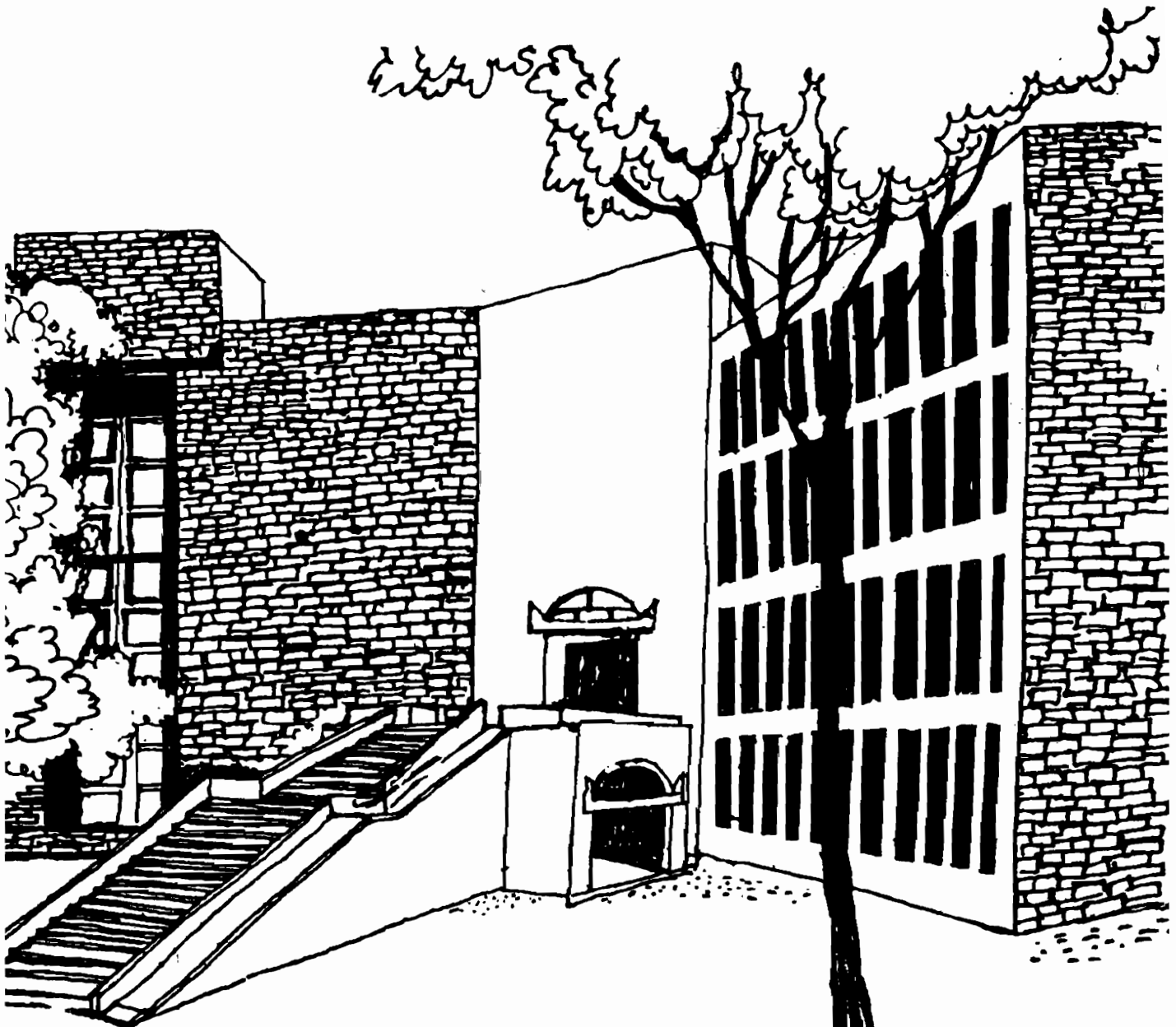




Working Paper



**Structural Features of India's
Financial System: 1980-92**

September 1993

By

A.B. Rastogi and A. Ghosh

WP1142
■■■■■■■■■■
WP
1993
(1142)

W P No. 1142
September 1993

The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication stage.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD - 380 015
INDIA

PURCHASED

APPROVAL

GRATIS/EXCHANGE R & P
Committee

PRICE

ACC NO.

VIKRAM SARABHAI LIBRARY

L. L. M., AHMEDABAD

**Structural Features of India's Financial System:
1980-92**

by

A. B. Rastogi and A. Ghosh

Indian Institute of Management,
Ahmedabad - 380 015

ABSTRACT

The objective of this paper is to provide a concise description of the Indian Financial System from macro-economic perspective. The study analyses the evolution and interrelations of the financial system using the flow of funds framework and other tools of financial planning. The Financial intermediation by the banking sector waned a little as other financial companies gained importance in the economy. However, net assets, deposits and credits outstripped the growth rate of the economy.

