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FORECASTS OF AGGREGATE DEPOSITS AND BANK CREDIT BY BOX-JENKINS & BILINEAR MODELS

*D. Ray and L. Datta**

1. INTRODUCTION

Periodical forecasts of aggregate deposits and bank credit of all scheduled commercial banks in the country are considered as important inputs for policy formulation. These data are also useful for carrying out a number of research studies in the areas of money, output and prices. While such a forecasting exercise can be attempted either by a behaviouristic approach or by a time-series approach, the present paper is confined to the latter.

If one is primarily interested in the forecast values of a series, one can faithfully adopt the time series approach to obtain these values. Actually in the U.S.A., a number of studies showed that the forecast values obtained by autoregressive moving average models were as accurate as those obtained by econometric models. For example, Cooper (1972, p.920) noted that "mechanical (ARMA) forecasting models can be constructed which predict economic variables about as well as econometric models". Nelson (1972 p.915) also concluded that "if the mean square error were an appropriate measure of loss, an unweighted assessment clearly indicates that a decision maker would have been best off relying simply on ARMA predictions in the post-sample period". In India we do not find similar study where the comparative performance of econometric models and time series models has been examined. However, there are some studies where the time series approach has been adopted. This is particularly in the context of bank deposit forecasting at the aggregate

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level. In this connection one may refer to Varde and Singh (1982) or to the recent study by Kamiah, et al (1987).

In our present study, we have attempted to evaluate the comparative performance of two models, namely, (i) Box-Jenkins and (ii) Bilinear. The Box-Jenkins model is linear, while the other one is nonlinear. No doubt, the linear time-series model is quite capable of explaining many physical processes with a reasonably good sucess. But, sometimes it fails to do so if the inherent dynamical laws which govern the process are too complicated. Perhaps, such a process cannot be explained effectively by a linear time-series model. In these circumstances, one is naturally inclined to consider a nonlinear time-series model which has more potentiality in explaining the complexity of the process. One such model is Bilinear Time Series model.

In the present exercise, we have considered only two Indian economic series, namely, (i) Series 1: aggregate deposits of all scheduled commercial banks, and (ii) Series 2: bank credit of all scheduled commercial banks, which are exclusively analysed and modelled by Box-Jenkins and Bilinear methods. These series cover the period from January 1970 to December, 1985 and are published regularly in the Reserve Bank of India Bulletins. In this context, we may mention that though bank credit is highly dependent on aggregate deposits, we have not deployed this dependency in our analysis. What we have attempted is to develop models separately for the individual series and generage forecasts. Actually, this is the approach generally being followed in the univariate time-series analysis. If one were interested in making use of such a dependency, one may develop a suitable bivariate stochastic model. One may even consider intervention analysis if the credit - deposit ratio is known a priori. However, we have not attempted such an approach in our analysis.

The paper is organised as follows. Section 2 covers the details of the measurement of forecast accuracy. A brief description of the Box-Jenkins model is given in Section 3, while the Bilinear model is described in Section 4. Empirical results and conclusions drawn are discussed in Section 5.

2. FORECAST ACCURACY

It is common practice that whenever the relative performance of two forecast models is required to be examined, either mean square errors or mean percentage square errors are used depending upon whether the series is stationary or non-stationary.

Let us consider a time series X(1), X(2),......, X(N). If we build a model with N observations and generate forecast for the lead period h, the forecast error is defind as

$$E(h) = \hat{X}(N + h) - X(N + h), \tag{1}$$

where $\hat{X}(N + h)$ is the forecast value corresponding to X(N + h). Similarly, the percentage square error for the lead period h is defined as

$$U(h) = \left[\frac{\hat{X}(N+h) - X(N+h)}{X(N + h)} \times 100\right]^2. \tag{2}$$

Now, for a given lead period h, the mean percentage square error is defined as

$$U^*(h) = \frac{1}{M} \sum_{k=1}^{M} \left[\frac{\hat{X}(N+h+k-1) - X(N+h+k-1)}{X(N+h+k-1)} \times 100\right]^2 \tag{3}$$

where M denotes the number of times a model is built and updated and forecasts generated. Actually, the current model may be considered as an updated version of the earlier one with the addition of one observation. In our present exercise, we have taken M as 10 while h varies from 1,2,......12.

