts.

This can be demonstrated from the following table from which the influence of the number of current account users and the number of savings depositors has been eliminated.

TABLE VI: VOLUME OF BUSINESS ON CURRENT AND SAVINGS ACCOUNTS.

Utrecht Group				Eindhoven Group		
	Volume per current a/c (Fl.thous- ands)	Volume per savings depositor (Fl.thous- ands)	3 as % of 2	Volume per current a/c (Fl.thous- ands)	Volume per savings depositor (Fl.thous- ands)	6 as % of 5
1	2	3	4	5	6	7
1930	12,7	1.0	7.6	8.3	0.8	9.8
1935	9.6	0.6	6.5	6.2	0.6	9.1
1940	13.4	0.7	5.4	8.1	0.6	7.1
1947	18.8	0.8	4.2	26.5	0.8	3.1
1948	28.6	1.8	6.4	27.8	1.3	4.0
1949	32.6	1.3	4.1	-	-	-
1950	39.3	1.0	2.5	37.7	1.2	3.5
1951	42.9	1.1	2.6	39.4	1.2	3.1
1952	46.6	1.2	2.6	40.7	1.3	3.1

Expressed as a percentage of turnover per current account the volume of business per depositor has fallen to less than one-half of pre-war.

Despite this favourable development, the volume of business on savings accounts with the agricultural banks is still rather higher than at the Special Savings Banks. If this volume is expressed as a percentage of the average balance, we find in 1952 94 % for the combined agricultural banks compared with 89 % for the Special Savings Banks. Computation of the same ratio for the P.O. Savings Bank gives a strikingly smaller percentage, viz 56 %. 1) This clearly demonstrates the difference in type of depositor.

### 3. Credit business.

Following this examination of the deposits we shall deal with the employment of the funds as credit facilities for agricultural enterprise.

Agricultural credit agencies normally speak of credit as meaning overdrafts. Besides these there are advances and loans which usually have a longer currency and are repayable by fixed instalments. In our subsequent remarks we will use the word credit in a wider sense to mean both overdrafts and loans.

Agricultural banks usually demand a first mortgage or security where possible before granting credit. In some cases, however, a second mortgage and a lien on mortgage claims, securities and life assurance policies is accepted, although in most cases as additional security and mostly only after specific approval by one of the central banks. It might be said that insurance policies are being increasingly used to secure credits. This form of credit is now apparently even more substantial than

1) Computed from figures in 1952 report of Nederlandse Spaarbankbond.

that secured by stocks and shares. In assessing credit-worthiness, not only the security but also the applicant himself and the staying power of his farm are, of course, considered. Unlike some countries, (including the United States, Switzerland and France) Dutch law has no really adequate rules making it possible to furnish credit on the security of stock-in-trade or growing crops; the law requires that the security be placed in the creditor's hands. In practice a means has been found to furnish credits by transfer of ownership as security. This form of security, however, does not give the bank a sufficient guarantee. One calls to mind, for instance, the case of a debtor who has sold the property, which remains in his possession, in bad faith to a bona fide purchaser. The bank can sue the debtor but it will often be a matter of doubt whether the bank will recover the full value of the security.

For a certain category of tenant-farmers it might be very important now or at some future date if a form of lien could be found which/allow credit to be furnished on stock-in-trade or growing crops in a more flexible and more reliable way. It has been suggested that registered liens on movable property should be introduced in Holland as well. From a recent interesting speech by Professor C.H.F. Polak on this subject <sup>1)</sup>, however, it appeared that such an arrangement would involve many problems and drawbacks.

Meanwhile Professor Meyers has made a plea for embodying registered liens in the New Civil Code. The Second Chamber has, however, rejected this suggestion.

Credit is granted to Dutch agriculture by the agricultural banks at a comparatively low rate of interest. For loans and overdrafts 4 % to 4½ % is now charged, while mortgage interest is about 4 %. Comparison with the rate for more or less similar types of credit at the general banks (4½ % to 5 %) and the rate charged by mortgage banks (3½ % to 4¼ %) shows the interest charged by the agricultural banks in general to be relatively low. Even compared with American conditions this rate is favourable; the Production Credit Corporation readily charges 5 % to 6%. These American agricultural credit agencies obtain the capital from the Intermediate Credit Banks at 2¼ %. (1950). In the case of the Dutch agricultural banks, however, capital is provided direct by savings depositors at 2.50 % to 2.64 % interest. Notwithstanding the fact therefore that the Productions Credit Corporation gets its capital cheaper, agricultural credit is dearer. An explanation is probably to be found in the bigger staff of travelling inspectors, higher salaries, higher travelling expenses resulting from the great distances covered and furthermore the deeper investigation of the applicant's credit-worthiness; in the United States rather more importance seems to be attached to earning capacity and rather less to security. The danger premium will therefore be higher in the United States than it is here. More flexibility in furnishing credit by the Dutch agricultural banks would undoubtedly cause a higher danger premium in the interest rate.

After this introductory examination, the actual trend of credit provision will be investigated by reference to available figures.

/would

1) Raiffeisen-bode no. 7., January 1953.