Structural Features of India's Financial System: 1980-92

by
A. B. Rastogi and A. Ghosh
Indian Institute of Management,
Ahmedabad - 380 015

The objective of this paper is to provide a concise description of the Indian Financial System from macro-economic perspective. The study analyses the evolution and interrelations of the financial system using the flow of funds framework and other tools of financial planning. It is an analysis at a high level of aggregation of the flow of funds from sectors having financial surplus to those in deficit. At the most aggregate level in India (which considers the personal sector, the public sector, the corporate sector and the overseas sector), the personal sector always has a surplus and the public sector a deficit, while the position varies from time to time in the other two sectors. The inclination is to comprehend the process by which savings have been channelled to investors through the financial system in the last decade. It especially focuses on money as it finds its way from savers to investors through financial institutions and markets.

Various measures of financial development show an increase in the importance of financial institutions in the economy and of financial flows relative to economic activity (table 2.1). The financial sector has played a very important role in transferring funds from the surplus to the deficit sectors of the economy. As noted earlier, the main surplus sector remained Household and Rest of the World (ROW), while the Government and private corporate business remained deficit sectors. One of the main features of the eighties was a marked increase in the fiscal deficit of the government sector. The financial deficit of the government increased from 6.7 per cent in 1977-81 to 8.8 per cent in 1985-86 and was brought down to 6.2 per cent in 1991-92 as the economy underwent stabilisation policies since July 1991 (table 2.2). Table 2.2 shows the flow of funds in the 1980's through the major sectors in the Indian economy. The rest of the world which was in deficit in the late seventies turned into a surplus sector in the 1980's but the government and private corporate business remained in deficit.

The two deficit sectors, namely, the corporate sector and the government sector, complement their funding requirements by direct borrowing from households and ROW, and indirectly through financial intermediation (table 2.2). The Household sector, which recorded very high financial surpluses in the 1980s, lent to the deficit sectors in the form of currency and deposits, contractual savings, small savings and trade debt.

One of the reasons for high savings in the economy is the elasticity of gross domestic savings with respect to real income which is estimated to be approximately 2.0 [Morris (1985)]. The rise in real income in the eighties sustained the saving rate at a relatively high rate. Higher saving rates in the Indian economy have been accompanied by higher levels of financial savings. Household savings in the form of financial assets and physical assets have increased. Financial assets especially saw a rise of 9.7 per cent of NDP in 1990-91 from a comparatively small figure of 3.8 per cent of NDP in 1970. Net deposits, in absolute term, in the household sector portfolio, continued to show an impressive increase in the 1980s, but as a proportion of net household financial savings declined from mid-eighties as a result of increase in net claims on government (table 2.2). Bulk of these deposits went to the banking sector which increased their role in the financial system [Jadhav (1988)].

Another important feature of the 1980's has been a sharp jump in the holdings of shares and debentures as a proportion of financial assets of the household sector. It is our contention that investors were mainly encouraged by the market yield of these instruments.

The government directs commercial banks to lend to priority sectors. The public sector uses a large proportion of banking system resources because, in addition to lending, the banks also invested about 34.7 per cent on average of total deposits in government and government approved securities in the eighties as in 1980-81. The reserve requirement, known as Statutory Liquidity Ratio (SLR) remained the major channel for directing bank resources to the government. Together with Cash Reserve Ratio (CRR), required to be maintained by the scheduled banks, the

flexibility of the banking system was further reduced as the scheduled banks were required to maintain these along with SLR.

The Credit Authorization Scheme (CAS) came into existence in 1965, and was reviewed by the Marathe Committee in 1983. The CAS scheme was modified following the recommendations of the Tandon (1975) and Chore (1979) Committee. The allocational objective of scarce credit lost much of its meaning as the priority sector lending was introduced from 1969 onwards and vigorously implemented. However, the scheme has been kept to discipline the large borrowers and not allow them to misuse credit. It is a moot question whether credit available at high cost was misused by large borrowers in general or not, but it certainly made the banks inflexible in the changing economic environment and has put extra burden on RBI, which acted as a clearing house for all the banks [Morris (1985)]. Its effect, however, at macroeconomic level was minimal in the eighties as new instruments were used by large borrowers. In fact, it introduced certain amount of inefficiency in the Banking sector.

The pre-eminence of public sector banks in the commercial banking system of the country remained in terms of total assets, deposits and credits. About 91 percent of commercial banks assets belong to public sector banks. In the last decade public sector banks have lost ground to commercial sector banks marginally. Nevertheless, the compound growth in assets, deposits and credits which was roughly 15%, has outstripped the growth rate of nominal GDP of 10.8% in the eighties. The table 2.3 suggests a continuous growth in number of offices, aggregate deposits and credit. But credit-deposit ratio declined from about 67% in 1979 to about 59% in 1991.

Commercial banks, however, constitute the largest proportion in the composition of financial assets of financial institutions and banks. There has been a gradual increase in the financial assets owned by the development banks over the last one decade (table 2.4).

Table 2.5 shows a remarkable shift in allocation of financial savings of the household sector directly going to the corporate sector either as securities or as company deposits. This can be

explained in terms of attractiveness of the instruments to savers, reduction in the costs of intermediation, floatation of new issues, improvement in productivity and financial performance of the corporate sector.