3. BOX-JENKINS MODEL

Given a stationary time series W(1), W(2),...., W(N), we can develop a seasonal Box-Jenkins model of the form

$$F_1(B)\ F_2(B)\ W(t) = G_1(B)\ G_2(B)\ e(t), \tag{4}$$

where (i) $F_1(B) = 1 - a_{11} B - a_{12} B^2 - \ldots - a_{1p}B^p$,

$$F_2(B) = 1 - a_{21}B^S - a_{22}B^{2S} - \ldots - a_{2P}B^{PS}, \quad (5)$$

$$G_1(B) = 1 - b_{11}B - b_{12}B^2 - \ldots - b_{1q}B^q,$$

$$G_2(B) = 1 - b_{21}B^S - b_{22}B^{2S} - \ldots - b_{2Q}B^{QS},$$

(ii) B is the back shift operator which means

$$B^k W(t) = W(t-k), \; k = 0, 1, 2, \ldots\ldots,$$

(iii) e(t) is the white noise process with mean zero and variance σ^2,

(iv) S is the period of seasonality,

(v) p, P, q and Q are the order of autoregressive and moving average operators of the process,

(vi) $a_{11}, a_{12}, \ldots, a_{1p}; \; a_{21}, a_{22}, \ldots, a_{2P};$

$b_{11}, b_{12}, \ldots, b_{1q}$ and $b_{21}, b_{22}, \ldots, b_{2Q}$ are parameters.

In our present exercise, as the series is monthly, S is taken as 12. Further, as both series are nonstationary having strong trend in mean, we have transformed them suitably to make them stationary. While the series on aggregate deposits is made stationary by $W(t) = \nabla\nabla_{12} \log X(t)$, we have used a similar transformation $W(t) = \nabla \log X(t)$ for the series on bank credit. The complete procedure of model building and forecasting has been developed by Box and Jenkins (1976), and following them, we undertake three stages of analysis, namely, (i) identification (ii) estimation of parameters, and (iii) diagnostic checking and develop three models for either series which are adequate and at the same time parsimonious in character. These models are presented in Table 1. It may be mentioned that these models are based on first 180 observations (January 1970 to December 1984). Finally, on the basis of Akaike's

Information Criterion (AIC), we select a model for which AIC is minimum. AIC is defined as

$$\begin{aligned} \text{AIC} = & -2 \log (\text{Maximum of the likelihood}) \\ & +2 (\text{Number of parameters in the model}) \end{aligned}$$

Having selected the model on the basis of AIC, we evaluate the mean percentage square errors and generate forecasts for the period January 1985 to December 1985. The mean percentage square errors are shown in Table 3 while the forecasts along with the actuals are described in Table 4. It may be stated that while evaluating mean percentage square errors, we develp the first model with 159 observations, the second model with 160 observations and so on till we arrive the tenth model which is based on 168 observations.

4. BILINEAR MODEL

A stationary process $\{W(t), t = 0, \pm 1, \pm 2, \ldots\}$ follows a bilinear model of order p, q, m and n, if it satisfied the different equation :

$$W(t) + \sum_{i=1}^{p} a_i W(t-i) = e(t) + \sum_{j=1}^{q} c_j e(t-j)$$

$$+ \sum_{i=1}^{m} \sum_{j=1}^{n} b_{ij} W(t-i) e(t-j), \tag{6}$$

where (i) e(t) is an independent and identically distributed zero mean process with finite moments upto fourth order

(ii) a_i, $i = 1, 2, \ldots, p$; c_j, $j = 1, 1, \ldots q$;

b_{ij}, $i = 1, 2, \ldots, m$, $j = 1, 2, \ldots n$ are parameters.