TABLE VII: LOANS AND OVERDRAFTS AT AGRICULTURAL BANKS  
(Fl. Millions) 1)

31 December	Utrecht Group	Eindhoven Group	Agricultural Banks combined
1930	278 2)	74	352 2)
1935	252 2)	64	316 2)
1940	239 2)	50	289 2)
1946	134 2)	24 3)	158 2) 3)
1947	182	39 3)	221 3)
1948	229	54 3)	283 3)
1949	284	71	355
1950	376	100	476
1951	454	139	593
1952	499	153	652

The lower need for credit resulting from the considerable disinvestment funds and the relative advance in rural prosperity during the war makes it easy to understand why the amount of credit furnished in 1946 was less than pre-war. The amount of credit outstanding has since increased substantially -- and relatively greater in the Eindhoven group -- but not to such an extent that the part of deposits 4) employed for credit facilities has re-reached its pre-war level. Computation of these comparative figures for the Utrecht and Eindhoven group agricultural banks separately gives us the following picture:

TABLE VIII: CREDIT FACILITIES AS PERCENTAGE OF DEPOSITS

31st December	Utrecht Group	Eindhoven Group
1930	73 5)	51
1935	73 5)	52
1940	63 5)	39
1946	10	4 6)
1947	14	7 6)
1948	19	10 6)
1949	23	13
1950	30	18
1951	37	23
1952	37	23

It appears therefore that in 1952 the Utrecht group had furnished about 26 % and the Eindhoven group 16 % of deposits in the form of loans and overdrafts less than in 1940. Compared with 1930 these percentages were even 36 and 28. This is not surprising as the pre-war agricultural depression had caused the amount of credit to rise to such an extent that the banks' liquid position had fallen to a low level. The lower level of credit at present really means that the local banks' liquid position has improved considerably. It can furthermore be seen that credit furnishing function has increased in importance again since 1946. One of the influences at work is the restoration of capital transactions in rural areas relating to transfers of agricultural land and farms, replenishment of

- 1) Excluding loans to public corporations which are more in the nature of trade investments.
- 2) The amount of loans to public corporations by the Utrecht group is not known exactly for these years, but has been estimated at 3 % of deposits.
- 3) For these years loans by the Eindhoven group to lower public corporations are not known and are therefore included in the figures, which are only slightly influenced by this.
- 4) Savings deposits and current account credit balances.
- 5) See Note 2, page
- 6) See Note 3, page



live and dead stock-in-trade, mechanisation of agriculture and also improvements in agricultural co-operative equipment - while increased prices and the pressure of taxation must not be overlooked. In 1952 there was no further credit expansion compared with deposits.

It should also be added that the banks affiliated to the Eindhoven Central bank convert less savings into credits than their sister banks in the Utrecht organisation. The more restricted sphere of operations of these banks has an effect; unlike the banks affiliated to the Utrecht organisation, these banks furnish no overdrafts outside agriculture. Non-agricultural loans - provided they are secured by mortgage - are granted. Besides this we must not overlook the fact that this difference as compared with the Utrecht group is partly explained by a difference in current opportunities for furnishing credit. Generally speaking such opportunities seem to be greater in the Utrecht group than in the Eindhoven group. Possibly the local bank boards in the latter case are also rather more conservative in furnishing credit.

It is interesting to see how much of the credit furnished by agricultural banks was in the form of overdrafts and how much in the form of loans. The following table shows for a number of years what proportion each type represented in the total amount.

TABLE IX: LOANS AND OVERDRAFTS AS PERCENTAGES OF TOTAL CREDIT FACILITIES 1)

31st December	Utrecht Group		Eindhoven Group	
	Loans	Overdrafts	Loans	Overdrafts
1930	55 2)	45 2)	67	33
1935	60 2)	40 2)	68	32
1940	68 2)	32 2)	76	24
1946	44	56	56 3)	44 3)
1947	40	60	56 3)	44 3)
1948	42	58	60 3)	40 3)
1949	45	55	53	47
1950	49	51	63	37
1951	55	45	68	32
1952	58	42	73	27

In farming and growing businesses there is a great need for long and medium-term capital. This is reflected in the comparatively large proportion of loans - i.e. long-term operating credits - in the total amount. A large part of the loans is taken up to finance transfers of land and farms. In the 'thirties the proportion of long-term credit gradually increased both in the Utrecht group and in the Eindhoven group from 55 % and 67 % respectively in 1930 to 68 % and 76 % in 1940. During this entire period and also after the war long-term credits occupied a relatively bigger place in the Eindhoven group than they did in the Utrecht group, which is similarly connected with the fact that the first-mentioned banks limit overdraft facilities to financial assistance for members for farming maintenance and improvement.

Another point is that the ratio of loans to overdrafts may vary greatly at different banks. In the Utrecht group there are some banks which have furnished comparatively large amounts on loan. This demonstrates the effect of local or regional conditions and the attitude of the bank managements.

- 1) Excluding advances to public corporations
- 2) See Note 2, page .
- 3) See Note 3, page .

It would therefore be incorrect to attribute all observed differences between the Utrecht and Eindhoven groups solely to different accentuations in the policies of the central organisations.

The widespread over-sufficiency of funds during the war and the reduction in the number of transfers of agricultural properties was accompanied by a fall in the amount of loans as a proportion of total credit facilities by 24 % in the Utrecht group and by about 20 % in the Eindhoven group. Influenced both by the revival of capital transactions in rural areas - particularly after the blocked account regulations ceased to operate - and by the urge to invest in agriculture, the percentage of loans gradually increased again however : as the table shows the ratios in 1952 were 58 % and 73 % respectively but did not yet surpass the 1940 level. The revision of price controls relating to farming land, which would make higher purchase prices possible, might result in a further growth of loans.

We have tried to obtain an impression of the duration of loans by dividing the amount outstanding at the beginning of a year by repayments during the year. This computation deliberately avoided starting from the average amount of loans outstanding during the year, in order to eliminate the influence of movements in credits during a year on the extent of the computed duration. The computed average duration does not indicate exactly for what periods the loans were contracted as the particular state of the business cycle and the solvency of the debtors will influence the extent of the computed figure. In a year unfavourable for agricultural activity delayed repayments will probably make our average currency greater than the contracted duration, while in a subsequent year when operating results are good the reverse may apply. The figures so computed therefore give only a rough guide to the credit duration actually occurring.