Further financial deepening of the economy took place in the 1980's. Assets to GDP ratio of financial institutions increased from 103 percent in 1980 to 255 percent in 1990 (table 2.4 and table 2.6). To a great extent social control of commercial banking is responsible for this improvement and increase in foreign private remittances also contributed positively.

Table 2.7 gives the selected ratios to measure the financial development of the country. These are used by Morris (1985) and RBI (1985) to quantify the financial development. The Finance Ratio indicates the relationship between financial development and economic development and is a ratio of total financial claims to national income. The Financial Interrelation Ratio is measured by the ratio of total financial claims to net physical capital formation. It is an indicator of funding of investment in the economy. The New Issue Ratio is a ratio of primary issues to net physical capital formation indicating the extent to which non-financial sector directly finances investment. The Intermediation Ratio is measured as a ratio of issues of financial institutions to issues of non-financial institutions. It indicates the comparative performance of the financial and the non-financial institutions in the financial development of the country.

The finance ratio has increased by 17 percentage points over the decade which suggests that the financial sector is fast catching up with the economic development and hence indicates the rapid pace of financial deepening in the economy. The new issue ratio over the years has not improved significantly. The intermediation ratio increased at a rapid pace during the years of banking expansion, the reverse trend in recent years signifying that the private corporate borrowers approach the investors directly. It shows a phenomenal increase over the previous years in 1982-83 and 1986-87 as a result of upward revision in debenture interest rates.

Table 2.8 gives the flow of funds by major type of instruments for government, private corporate business and household sector. The government sector deficit was increasingly financed by treasury bills and other securities indicating a gradual build up of domestic debt in the 1980's. In case of private corporate business interesting developments occurred in the 1980's. Although, institutional borrowing remained the largest source of fund, its pre-eminence was gradually eroded by debentures and deposits. Trade credit has been decreasing as per the flow of funds table. Paid up capital declined in the early eighties but increased phenomenally in the late eighties.

The household sector cash balance remained stable in 1980's and bank deposits also hovered around 50 percent mark. Eighty percent of the loanable funds of the household sector continued to go into cash, bank deposits and provident fund. Government securities and small savings and direct loan/deposit to private corporate sector showed an improvement as return on these investments were more attractive than bank deposits. Shares/debentures, too, gained momentum, suggesting a gradual conversion of depositors into investors; a positive sign of growth in income with middle income group people ready to take risk for a higher rate of return.

Table 2.9 gives a financial instrument-wise analysis of household sectors savings. This gives a clear picture of the movement of the sector's savings as well as suggesting probable reasons for their movement. The household's demand for liquidity, for transactional, speculative and precautionary motives, gets satisfied by holding cash. However, the single largest form of financial savings are in the form of deposits and commercial banks take the lion's share of these deposits. Other substantial proportion of savings are done in the form of accretions to Life Insurance funds and provident funds. Claims on government under small savings, special bearer bonds and direct investment in government securities remained very small in the eighties. Other savings of the household in the form of units of the Unit Trust of India, shares and debentures increased gradually in the 1980's.

The 1980's saw some change in the public aversion towards risk. The growing economic development and enhanced income with people changed the public perception and also prepared them to take risk.

Certain amount of public awareness about corporate securities too helped the household sector, especially in cities, to go for riskier assets.

The assertion is supported by data on financial savings which shows gradual change towards more risky instrument and away from bank deposits. This becomes clearer when we take 1980/81, 1985/86 and 1990/91 figures. The largest percentage increase in shares and debentures corroborate our predilection that in the eighties depositors were turned into investors. The factors which may have been helpful in this conversion are: (a) the deepening of the financial system, (b) attractive returns on debentures and shares compared with bank deposits, and (c) as industrial growth accelerated in the eighties, the savers were lured towards capital gains rather than just yield of different instruments.

The share of deposits on commercial banks remained at about 85 percent indicating that commercial banks were able to capture the increasing amount of growth in total deposits, especially through a vast network of branches throughout the country. Also, compared with other financial assets, returns on bank deposits remained competitive in 1980's (table 2.10 and 2.11). The tax concessions granted on small saving instruments had positive impact in attracting the household savings to the saving instruments like Indira Vikas Patra and Kisan Vikas Patra. Government had to make them attractive to finance higher investment expenditures and government deficits.

The revival of company deposits is explained by the large spread between bank borrowing and lending rates which allow well established big companies to take deposits directly from the public by paying higher returns than banks and still reduce their cost of funds. The large spread is a direct result of pre-emption of funds by the government through SLR and a pressure on the commercial banks to show profits. The lengthy procedures of financial institutions to borrow funds has also contributed significantly to this phenomenon. Another important reason had been the improved liquidity of debentures, as these could be traded in the secondary market, which made them more attractive than term deposits.

A large proportion of savings continued to be captured by bank deposits, in spite of losing the charm of higher returns, due to wide and extended network of branches. Industrial securities yield remained comparatively poor which were more than adequately compensated by capital gains. But in market towns and small cities absence of network of brokers and professional advice has kept town folks away from investing in securities. After the 'Securities Scam' of 1992 the scepticism towards these instruments has increased.