The bilinear model was first introduced by Granger and Anderson (1978) who studied stationarity and invertibility conditions of a simple bilinear model. Subba Rao and Gabr (1984) considered the general bilinear model and suggested an estimation procedure of parameters. Starting with the Box-Jenkins model, a suitable bilinear model is obtained by adding relevant bilinear terms on the lines suggested by LI (1984) and Kumar (1986). Having identified a bilinear model, we estimate the parameters by the non-linear least square technique using Marquardt (1963) algorithm with first order derivatives. In the present exercise, three bilinear models have been identified which are parsimonious in character. These are described in Table 2. Out of these three models, we have selected one for which AIC is minimum. Finally with the help of the model so selected, we have estimated mean percentage square errors up to lead period twelve as well as generated forecasts for the period January 1985 to December 1985. These are shown in Tables 3 and 4, respectively.

5. EMPIRICAL RESULTS AND CONCLUSIONS

It can be seen from Table 3 that the mean percentage square errors of Bilinear model are uniformly smaller than that of Box-Jenkins model. This shows that the Bilinear model has performed better than the Box-Jenkins Model. It is quite interesting to note that the reduction in the mean percentage square error of the Bilinear model for the series on aggregate deposits is as high as 37% compared to the Box-Jenkins model for the lead period one and for other lead periods, it varies from 32% to 56%. For the other series, e.g., bank credit, the reduction is 44% for lead period one and it varies from 5% to 47% for the other lead periods.

The forecast values of aggregate deposits and bank credit for the period January 1985 to December 1985 along with the actuals are shown in Table 4. From Table 4, it is seen that for aggregate deposits, the forecast values obtained by the Bilinear model are closer to the actuals as compared to the forecast values obtained by Box-Jenkins model for 6 months while for the other 6 months Box-Jenkins has performed better. But, in relation to mean percentage square error, the Bilinear model has a clear adge over the Box-Jenkins model. For the series on bank credit, the forecast values obtained by the Bilinear model are decidedly superior and closer to the actual values as compared with Box-Jenkins model's forecast values. Thus, it can be concluded that for the two series considered in our study, the forecast performance of Bilinear model is clearly superior to that of Box-Jenkins model.

TABLE 1 : LIST OF BOX-JENKINS MODELS

Series	Sr. No.	Model Description	Mean Square Error	AIC Value
1	1	$(1+0.21B-0.12B^3)(1-0.12B^{12})\ W(t) = (1-0.85B^{12})\ e(t)$	0.0000130	-1869.93
1	2	$(1+0.21B)(1-0.13B^{12})\ W(t) = (1-0.85B^{12})\ e(t)$	0.0000132	-1869.05
1	3	$(1+0.23B-0.14B^3)\ W(t) = (1-0.83B^{12})\ e(t)$	0.0000131	-1870.07 *
2	1	$(-0.36B-0.13B^3+0.18B^4)(1-0.36B^{12})\ W(t) = (1-0.51B)\ e(t)$	0.0000684	-1704.77
2	2	$(1-0.10B^3+0.14B^4)(1-0.38B^{12})\ (W(t) = (1-0.17B)\ e(t)$	0.0000687	-1706.01
2	3	$(1+0.14B^4)(1-0.38B^{12})\ W(t) = (1-0.17B)\ e(t)$	0.0000694	-1706.07 *

* Selected Model.