TABLE X: AVERAGE CURRENCY OF LOANS.  
(Years)

Year	Utrecht Group	Eindhoven Group
1930	5.2	4.4
1935	8.8	6.8
1940	6.2	5.3
1947	5.3	5.3
1948	5.1	5.1
1949	6.2	5.1
1950	6.3	6.4
1951	6.6	6.2
1952	6.5	7.4

The depression of the 'thirties of course saw an increase in computed loan duration; during those years of crises any repayments that were made will have been delayed, while in addition there was a huge demand for credit on good conditions.

The realised duration of loans by the Utrecht group for the entire period 1930 - 1940 was greater on the average than those made by agricultural banks affiliated to the Eindhoven group; they were 7.6 and 5.8 years respectively. Just after the war agricultural liquidity was very great and at first led to an comparatively small demand for credit and gave the opportunity of accelerated repayment. The computed currency of loans was accordingly comparatively short. As more credit was furnished however there was an increase in duration of loans at the same time.

The currency of loans by the Eindhoven group now seems to be far greater than the average for the years 1930 - 1940.

As to the structure of loans furnished by agricultural banks, only the annual reports of the Centrale Boerenleenbank Eindhoven, give any indications. The information so found has been summarised in the following table :

TABLE XI : STRUCTURE OF OVERDRAFTS AND LOANS BY AGRICULTURAL BANKS AFFILIATED TO THE EINDHOVEN CENTRAL BANK  
(Percentage of total)

Applicants	1938 1)	1949 1)	1950	1951	1952
(a) Farmers and Growers	81	54	55	53	58
(b) Non-agricultural, municipalities, and polder boards	8	13	28 2)	27	24
(c) Local economic organisations of organised farming and growing	6	18	17	20	18

Since 1938 therefore there has been a swing from loans to individual farmers and growers to loans outside agriculture and agricultural co-operatives. An important reason for the initial lag in credit to individual farmers and growers can be found in the slow recovery of property transfers. The investment policy of the agricultural banks compelled them to invest part of the deposits entrusted to them outside agriculture. The increasing demand for credits by farmers and growers in recent years, however, made both the Coöperatieve Centrale Boerenleenbank and the Coöperatieve Centrale Raiffeisen-Bank introduce special restrictions in 1951 regarding the furnishing of non-farming credits by local banks.

Generally speaking credits secured by mortgage seem to have acquired more prominence. Most of the outstanding amount of credit is now covered by mortgages. Prior to 1940 only 35 % of the Eindhoven group's loans was secured by mortgages, but now the proportion is about 66 %. This is largely due to the evolution of the credit-mortgage system; the owner-farmer nowadays prefers a credit-mortgage, the net cost of which is comparatively low because of its long duration, to seeking guarantors. In addition to this, the agricultural credit agencies apparently tend to prefer mortgage security for large credits. There will probably also be considerations connected with any preferential rights enjoyed by sureties. Furthermore there is a certain protection for the surety or guarantor himself, although he himself will become more cautious as amounts increase in importance. In order to ascertain the importance of guarantees at present in connection with credits furnished to tenant farmers and growers, we examined what security had been provided for credit furnished to individuals. Not merely percentages relating to outstanding amounts of credit have been given, but information is also included as to the numbers of credit amounts outstanding. This has been done because the amounts are not the only matter involved, but the number of farmers assisted by guaranteed credits is also significant.

- 1) The totals are not 100 % because the Reports do not give an exhaustive summary. Possibly municipalities and polder boards are not included in category (b).
- 2) This item consists predominantly of mortgage loans to non-farmers and also of advances to municipalities and polder boards.

TABLE XII : TYPE OF SECURITY FOR CREDIT FURNISHED TO INDIVIDUALS  
(PERCENTAGES)

(PERCENTAGES)													

Unfortunately no figures are available for the Utrecht group regarding secured overdrafts and we have had to make do with figures for the Eindhoven group. The table shows that in regard to these banks one-third of the overdrafts is still secured by guarantees. This, however, comprises 50 % of the total number of credit items! As far as numbers are concerned there has been a slight relative fall in recent years. Still, outstanding balances have remained proportionately the same. At 31st December 1952 the amount per overdraft averaged 2000 guilders as against 4400 guilders for overdrafts secured by mortgage. In the case of loans, guarantees are relatively unimportant. Following a decline in the percentage of guaranteed loans - measured by amount - this percentage reached a level of only 11 % in 1952. Nevertheless, this involved one-third of the number of loans. There is, however, a falling tendency to be observed in the number of loans, but this was accompanied by an increase in the average amount loaned. In 1952 the figure for the Eindhoven and Utrecht groups was respectively about 1300 and 1500 guilders for guaranteed loans, compared with 4900 and 5300 guilders respectively for mortgage loans. That guaranteed loans to farmers have not yet lost their importance is also clear from the amount of credit in 1952.

TABLE XIII : CREDIT FACILITIES TO INDIVIDUALS IN 1952 SPLIT  
TO SHOW NATURE OF SECURITY (PERCENTAGES)

	Utrecht Group		Eindhoven Group	
	Loans	Overdrafts	Loans	Overdrafts
Mortgages	77	.	89	56
Guarantees	}23	.	8	34
Others		.	3	10

Note : a = number of outstanding credit amounts as percentage of total number of outstanding credit amounts furnished to individuals.

b = amount of credit outstanding as percentage of total amount furnished to individuals.

In the case of credit facilities for companies and other corporate bodies, mortgage security is less common than in the case of individuals; a larger part is secured by guarantee and "others" i.e., stocks and shares, assignments etc. Of all credits furnished to companies etc. by the Eindhoven group in 1952, loans and overdrafts were secured respectively as to 25 % and 10 % by mortgage, as to 28 % and 69 % by guarantee and as to 47 % and 21 % by other forms of security.