Indian government intervention in the allocative process both by directing the commercial banks to lend to priority sector and special development banks to make priority loans has a direct bearing on the profitability of the banking sector. Indian banking system's term lending, about 40% of total credit outstanding remained skewed towards priority sectors -- agriculture, transport, small-scale industry. And term lending to trade and large industries remained marginal.

The advantage of priority sector allocation of credit at concessional terms and conditions including interest rates conflicts with monetary policy objective of controlling inflation. As the priority sectors do not get affected during credit squeeze, the burden of adjustment falls totally on medium and large industry. Not only this, it also weakens the effectiveness of the monetary policy.

Reserve Requirements

The two reserve requirements, namely, cash reserve ratio and the statutory liquidity ratio are principle instruments to control liquidity and to allocate resources between the public and private sector respectively. The CRR is a minimum cash balance which the banks have to hold with the RBI. The SLR is an asset requirement to be held by each bank against its liabilities. These assets include 'approved' securities as well as liquid assets such as gold, cash etc.

The SLR has clipped the power of the banks to provide credit to the private sector in the eighties as noted earlier. It became an

instrument to provide resources to the government at a significantly lower cost than the prevailing market rate. Thus, SLR affected credit creation by reducing the amount available for lending but did not have a deflationary impact on the money supply. The CRR, on the other hand, had deflationary impact on the money supply as a certain proportion of bank liabilities had to be kept with RBI as cash balance.

Interest rate policy

The interest rate policy was fixed by the government through the Ministry of Finance and the Reserve Bank of India, and follows somewhat conflicting objectives.

These objectives are: mobilisation of financial savings by offering positive real rate of interest to depositors, lending to particular sectors at preferential interest rates, financing the governments fiscal deficit as cheaply as possible and provide macroeconomic stability. This has resulted in a complex interest rate structure and given rise to inefficient financial intermediation. The existence of detailed credit allocation system along with the complex interest rate policy has rendered the latter a blunt instrument to control credit in the system [Morris (1985)]. The interest rate policy provided the government cheap source of fund. Nevertheless, allocation of scarce resources between alternative investments was performed by the mechanism of priority sector lending and hence, overall credit policy is less efficient for this purpose.

During the eighties, interest rates had been moving upward and only in 1992 they have been brought down a little. The reason behind this upsurge in interest rate is the rise in inflation and to keep real interest rates positive. RBI has followed a policy of keeping real interest rates positive for depositors and given the cost of priority sector lending etc and servicing costs to banks, the difference between deposit rate and lending rates have differed by 6 percent to 7 percent. The eighties, therefore, saw the lending rates being in double digits all the time.

As noted earlier, in the eighties, the level and structure of interest rates were fixed by the government in the eighties. These were determined by government policy and not by competitive market forces. Tables 2.11 and 2.12 give the structure of interest rates which are differentiated on the basis of the size of loans, maturity source of funds, purpose of the loan and the sector to which the loan is being given. In the eighties, nominal rates showed a tendency to increase indicating scarcity of capital and higher inflation rate. In order to encourage depositors to lend at longer maturities the short-term rates on deposits were kept lower than the long term rates. On the other hand, term lending rates were lower than those for short-term rates to promote long-term investment. This has created the shortages of fund to lend to industries for long-run investment.

During most of the period of our study deposit and lending rates were subject to either floor or ceilings, but a significant spread between ceilings was maintained. However, since the SLR requirement gave a captive market for the government securities, government could get away by paying less than private securities.

The empirical evidence suggests a positive relationship between real rate of interest and savings. In the eighties, lending rates have been positive in real terms, deposit rates too more or less stayed positive. Government securities yielded negative interest rates except in the early nineties. In general, government followed the policy of changing nominal interest rates infrequently and has relied on attacking inflation by direct means especially when inflationary expectations had their germination and growth in the failure of agriculture production as a result of natural calamities.

References:

VIKRAM SARABHAI LIBRARY
INDIAN INSTITUTE OF MANAGEMENT
VASTRAPUR, AHMEDABAD-380015

- Jadhav N. (1988) - 'Recent Financial Deepening and Disintermediation in India: Incidence, Impact and Issues', *RBI Occasional Papers*, Vol. 2, pp.71-99.
- Moris Felipe (1985) - *India's Financial System*, World Bank staff working paper number 739, World Bank, Washington.