TABLE 2 : LIST OF BILINEAR MODELS

Series	Sr. No.	Model Description	Mean Square Error	AIC Value
1	1	$(1+0.17B)\ W(t) = (1-0.77B^{12})\ e(t)$ $-15.89W(t-1)\ e(t-1) + 11.21W(t-12)\ e(t-12)$	0.0000125	-1878.12
1	2	$(1+0.17B-0.11B^{12})\ W(t) = (1-0.80B^{12})\ e(t)$ $-13.50W(t-1)e(t-1) + 10.09\ W(t-12)\ e(t-12)$	0.0000123	-1877.51
1	3	$(1+0.17B-0.16B^{3})\ W(t) = (1-0.75B^{12})\ e(t)$ $-18.00\ W(t-1)\ e(t-1) + 10.87\ W(t-12)\ e(t-12)$	0.0000121	-1880.69*
2	1	$(1+0.25B^{4}+0.16B^{8}-0.35B^{12})\ W(t) = e(t)$ $-18.66\ W(t-1)\ e(t-1)$	0.0000593	-1734.08
2	2	$(1+0.09B^{3}+0.23B^{4}+0.15B^{8}-0.35B^{12})\ W(t) = e(t)$ $-19.05\ W(t-1)\ e(t-1)$	0.0000587	-1734.12
2	3	$(1+0.25B^{4}+0.15B^{8}-0.36B^{12})\ W(t) = e(t)$ $-19.21\ W(t-1)\ e(t-1) + 6.02\ W(t-3)\ e(t-3)$	0.0000584	-1734.93*

* Selected Model

TABLE 3 : MEAN PERCENTAGE SQUARE ERRORS OF BOX-JENKINS AND BILINEAR MODELS UPTO TWELVE LEAD PERIODS FOR AGGREGATE DEPOSITS AND BANK CREDIT OF ALL SCHEDULED COMMERCIAL BANKS

Lead Period	Mean Percentage Square Errors			
	Aggregate Deposits of All Scheduled Commercial Banks		Bank Credit of All Scheduled Commercial Banks	
	Box-Jenkins	Bilinear	Box-Jenkins	Bilinear
1	0.59	0.37	1.07	0.60
2	0.83	0.51	1.12	0.70
3	1.10	0.68	1.17	0.67
4	1.37	0.93	1.93	1.03
5	1.48	0.93	1.85	0.98
6	1.59	0.86	1.85	1.39
7	2.24	1.27	2.74	1.80
8	2.85	1.62	2.30	1.34
9	3.46	1.86	1.85	1.32
10	3.15	1.56	1.81	1.37
11	2.85	1.26	0.96	0.91
12	3.19	1.64	1.35	1.24

TABLE 4 : FORECAST VALUES OF AGGREGATE DEPOSITS AND BANK CREDIT OF ALL SCHEDULED COMMERCIAL BANKS BY BOX-JENKINS AND BILINEAR MODELS FOR THE PERIOD JANUARY 1985 TO DECEMBER 1985.

(Rs. Crores)

Period		Aggregate Deposits of All Scheduled Commercial Banks			Bank Credit of All Scheduled Commercial Banks		
		Actual	Forecast by		Actual	Forecast by	
			Box-Jenkins	Bilinear		Box-Jenkins	Bilinear
January	1985	71009	70879	70556	47901	47948	47899
February	1985	71304	71408	70936	47989	48542	48241
March	1985	72244	72304	71791	48953	49448	49410
April	1985	72671	73281	72651	48673	49848	49561
May	1985	73726	74433	73769	49455	50581	50456
June	1985	77058	76643	76171	50902	51733	51543
July	1985	77117	77466	76914	50395	51866	51530
August	1985	77867	78435	77713	50287	52361	51850
September	1985	78793	79275	78523	50558	53096	52639
October	1985	79434	80315	79596	51484	54127	53595
November	1985	81106	81421	80718	52028	54976	54535
December	1985	85457	85336	85137	53853	56558	56259

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MOBILISATION OF RURAL SAVINGS - BANKING EXPERIENCE

(Case Studies)

By V.A. Avadhani, V.H. Motwani and V.B. Angadi@

Introduction :

The paramount need for mobilisation of rural savings in India in the context of massive budget deficits and increasing outlays on development requires no special emphasis. The resource crunch faced by the Union Government during recent years can be gleaned from the extent of deficit financing during the first two years of the Seventh Plan at Rs. 13,219 crores as against a target of Rs. 14,000 crores for the whole plan period (Planning Commission, 1985). There is, therefore, bound to be increased reliance of the Government on the banking system in the years to come and banks' deposit mobilisation efforts become all the more important in this context. Rural savings is an area with vast potential for deposit mobilisation.