Meanwhile it is clear from the foregoing that - although mortgages are nowadays the main type of security gauged by value - guarantees continue to be a frequent form of security. Tenant farmers who cannot provide collateral need not forego the credit facilities of agricultural banks provided wealthier sureties will act for them. Nevertheless young farmers and growers sometimes have difficulty in obtaining credit facilities.

The Agricultural and Horticultural Guaranty Fund can probably dispose of some of these difficulties. This fund was established exactly for those farmers and growers who cannot provide sufficient collateral to obtain investment credits within the framework of agricultural policy. Up to October 1952 the Fund had granted 116 applications, involving guarantees aggregating 1.13 million guilders. Guarantee by the Fund is actually very similar to an credit insurance, which for that matter is also the case in regard to the C Guarantee Fund of the Centrale Raiffeisen-Bank, Utrecht, which sometimes makes it possible for applicants lacking adequate collateral to obtain credit with the Fund's guarantee, although at a slightly higher rate of interest. The Coöperatieve Centrale Boerenleenbank, Eindhoven, has as such the Farmers' and Grouwers' Guarantee Fund. As the Guaranty Fund has the function of guarantor, the agricultural banks fully retain their financing task, in some cases it is true being called upon to bear a smaller risk in respect of the capital sum.

The relative fall in credit facilities as compared with cash deposits outlined in the foregoing, is largely evident from the larger deposits at the central banks. The following table gives some figures: -

TABLE XIV: CENTRAL BANKS' INDEBTEDNESS TO AGRICULTURAL BANKS  
(Fl. Millions)

31st December	Utrecht Group		Eindhoven Group	
	Balance between cash deposits and credit grants	C.B.In-debtedness	Balance between cash deposits and credit grants	C.B.In-debtedness
1938	118	97	80	78
1946	1162	1020	544	525
1952	864	651	505	466
Increase 1938-1952	+ 746	+ 554	+ 425	+ 388
Increase 1946-1952	- 298	- 369	- 39	- 59

Central Banks' indebtedness to the banks of the Utrecht and Eindhoven groups therefore increased by 554 and 388 million guilders respectively in the period 1938-1952. It is noteworthy that the Eindhoven Central Bank has absorbed the surplus funds of its local banks to a greater degree than has the Central Bank at Utrecht. Here again a slight difference in accentuation can be seen in the policies of the two organisations. With its preventive supervision of facilities, the Eindhoven Central Bank goes rather further with its restrictions upon investment facilities by local banks. The Utrecht group banks have considerably expanded their investment portfolio, viz. from 30 million guilders in 1938 to 152 million guilders in 1952. In both groups participation in loans to public corporations as well as direct loans to such bodies are more frequent than before the war.

The great increase in the Central Banks' deposits means for the agricultural banks a substantial improvement in their liquid position as compared with pre-war. At the same time, however, the central agricultural credit agencies' problems as regards investment of the funds have increased.

Owing to the great fall in credit requirements during the war, an entirely new period of credit facilities really broke in 1946. In the period 1946-1952 the amount of credit outstanding at the Utrecht agricultural banks increased by 366 million guilders and the increase at the Eindhoven group was 127 million guilders. 1) In the latter agencies about 70 % of this amount was financed out of the increase in cash deposits, but in the Utrecht group only to the extent of 20 %; the balance was however obtained by drawing on deposits at the central banks. Due in part to the increase in investments, there was a net decrease in the central banks' indebtedness to the local banks as table XIV shows. Such withdrawals were greater in the case of the Utrecht Central Bank.

Despite the great increase in credit facilities, the ratio of total credit outstanding to total savings deposits after the war was, as stated earlier, much lower than before the war. We must not simply look upon this as a consequence of the agricultural banking organisations' credit policy, even though greater care is now rightly being paid to the liquid position. For if we consider the increase in the amount of credit outstanding since 1946, we shall find it to be many times that in the period prior to 1940; the amount of new credit granted annually therefore far exceeds the amounts pre-war. It is only in regard to the level of cash deposits that the level of outstanding credits has remained behind. This demonstrates clearly the difference in the cyclical situation between the two periods.

#### B. Development of Central Agricultural Banks.

It appears from the balance sheets that the local banks' deposits at both central banks were largely of less than one years duration and the trend outlined above was expressed in the central banks' balance sheets as a considerable increase in current liabilities.

In 1952 such liabilities represented over 95 % of both banks' balance sheet totals. This means little, however, as the currency of liabilities to the affiliated local banks depends principally upon the interest and liquidity policy adopted by the central banks.

In cases where a central bank has made it possible for local banks to deposit part of a balance payable on demand for a firm period of one year, wide use has normally been of these facilities. In addition to this, agricultural banks are required to maintain a minimum liquidity. As the liquid funds this necessitates consist mainly of a balance at the central banks a large part thereof is actually deposited with the central bank longer than would appear from the balance sheets.

The following table shows liabilities divided between own and outside resources.

- 1) Because of repayments during this period, the amount of credit furnished was naturally much higher.

TABLE XV : STRUCTURE OF CENTRAL BANKS' LIABILITIES  
(ABSOLUTE IN FL. MILLIONS AND AS PERCENTAGE  
OF BALANCE SHEET TOTAL)

	Utrecht Central Bank				Eindhoven Central Bank 1)			
	Own re-		Outside		Own re-		Outside	
	sources 2)		resources		sources 2)		resources	
	abs	%	abs	%	abs	%	abs	%
1930	5	5	99	95	6	8	70	92
1935	5	5	92	95	5	7	62	93
1940	7	5	123	95	7	8	82	92
1946	11	1 3)	1045	99	8	2	537	98
1950	18	2 3)	710	98	11	2	493	98
1951	19	3 3)	655	97	11	2	473	98
1952	20	3 3)	727	97	11	2	507	98

Although "own resources" have increased absolutely on pre-war, there has nevertheless been a relative decrease; they do not represent more than 2 to 3 % of the balance sheet total. I should be remembered, however, that the central banks have a further potential reservoir of own resources resulting from local banks' limited liability and the obligation to pay up issued share capital.