Table 2.1: Financial assets of Banks and Financial Institutions as a % of GDP

	1981	1986	1987	1988	1989	1990	1991
1. Banks (a+b+c)	46987	108372	127876	147186	176461	205515	232786
(as % of the GDP)	32.8	41.7	43.4	41.9	43.0	43.5	42.9
a. All schd. comm. banks	44622	103627	122513	140747	168480	196377	222613
b. Non schd. comm. banks	9	23	30	36	53	60	77
Total comm. banks	44631	103650	122543	140783	168533	196437	222690
c. State Coop Banks	2356	4722	5333	6403	7928	9076	10096
2. Financial Institutions	16650	45907	54470	66828	83651	102184	121253
(as % of the GDP)	11.6	17.6	18.5	19.0	20.8	21.6	22.4
Term-Lending Institutions#	6143	21555	25674	31239	37874	44941	51868
State Level InstitutionsS	1733	4341	5290	6241	7204	7899	8832
Investment Institutions*	8534	19143	22475	28037	36980	47694	58566
Other Institutions@	240	868	1031	1311	1593	1650	1987
3. Aggregate (1+2)	63637	154279	182346	214014	260112	307697	354039
(as % of the GDP)	44.4	59.3	61.9	60.9	64.7	65.1	65.3
4. Percentage share :							
a. 1 to 2	73.8	70.2	70.1	68.8	67.8	66.8	65.8
b. 2 to 3	26.2	29.8	29.9	31.2	32.2	33.2	34.2

Source: 1.RBI,Report on trends &progress,Mar 1993

#NABARD, ICICI, IRBI, IDBI, IFCI & EXIM BANK.

SSFC's & SIDBI's

*LIC,GIC & its subsidiaries & UTI

@DICGC & ECGC

Table 2.2 - Financial Balances (Surplus (+) or Deficit (-) as a % of GDP)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1. Banking	0.9	0.5	0.3	0.01	0.01	0.4	0.1	0.02	0.3
2. Other Financial Institutions	0.18	1.3	0.5	0.6	0.5	0.5	0.6	0.7	0.7
3. Private Corporate Business	-3.7	-3.1	-2.0	-2.2	-2.5	-3.0	-1.6	-2.3	-2.2
4. Government	-8.4	-12.0	-7.6	-8.8	-8.8	-9.3	-8.4	-9.8	-10.1
5. Rest of World	1.7	1.1	1.3	1.1	2.1	2.0	2.1	2.6	2.4
6. Households	3.2	6.8	6.4	7.7	7.2	8.0	7.5	7.3	8.9
7. Sectors not classified elsewhere	2.7	1.9	0.5	1.9	1.4	2.1	0.2	1.3	1.2

Source: " Flow of Funds A/Cs" RBI Bulletin, 1991 & 1992

Table 2.3 - Progress of commercial banking at a glance (in Rs. billion - current prices)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
1. No. of offices	30202	32419	35706	39177	42079	45332	48932	53265	53840	54976	57698	58901	60251
2. Aggregate Deposits	286.7	333.77	401.84	461.3	540.4	646.2	770.75	918.28	1078.98	1253.54	1471.43	1773.66	1991.0
(a) Demand	110.5	105.55	81.48	90.6	102.0	121.9	150.39	169.93	192.83	213.29	248.92	300.60	344.2
(b) Time	176.2	228.22	320.36	370.7	438.4	524.2	620.36	748.35	886.15	1039.05	1222.51	1433.06	1646.7
3. Aggregate Credit	191.2	220.68	264.00	301.8	360.1	436.1	509.2	572.29	642.13	722.26	883.97	1043.52	1172.6
(a) % share of priority lending	36.6	24.1	31.6	39.0	36.8	38.4	39.8	41.8	43.1	43.2	44.6	41.9	39.2
4. Credit-Deposit ratio (%)	66.7	66.1	65.7	65.4	66.6	67.5	66.1	62.3	59.5	57.7	60.1	60.2	58.5
5. Investment-Deposit ratio (%)	32.7	35.4	36.7	37.0	36.0	35.4	36.0	37.5	37.5	39.3	39.1	39.1	39.3
6. Credit-Growth (%)		15.4	19.6	14.3	19.3	21.1	16.7	12.4	12.2	12.5	22.4	18.0	12.4

Source: Report on Trend and Progress of Banking in India (Oct. 1988 and Jan 1993)

Table 2.4 - Composition of Financial assets of Financial Institutions(in %)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1.RBI	17.4	21.8	22.1	21.7	23.0	22.5	22.7	22.1	21.6	20.5	20.5
2.Commercial Banks	44.2	36.8	36.5	36.7	36.5	37.0	37.3	37.7	37.1	37.1	36.5
3.Cooperative Banks	13.7	12.0	13.3	12.6	11.5	11.0	10.2	9.9	10.3	10.8	10.3
4.Development Banks	5.7	6.2	5.5	5.0	5.2	6.1	6.5	6.8	6.7	7.0	7.1
5.Life Insurance Co.	5.4	5.6	5.0	5.7	5.4	5.0	4.7	4.4	4.5	4.4	4.5
6.Provident funds	10.8	13.8	13.7	13.4	13.0	12.7	12.9	13.0	13.1	13.0	13.2
7.Other	2.8	3.6	4.0	4.7	5.2	5.9	5.8	6.2	6.6	7.3	7.8
8.Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
9.Total Assets as % of GDP	102.7	93.4	107.8	117.7	136.2	154.7	170.4	191.2	202.0	229.1	255.3

Source: 1.RBI IFS, various issues

2.Commercial & Cooperative Banks"Report on Trends & Progress of Banks" & RBI Bulletin various issues.