The central banks could probably avail themselves of this limited liability of the member banks without striking too great a blow at confidence. A call by the local banks upon members who have unlimited liability towards them, however, would have far further reaching consequences. If we count the local banks' limited liability and the obligation to pay up share capital as the central banks' own resources, we obtain the following: -

TABLE XVI : OWN RESOURCES INCLUDING OBLIGATION TO PAY UP  
SHARE CAPITAL AND LIMITED LIABILITY OF LOCAL  
BANKS (ABS AND AS PERCENTAGE OF BALANCE SHEET  
TOTAL) 4)

31 stDecember	Utrecht Central Bank		Eindhoven Central Bank	
	abs	%	abs	%
1930	18	15	11	14
1935	18	16	10	14
1940	21	15	12	13
1946	29	3	14	2
1950	34	5	16	3
1951	53	7	16	3
1952	54	7	23	4

This clearly shows how both central banks' <sup>own</sup> resources even after including limited liability of affiliated banks and obligation to pay share capital in full, still remain relatively small. This is particularly true of the post-war period. A favourable trend can however be observed.

- Notes 1) To make the figures comparable with those for the Utrecht group, the balance sheet totals of the Eindhoven Central Bank have been adjusted in respect of Memorandum Items (uncalled share capital, liability fund, security funds or loan deposit, safeguarding securities, securities loan deposit.)
- 2) Paid-up share capital, reserves and retained profits.
- 3) Excluding tax provision, pension fund, disablement fund.
- 4) The balance sheet totals include liability and share capital commitments.

We will now examine in greater detail how the central banks' assets have developed. Firstly we will show the structure of these assets :

TABLE XVII : STRUCTURE OF CENTRAL BANKS' ASSETS (ABSOLUTE IN FL. MILLIONS AND AS PERCENTAGE OF BALANCE SHEET TOTAL).

31st Dec.	Utrecht Central Bank						Eindhoven Central Bank					
	Securities		Other capital market facilities and credit facilities		Liquid resources		Securities		Other capital market facilities and credit facilities		Liquid resources	
	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%
1930	17	17	25	24	61	59	31	40	.	.	.	.
1935	19	20	20	21	58	59	32	47	.	.	.	.
1940	28	21	32	25	70	54	41	47	.	.	.	.
1946	44	4	36	3	972	93	46	8	65	12	431	79
1950	180	25	177	24	367	51	90	18	291	58	118	23
1951	161	24	182	27	328	49	82	17	310	64	87	18
1952	172	23	192	26	372	50	78	15	300	58	137	26

In addition to Cash, Cashiers, Bankers, call money and deposits, liquid assets also include loans, balance with the Treasury, Treasury bills and cash loans to provinces, municipalities and polder boards. Although cash loans are not discountable at De Nederlandsche Bank, they are in practice often treated as liquid resources, and this view was indeed adopted by De Nederlandsche Bank when the credit restrictions were introduced, inasmuch as cash loans were included as liquid resources.

The figures for the Central Bank, Eindhoven, do not indicate what amount of cash loans is comprised in pre-war loans to provinces, municipalities and polder boards, and for this bank we have been able only to give some post-war figures for other capital market facilities and liquid resources. It does appear that this Bank's investment portfolio since 1946 has been relatively smaller than in the 'thirties. At the Utrecht Bank the contrary is rather the case. Capital market facilities, including credit facilities, fell substantially during the war; while securities and capital market facilities including credit in 1940 amounted together to 46 % of the balance sheet total, they had fallen to 7 % in 1946. In the case of the Eindhoven Central Bank such facilities in 1946 were 20 % of the balance sheet total. Since then there has been an increase at both Central Banks with percentages of 49 % and 73 % respectively, in 1952. Owing to the increase in "other capital market facilities and credit" liquid resources, expressed as a percentage of the balance sheet total, fell at both central banks from 93 % in 1946 to 50 % in 1952 at the Utrecht Bank and from 79 % to 26 % at the Eindhoven Bank. This then put an end to the abnormally high liquid position.

The figures clearly show how the Utrecht Bank usually holds a larger proportion of the balance sheet total as liquid resources and consequently has a relatively smaller amount out in investments than its sister organisation. The explanation for this partly to be found in the different type of customer. The Eindhoven group banks are mainly in districts with mixed farms. At these banks fluctuations in deposits and credit are usually less emphatic than at agricultural banks in arable, pastoral and market gardening districts. Furthermore an explanation may be sought in the fact that the Utrecht local banks - subject to certain liquidity standards - can pursue a more independent investment policy, although always by arrangement with the Central Bank. This can emphasise fluctuations in deposits at the Utrecht Bank. This Central Bank arms itself against this by keeping available funds as liquid as possible. In the Eindhoven group banks the emphasis on utilisation of cash deposits is slightly different because these banks' activities are limited chiefly to facilities of immediate importance to farmers and growers.

to the agricultural organisations referred to.



The work of the Eindhoven Central Bank as the investment institute for savings deposits with the agricultural banks is so given more emphasis. Purely investment work is looked after in the first place by their central organisation. All this has the result that the Eindhoven Central Bank can pay higher interest on deposits by local banks than its sister organisation can. The advantages of the higher amount of credit and other facilities in their own circle at banks affiliated to the Utrecht Central Bank more than offset this difference however. Cash deposits at the Eindhoven Central Bank represent 69 % of the cash deposits at its affiliated banks. At the Utrecht Central Bank this ratio is 47 %, which means that the Utrecht agricultural banks have themselves utilised 22 % of their cash deposits. The average interest received from these additional investments is such that interest earned on all facilities, including the balance held at the Central Bank, at least approximates that of the Eindhoven Banks.

The following table shows the structure of the heterogenous heading "Other capital market and credit facilities".

TABLE XVIII : MAIN ELEMENTS OF "OTHER CAPITAL MARKET AND CREDIT FACILITIES (ABSOLUTE IN FL. MILLIONS AND AS PERCENTAGES OF TOTAL).

Utrecht Central Bank								
31st December	Provinces etc.		Mortgages		Agricultural organisations		Local Banks	
	abs	%	abs	%	abs	%	abs	%
1930	-	-	8	32	9	36	7.99	32
1935	-	-	7	35	6	30	6.37	32
1940	21	66	6	19	3	9	0.76	2
1946	14	39	3	8	19	53	-,-	-
1950	101	57	4	2	69	39	3.31	2
1951	92	51	4	2	85	47	0.14	-
1952	102	53	4	2	86	45	-,-	-

  

Eindhoven Central Bank 1)								
31st December	Provinces etc.		Mortgages		Agricultural organisations		Local Banks	
	abs	%	abs	%	abs	%	abs	%
1930	.	.	6	.	6	.	5.28	.
1935	.	.	4	.	3	.	5.00	.
1940	.	.	3	.	2	.	1.11	.
1946	45	69	1	1	16	25	-,-	-
1950	225	76	4	1	60	26	0.09	0
1951	223	72	4	1	80	26	0.90	0
1952	216	72	5	2	64	21	0.15	0

In addition to investments in securities therefore investments in loans to lower public corporations prove to be highly important. At the same time it is noticeable that this item is both absolutely and relatively greater at the Eindhoven Bank post-war than it is at the Utrecht Bank. Since we cannot furnish complete figures for pre-war, for the reasons stated in table XVII, as far as the former bank is concerned, comparison for 1930, 1935 and 1940 is impossible. It might be said, however, that the Utrecht Central Bank had no longterm loans outstanding to municipalities and provinces before 1937.

1) Under the heading Debtors the Balance Sheet at 31.12.52 includes fl. 12.25 million on account of secured debtors. This is not included in the table as it could not be ascertained where it belonged. In any event it does not represent credit facilities to the agricultural organisations referred to.

Mortgage loans by the central agricultural credit agencies seem to have been of very minor importance, especially since the war. The table illustrates moreover the small extent of credit facilities to affiliated local banks. This shows that the "siphoning" of surplus cash deposited by one local bank at a central bank over to another local bank with a shortage has lost a lot of its importance - if we examine the position at the end of the year.

One reason for this is the fact that agricultural banks have bigger funds than before the war, and it is an incidental result of the close liquidity scrutiny of the central banks. At the Utrecht Bank, this scrutiny is mainly quantitative, while at the Eindhoven Bank it is mainly qualitative. There is still some siphoning of surplus cash during seasonal activities, and in odd cases may even be very important. Potentially, this and the offsetting activities of the Central Banks are very important.

There is a very noticeable increase in the amount of loans and credits with agricultural organisations. These are associations for buying and selling fertilisers and feeding stuffs, marketing and market gardening associations, co-operative dairying factories, etc. In the Utrecht Bank this amount increased by 9, 6 and 3 million guilders in the years 1930, 1935 and 1940 to 86 million guilders in 1952, while in the Eindhoven Bank the trend was 6, 3 and 2 million guilders to 80 million guilders at 31st December 1951. During 1952, however, it fell to 64 million guilders. This development was accompanied by a percentage increase; expressed as a percentage of the balance sheet total loans to agricultural organisations increased from 2 % and 3 % respectively in 1946 to 12 % in 1952. The fall in such facilities resulted from the issue of debenture loans to an amount of 13 million guilders by several co-operative central trading associations. Their purpose was consolidation of the high amount of credit furnished by the Eindhoven Central Bank to these associations. The debentures have partly been taken by agricultural banks and partly by private individuals.

The development outlined is the result of the increasing extent to which dairying co-operatives, buying and selling co-operatives, marketing associations, and co-operative sugar, potato meal, and strawboard factories seek assistance from agricultural bank funds for capital investment purposes.

C. Liquidity and solvency of both agricultural credit, organisations as a whole.

Even before the Credit Agencies Supervision Act came into being the central agricultural credit agencies kept an eye on liquidity levels at the individual agricultural banks. This was done by means of a system of preventive and curative credit control, such as regulations, for instance, regarding credit facilities outside the real purpose, as provided by the memorandum of associations, of granting credits and overdrafts for maintaining or improving agriculture and horticulture. This credit supervision has existed in both organisations from the outset. For the Utrecht agricultural banks a "dispensations rule" was established in 1930 which laid greater emphasis on quantitative supervision in addition to qualitative control.

Generally speaking agricultural credit agencies' liquidity is lower than commercial banks', this being connected with the savings bank character of the agricultural banks. To judge the liquid position of the agricultural credit organisations it is therefore better to compare them with savings banks than with commercial banks.

The table below shows a number of figures for both central banks including affiliated agricultural banks.

TABLE XIX : LIQUIDITY 1)

31st December	Utrecht Central Bank incl. affiliated agricultural banks	Eindhoven Central Bank incl. affil- iated agricultural banks.	Special Savings Banks 2)
1938	15	.	12
1947	66	64	38
1948	47	42	23
1949	42	38	21
1950	30	20	13
1951	27	15	10
1952	28	22	.