3.LIC "Report on trends & progress of banks" & LIC Annual Report

4.Provident Funds"Flow of funds A/Cs of the Indian Economy" RBI

5.Other Institutions"Report on trend & progress of banks", "Report on currency and finance,RBI, various issues.

6.Development banks"Report on currency and finance",RBI,various issues

Table 2.5 - Private Corporate Capital Issues to Public (in Rs. million)

Year	Equity & preferences	Debentures	Total	Total as % of Non-Financial Savings
1980	912	727	1639	2.8
1981	2821	1960	4781	3.4
1982	2493	3007	6500	3.8
1983	3432	4269	7701	2.9
1984	3833	4542	8375	3.2
1985	3634	6933	10567	3.5
1986	8994	8433	17327	5.4
1987	10008	15597	25605	4.1
1988	11036	6589	17625	2.1
1989	10355	21369	31724	4.6
1990	12267	52464	64731	3.9
1991	12608	29410	42018	4.3

Note: 1980-1983 -- Data as of Dec.

1984-1991 -- Data as of April to March

1989,1990,1991 provisional data

source : "Report on currency and finance",RBI, various issues.

Table 2.6 - Assets of Financial Institutions

Year	Reserve Bank	Comm. Banks	Co-op. Banks	Post Office Savings	Devpt. Banks
1980	228.38		180.66	20.83	58.39
1981	265.66	446.31	146.39	75.45*	
1982	320.20	526.45	193.15	23.20	78.94*
1983	370.65	626.77	214.67	24.86	86.22*
1984	472.52	749.06	236.21	26.14	107.33*
1985	544.42	894.16	266.06	27.76	148.85*
1986	630.95	1036.50	284.03	29.62	180.54*
1987	718.17	1225.43	321.94	32.63	220.84*
1988	819.29	1407.83	392.26	34.02	255.20
1989	937.90	1685.33	493.62	37.36	320.84*
1990	1102.70	1964.37	554.45	39.92	383.63*

Sources:1. IFS 1987 and 1991

2."Report on trends and progress of banks",RBI,various issues

3. "Report on Currency and Finance",RBI.

* -- Variation in financial year.

Table 2.7 - Selected Ratios of Financial Development

	1977/78- 1980/81	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1. Finance Ratio(%)	26.9	32.7	31.3	42.1	29.3	37.3	35.1	40.5	34.9	43.2	46.4	41.4
2. Financial Interrelations ratio	1.50	1.93	1.86	2.95	2.05	2.82	2.15	3.05	2.00	2.23	2.10	1.94
3. New Issue Ratio	0.87	1.14	1.17	1.70	1.20	1.64	1.25	1.84	1.11	1.28	1.24	0.16
4. Intermediation Ratio	0.42	0.69	0.59	0.74	0.71	0.72	0.73	0.65	0.80	0.74	0.69	0.69

Source: Flow of Funds Accounts of Indian Economy, RBI, Jan 1992 & June 1993

Table 2.8 - Flow of Funds of Selected sectors (as a % of sectoral flows)

	1977/78-1980/81	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89(p)	1989-90(p)
Sources of Funds											
I. Government	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
a. Treasury bills	20.8	22.5	8.19	31.1	-8.26	13.53	19.31	25.12	17.04	10.92	19.29
b. Other securities	24.9	22.5	30.4	21.0	30.29	20.61	24.58	22.60	26.89	25.39	22.03
c. Borrowings	15.2	19.7	20.9	14.8	21.78	20.74	13.85	15.93	13.54	20.57	15.72
d. Small savings	9.6	7.97	9.19	7.6	14.25	13.83	16.00	9.03	10.26	11.08	13.78
(of which household)	(6.1)	(4.6)	(5.4)	(4.9)	(10.44)	(11.13)	(12.03)	(9.53)	(10.53)	(11.25)	(11.44)
e. Provident fund	5.3	3.9	4.4	4.9	5.6	4.59	4.61	4.74	7.82	10.23	6.14
f. Others	24.2	23.3	27.27	20.58	28.08	15.57	21.65	22.58	24.45	21.81	23.04
II. Private Corporate	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
a. Paid-up capital	8.6	6.06	6.35	5.16	7.01	5.56	4.13	3.30	3.81	9.18	9.23
b. Debentures	1.9	5.26	3.12	8.90	12.29	12.77	17.00	15.42	15.99	15.14	21.64
c. Deposits	4.4	13.77	7.9	12.00	7.37	6.67	7.63	6.66	6.81	5.80	5.13
d. Borrowings	54.9	50.14	46.8	48.61	47.54	49.85	49.56	51.47	54.01	49.71	46.57
e. Trade credit	14.0	9.48	9.54	5.6	-3.04	2.39	-0.35	-2.26	5.08	1.27	0.14
f. Others	16.2	15.26	26.16	19.63	28.81	22.74	22.05	25.38	12.33	18.88	17.28
Uses of Funds											
III. Households	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
a. Cash	13.4	13.41	7.01	12.42	14.81	12.08	8.70	9.82	13.69	10.10	13.77
b. Bank deposits	46.3	48.91	44.84	46.20	48.02	46.19	47.13	50.80	45.07	42.40	41.95
c. Govt. securities & small savings	6.1	6.65	12.95	7.78	10.10	12.89	13.49	11.71	11.32	14.13	12.63
d. Loans/deposits to pvt. corporate	1.90	1.70	2.16	3.23	1.77	2.53	4.69	2.53	-1.94	-0.28	0.82
e. Provident fund	17.4	17.5	18.26	17.75	16.29	15.61	16.24	16.11	18.55	17.97	16.90
f. Shares/debentures	2.6	1.95	1.57	2.07	2.07	3.04	2.58	3.96	4.69	7.71	5.97
g. Other	12.3	10.36	14.52	12.62	8.37	10.18	7.17	5.07	6.68	7.69	7.96