During the war there was excessive liquidity which was subsequently reduced again under the influence of the currency reform, the special tax levies and the reviving demand for credit. Liquidity is at present greater than in 1938 however. It must nevertheless be remembered that liquidity before the war had been very adversely affected by the agricultural depression; we have already pointed this out. As compared with the savings banks, the agricultural credit agencies' liquidity can now be described as good.

Influenced by De Nederlandsche Bank's credit restrictions, the liquid position was largely frozen in 1951. This was particularly true, because the critical date of 30th September 1950, to which the maximum position of debtor balances was linked, was an unfavourable date for a number of the agricultural banks 3). This was especially so as regards banks operating in market gardening regions, the peak of whose financing is seasonal and falls about April. The credit "slack" of these banks was consequently exceptionally low. Furthermore the drawback applied to the entire agricultural credit organisation that at first it was impossible to play off the "slack" between the different banks, although a characteristic feature of the agricultural banking system is that surplus funds at local banks are "siphoned" to banks with a shortage, via the Central Bank. For a time this defeated the object of the central banks as a kind of compensating fund. It often happened that the total amount which agricultural credit agencies had to draw from De Nederlandsche Bank through the credit restrictions increased without the total credit they were granting having expanded. On 1st September 1951 the rules were altered so that henceforth the position of the agricultural banks affiliated to a central bank would as a whole determine the amount of the credit it was compulsory to take from De Nederlandsche Bank. After that it was no longer decided for individual banks whether compulsory credit drawing from De Nederlandsche Bank was required. In the meantime the credit restrictions were suspended in their entirety in Spring 1952.

The table below attempts to give an idea of the solvency of each agricultural credit organisation as a whole, figures for the Special Savings Banks being included for comparison.

- 1) Liquid resources as percentage of obligations payable on demand.
- 2) Source : Savings Bank Statistics.
- 3) An alternative option, arranged for agricultural credit agencies, tied debit balances to an maximum of 10 % of cash deposits. This regulation, however, left just as little scope for expanding credit facilities.

TABLE XX: SOLVENCY 1)

31st Dec.	Utrecht Central Bank with affiliated agricultural banks	Eindhoven Central Bank with affil- iated agricult- ural banks	Special Savings Banks 2)
1938	8	11	15
1947	4	4	11
1948	4	4	11
1949	5	5	11
1950	5	5	11
1951	5	5	8
1952	5	5	.

These figures for agricultural credit agencies which show the ratio between own and outside resources give a less favourable impression compared with those of the Special Savings Banks. Whereas in 1938 solvency - as meant above - of the Utrecht and Eindhoven organisations was 60 % and 70 % of that of the Special Savings Banks, these percentages had declined by 1950 to about 45 %. In 1951 it was again greater however owing to a decline in reserves at the general savings banks. These percentages do not give an impression of considerable solvency because the savings bank and credit-granting function of the agricultural banking business involves greater risks than the savings banks' purely saving function. 3)

We must not forget, however, that the agricultural credit agencies' solvency is actually much greater than might be gathered from these figures; the unlimited liability of the agricultural bank's members gives a very valuable supplementary guarantee for the creditors of the organisations. In practice however there is an endeavour to make as little use as possible of the liability rules. Severe operation of the rules might seriously damage the business of the agricultural credit organisations because the good reputation of the banks would be prejudiced and members' and savers' faith in the organisations would be shaken. For actual operation unlimited liability has far less importance than it has for third parties to whom it continues to be a potential guarantee. Meanwhile in judging the agricultural banks' reserves it should be pointed out that reserve formation in these organisations is impeded by fiscal obligations relatively more than are reserves in the P.O. Savings Banks and Special Savings Banks, inasmuch as the latter are not subject to Company tax like the agricultural credit agencies. The local agricultural banks do pay at a lower rate, i.e. 20 %. But the Central Banks pay the ordinary rate of 50 %, although they operate almost entirely with the savings of the local banks. As commission and charges earned by the agricultural banks are relatively much smaller than the amount earned by the commercial banks, the result is that fiscal commitments affect the savings bank business in particular of the agricultural banks, and this is left untouched in the other banks. Moreover, when comparing the agricultural banks' reserves with those of the savings banks, we should remember that the former organisations are of more recent origin.

- 1) Own resources as a percentage of outside resources.
- 2) Source : Savings Banks Statistics.
- 3) We are compelled to ignore the undisclosed reserves which are not expressed in the balance sheet figures. That such undoubtedly exist is clear from the fact that buildings and stock-in-trade in both Central Banks are valued in the books at fl. 1. As this factor also plays a part in the Special Savings Banks the basis for comparison is not affected. This is certainly due to some extent to the undisclosed reserves against operating risk formed in agricultural banks but which it can be assumed do not exist - or exist only to a slight extent - in the savings banks. Nevertheless the Special Banks' figures are the best standard of comparison.

Generally speaking, however, little significance can be attached to the figures showing the ratio between own and outside resources, in answering the question to what extent a bank should be regarded as able to cover losses out of its own resources and to what extent it can be regarded by the creditors as sound. A comparative figure gives too static a picture for this; at least of equal importance in this problem is the way in which cash deposits have been utilised. It appeared from the foregoing table that the agricultural credit agencies have taken good care to keep adequate liquid resources in the business. As regards the character and extent of credit facilities, with which operating risks are closely related, the above has already indicated that agricultural banks arrange for adequate security for credit facilities. It is also a good feature that the Bank officials in the village communities often know something of the personal characters of the applicants. Comparison of the total volume of credit with the banks' own resources shows that in the Utrecht organisation in 1938 10 % of the credit facilities was covered by reserves as against 12 % in 1952. In the Eindhoven organisation, however, there was a drop from 22 % in 1938 to 13 % in 1952. These percentages are much lower than in the 39 commercial banks where the amount of credit at the end of 1952 was covered as to about 60 % by capital and reserves. As against this there is of course a liability rule in the agricultural banks but - as pointed out above - its immediate importance for the business itself must not be overrated.

Having regard to the position in the savings banks and the general banks with which the agricultural credit agencies show some similarity, a vigorous reserve policy on the part of the latter seems advisable. 1) If the unlimited liability of members is to be relied upon as little as possible in future as well, the complement will have to be sought in an expansion of the reserves. Actually much attention is already being given to this; since 1938 the reserves of the Utrecht Central Bank and its affiliated banks increased by 41 million guilders to 71 million guilders in 1952, and those of the Eindhoven organisation by 15 million guilders to 31 million.

#### D. The importance of agricultural credit agencies in the Dutch credit system.

The collection of comparable, relevant figures for credit furnished by agricultural credit agencies and other banks meets with great, practically insurmountable difficulties. This applies especially to the pre-war period and the years 1952 and 1951. Nevertheless, in order to obtain some idea of developments since the outbreak of war, we give a table below containing some figures as a guide.

TABLE XXI : VOLUME OF CREDIT OUTSTANDING AT AGRICULTURAL CREDIT BANKS AND COMMERCIAL BANKS (FL. MILLIONS)

31st Dec.	Agricultural credit agencies 2)	Big four banks 2) 3)	42 commercial banks 2)	2 as % of 3	2 as % of 4
1	2	3	4	5	6
1938	345 4)	273 4)	.	126	.
1946	224	338	589	66	38
1947	295	411	682	72	43
1948	375	452	771	83	49
1949	481	608	992	79	52
1950	696(677)	666	1101(1095)	105(102)	63 (62)
1951	.(850)5)	793	.(1290)6)	.(107)	.(66)
1952	.(910)5)	740	.(1304)6)	.(123)	.(70)

- 1) Janzen, t.a.p. pp. 534 pointed out in 1934 the necessity of a further strengthening of the reserves.
- 2) Unless otherwise stated, the figures are taken from the Statistical Bulletin and the Annual Figures 1947-1950 from the Central

- Statistical Office. Of the combined balance sheets, the item "Debit balances of credit drawers" is included in the table.
- 3) This column includes the item "Debtors" of the Amsterdamsche Bank, Incasso-Bank, Rotterdamsche Bankvereniging and of the Twentsche Bank.
  - 4) These figures have been computed so as to link up somewhat with those published by the Central Statistical Office since 1946. For the Utrecht organisation the following items are included: loans and overdrafts, agricultural organisations, long-term loans; for the Eindhoven organisation: loans and overdrafts, deposits out, sundry debtors; for the big four banks debtors and current accounts are included (See yearly figures Central Statistical Office, 1939).
  - 5) Taken from De Nederlandsche Bank Annual Reports 1951 and 1952 which obtained the figures from monthly returns. The figures do not provide a complete link-up with the preceding ones and are therefore in brackets. They comprise the items: "Overdrafts by lower official bodies", "Debit balances of other credit drawers", and "Other capital market facilities".
  - 6) 39 commercial banks. These figures are also taken from De Nederlandsche Bank annual reports for 1951 and 1952 and comprise: "Loans against stocks and shares," "Overdrafts by lower official bodies", and "Debit balances of other credit drawers".

The comparable figures shown in the table indicate that the relative importance of agricultural credit agencies has greatly increased in comparison to commercial banks, since 1946; in 1952 the amount outstanding in credit furnished by these agencies even considerably exceeded that of the big four banks. The total credit furnished by the former in that year was about 70 % of the credit furnished by 39 commercial banks. The question what change there has been in pre-war conditions is difficult to answer as it is not absolutely certain if the 1938 figures are comparable with the post-war figures. The above table does give the impression, however, that the agricultural credit agencies have not yet recovered their pre-war position as against the general banks.

#### Summary.

Since the 'thirties agricultural credit agencies have developed prosperously in many ways. Not only has the savings bank functions of the agricultural banks increased in importance as compared with the P.O. Savings Bank and the Special Savings Banks, and not only has current account business via the agricultural banks leapt ahead, but having regard to the pre-war position there has also been a considerable improvement in the liquid position of the agricultural credit agencies. The agricultural banks are now this country's biggest savings organisations. At 31st December 1952, savings deposits totalled 68 % of those at the Post Office Savings Bank and the Special Savings Banks combined.

The excess of liquid resources which arose through the war no longer exists. The improvement in liquidity as compared with pre-war is expressed in a fall in the percentage of cash deposits advanced in the form of credit facilities. These factors mean that the agricultural credit agencies can now amply meet a healthy demand for credit. In the immediate post-war years the demand for credit was relatively low, because of the surplus funds existing in agriculture. Demand gradually increased, however, influenced by a revival of capital transactions in farming areas, the urge to invest, rising prices and the pressure of taxation. These factors led to the amount of loans and overdrafts at agricultural banks increasing by about 500 million guilders between 1946 and 31st December 1952. In addition, both Central Banks have increased loans and credits to agricultural organisations (buying and selling organisations, dairying factories, etc.) to a substantial amount, at 31st December 1952, 160 million guilders was out with these organisations, or 130 million guilders more than at 31st December 1946.

Expressed as a percentage of outside resources, the agricultural credit agencies' own resources have declined considerably relatively to pre-war. It is desirable to pay considerable attention to the building of reserves in the future as well. Unlimited liability on the part of members of local banks does give a guarantee as against third parties which must not be underrated, but is of little moment for current operating purposes.

Although agricultural credit agencies have apparantly not yet recovered their pre-war position as against the commercial banks, they continue to occupy a very prominent place in Holland's credit system, with an amount of credit outstanding which represents 70 % of that at thirty-nine commercial banks.

---