Source: Flow of Fund Accounts of the Indian Economy, RBI (Jan 91 & Jan 92; St. 3,4 &6)

Table 2.9 - Structure of Net Household Financial Savings (in percentages)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1. Currency	19.0	10.0	16.0	20.9	16.0	12.0	13.4	18.5	14.8
2. Net Deposits	42.5	31.4	36.3	27.8	31.6	28.5	34.2	27.0	21.7
3. Shares and Debentures	5.1	5.3	6.8	5.4	7.4	10.7	9.6	7.3	7.8
4. Net Claims on Govt.	0.3	17.2	9.5	13.4	16.3	17.4	12.1	12.9	17.5
5. Life Insurance Funds	9.8	10.2	9.0	9.6	8.1	8.9	8.6	9.2	11.6
6. Provident Pension Fund	23.3	25.8	22.5	30.0	20.6	22.4	22.0	25.1	26.4
7. Total Financial Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Accounts Statistics 1991

Table 2.10 - Return on Selected Financial Assets

Avg. of Months	GOI Securities Redemption yield		Industrial Sec. Avg. yield ord. shares	Commercial Bank Deposit rates (1 to 3 yrs.)	Company Deposits (3 yrs)
	Short-term	med.-term			
1979-80	5.87	n.a.	5.83	7.00	10.5-15.0
1980-81	4.74-6.01	5.80-6.75	5.88	7.50-8.50	13.0-15.5
1981-82	6.76	n.a.	5.51	8.00-9.00	13.0-15.5
1982-83					
1983-84	4.50-7.08	6.67-9.04	5.18	8.00-9.00	14.00-15.00
1984-85	4.20-8.31	6.47-9.04	4.56	8.00-9.00	14.00-15.00
1985-86	5.42-9.84	6.49-9.50	3.21	8.50-9.00	13.00-15.00
1986-87	5.09-11.60	6.50-10.86	3.64	8.50-9.00	13.00-15.00
1987-88	6.86-15.78	6.51-11.73	4.32	9.00-10.00	13.50-14.00
1988-89	7.03-23.88	6.76-13.77	3.16	9.00-10.00	13.50-14.00
1989-90	7.56-18.36	7.69-15.06	3.18	9.00-10.00	13.50-14.00
1990-91	7.04-21.70	9.44-12.70	2.59	9.00-10.00	13.50-14.00

Source: Report on Currency and Finance, 1986-87, 1987-88 (Statement no. 49), and 1990-91 (Statement no. 53)

Table 2.11 - Interest Rates - Short Term Commercial Banking Rates (in per cent)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1. Bank Rate	9.0	9.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
2. Treasury Bill Rate #	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
3. a. State Bank of India												
Demand Loan Rate												
-Scheduled Banks	15.0-18.0	15.0-19.4	18.5	18.5	18.0	18.0	17.5	17.5	16.5	16.5	16.5	18.5
-Co-op Banks	13.5	(a)	(a)	(a)	n.a.	n.a.	n.a.	n.a.	n.a.	(a)	(a)	(a)
b. Major Commercial Banks*												
Call Money Rate												
-Bombay	8.47	7.12	8.96	8.78	8.63	9.95	10.0	9.99	9.88	9.77	11.49	15.85
-Calcutta	8.50	8.28	9.80	8.90	8.53	10.0	10.0	10.0	n.a.	n.a.	n.a.	n.a.
-Madras	8.50	9.42	9.38	6.35	7.20	9.98	10.0	10.0	9.92	9.92	n.a.	n.a.
4. Comm. Bank Rates												
a. Deposit Rates - Ceiling												
1 yr.- 3 yrs.	7.0	7.5	8.0	8.0	8.0	8.0-9.0	8.5-9.0	8.5-9.0	8.5-9.0	9.0-10.0	9.0-10.0	9.0-10.0
3 yr.- 5 yrs.	8.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	11.0
above 5 yrs.	10.0	10.0	10.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
b. Key Lending Rates -												
(i) Ceiling												
-General	18.0	19.4	19.5	19.5	18.0	18.0	17.5	17.5	16.5	16.5	16.5	16.5
-Exports	11.0	12.5-17.5	12.5-17.5	12.5-17.5	12.0-16.5	12.0-16.5	12.0-16.5	9.5-16.5	9.5-15.5	-	7.5-15.0	7.5-15.0
-Food Proc.	11.0	12.5	12.5	12.5	12.5	14.0	14.0	14.0	14.0	14.0	14.0	16.0
-On Deferred Payments	8.0	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.65
(ii) Minimum												
-General	12.5	13.5	(c)	(c)	(c)	16.5-18	16.5-17.5	16.5-17.5	16.5	16.0	16.0	16.0
-Selective Controls	16.5-18.5	17.5-19.5	17.5-19.5	17.5-19.5	16.5-18	16.5-18	16.5-17.5	16.5-17.5	16.5	16.0	16.0	16.0

Source: Report on Currency and Finance, 1986-87, 1987-88, and 1990-91 (Statement no. 49)

Notes: # 91 Days Treasury Bill Rate.

* As per the RBI's decision in 1976 Indian Bank's Association (IBA) issued a directive for not demanding or paying more than 12.5% p.a on an inter-bank borrowing. Subsequently, were changes in the Int. r. Structure of banks, effective May 1, 1989, the IBA withdrew the ceiling on call money rates of 10% p.a fixed in Apr. 1980.

(a) Effective July 1980 the rates changed on demand loans to the CO-op banks are same as those applicable to general categories of borrowers was for similar advances.

(c) In the revised interest rate structure which became effective July 1980, the rates for advances in that category.

Table 2.12 - Interest Rates - Long Term Rates (in per cent)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Term Lending Institutions											
Prime Lending Rates											
IDBI	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0-15.0
ICICI	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0-15.0
IRBI	9.15	9.15	12.5	12.5	12.5	12.5	12.5	14.0	14.0	14.0	14.0-15.0
SFC	12.0-16.0	11.3-14.0	12.5-17.0	14.0-18.0	14.0-20.0	11.5-16.5	11.5-16.5	11.5-16.5	11.5-16.5	11.5-16.5	11.5-16.5
Rates charged to SSI	12.0-16.0	11.3-14.0	12.5-17.0	14.0-18.0	14.0-20.0	11.5-16.5	11.5-16.5	11.5-16.5	11.5-16.5	11.5-16.5	11.5-16.5
UTI dividend rates	11.5	12.5	13.5	14.0	14.25	15.25	16.0	16.5	18.0	18.0	19.5
Corporate borrowing rates											
-Preference - Ceiling	11.0	13.5	13.5	13.5	15.0	15.0	15.0-10.0	14.0-10.0	14.0-10.0	14.0-10.0	14.0-10.0
-Debentures - Ceiling	13.5	13.5	13.5-15.0	13.5-15.0	13.5-15.0	13.5	13.5-15.0	12.5-14.0	12.5-14.0	12.5-14.0	12.5-14.0
-1 year	9.0-13.5	9.0-13.5	9.0-15.0	10.0-15.0	9.0-15.0	10.0-15.0	10.0-15.0	10.0-14.0	10.0-14.0	10.5-14.0	10.5-14.0
-2 year	10.0-14.5	10.0-14.5	9.5-15.0	11.0-15.0	11.0-15.0	12.0-15.0	12.0-15.0	12.0-14.0	12.0-14.0	12.0-14.0	12.0-14.0
-3 year	13.0-15.5	13.0-15.5	10.5-15.5	14.0-15.0	14.0-15.0	13.0-15.0	13.0-15.0	13.5-14.0	13.5-14.0	13.5-14.0	13.5-14.0
-5 year*	15.0-16.0	15.0-16.0	14.0-15.0								
Industrial securities											
ordinary shares	5.88	5.51	5.86	-	4.56	3.21	3.64	4.32	3.76	3.18	2.59
Government securities											
-Short-term (1-5 yrs.)	4.7-6.0	5.3-6.4	5.0-8.5	4.5-7.1	4.2-8.3	5.4-9.8	5.1-11.6	5.1-11.6	7.0-23.9	7.6-18.4	7.0-21.7
-Med.-term (5-15 yrs.)	5.8-6.8	5.8-7.0	6.3-7.8	6.67-9.0	6.5-9.0	6.5-9.5	6.5-10.9	6.5-10.9	6.8-13.8	7.7-15.1	9.4-12.7
-Long-term (>15 yrs.)	6.4-7.5	6.5-8.0	6.5-9.0	6.5-10.0	7.9-10.5	8.4-11.5	8.9-11.5	8.9-11.5	9.4-11.7	10.1-11.8	10.9-12.0

Source: Report on Currency and Finance Vol.II, 1986-87, 1987-88, and 1990-91 (Statement no. 49)

Note : * The acceptance of deposits for periods more than 3 years has been prohibited w.e.f. Apr,1978 in terms of the "Companies(Acceptance of Deposits) Rules,1975 but Cos. are permitted to re: such deposits accepted prior to Apr 1,1978 till maturity.

PURCHASED
APPROVAL
GRATIS/EXCHANGE R & P
PRICE Commitee
ACC NO.
VIRRAM SARADINI LIBRARY
L. K. M. ALMAGARAND