There are, however, no reliable data on the rural savings in the economy barring a few *adhoc* surveys localised to specific areas. Mention may, however, be made of some important studies such as that of Raj Krishna and Raychaudhuri (1980) who placed net rural savings at about 25 per cent of total net household savings and pointed out a rising trend in marginal propensity to save (MPS) in rural areas. Their study covered the period 1950-51 to 1973-74. The study of NCAER (1980) also indicated a rising trend in the MPS in rural areas during the period 1967-68 to 1975-76. The study by

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The authors are grateful to the Division of Rural Economics and the Madras Regional Office of the Department of Economic Analysis and Policy for making available their case studies for this paper.

Krishnamurthy and Sai Baba (1982) found that the differential between the MPS of the agricultural and non-agricultural sectors has narrowed down considerably. Ashok Mody (1983) observed that there did not appear to be sufficient evidence to indicate any changes in the MPS of the rural sector. But the decennial surveys of RBI on All India Debt and Investment indicated some significant changes in the composition of rural assets.*

All-India Debt and Investment Surveys (AIDIS) for 1971-72 and 1981-82 throw some light on the composition of financial assets. One might be surprised to know from these surveys that the proportion of financial assets in the form of shares, debentures, insurance, deposits, etc., was about the same in both the periods (1.1% of the total assets in 1971 and 1.2% in 1981) in respect of all rural households. It is also interesting to note that the proportion of investment in shares by rural households has declined from 0.2% to 0.1% of their total assets over the decade, June 1971 to June 1981 (RBI 1981).

As per the AIDIS 1981-82, 10.6% of the assets of the urban household sector was kept in the form of shares and other financial assets, while the corresponding proportion for the rural sector was hardly 1.2% of total assets. Admittedly, the pattern of asset preferences varies very widely as between urban and rural areas. But, given the preferences of the rural sector for land, livestock and farm implements, there is always a hard core of savings in the rural sector in the form of currency, gold, silver and other unproductive forms of holding assets. The institutional system appears to have not done much to mobilise these savings or to convert the physical assets into financial claims in the organised sector by influencing the pattern of the households' asset preferences.

At macro level, the net rate of savings of total household sector in India (urban plus rural) was 15.6% of NNP in 1985-86. Total amount of savings of the household sector in 1985-86 was placed at Rs.34,869 crores (CSO data). According to an estimate by NCAER

* *For pitfalls and overestimation in savings estimates, see Mihir Rakshit, (1982).*

for 1975-76, the percentage share of financial saving of rural sector to total rural household savings was placed at 34 per cent (NCAER, 1980). If we assume that this proportion would hold good even in 1985-86, which is unlikely, the rural savings should be placed at around Rs. 12,000 crores. As against the above estimates of savings during 1985-86 (July-June) the rural branches of commercial banks, RRBs and Agricultural Credit Societies mobilised hardly Rs. 3,000 crores. The estimates on the above basis may be grossly undervalued as they are not scientifically based on the current state of affairs.

On *a priori* basis, the present rate of mobilisation of deposits in the rural sector by institutional agencies was relatively poor. There are reports of huge unaccounted funds in the unorganised sector and in the rural areas untouched by institutional agencies. The existence of these funds is evidenced by the operation of a large number of small non-banking finance companies and chit funds in many rural and semi-urban areas in the country referred to in our five case studies. These micro-level studies confirm the above conclusion that banks could mobilise only a part of the total estimated saving in the villages. It was revealed through their *questionnaire* that many of the villagers particularly traders still do not approach the banking system as they prefer cash and investment in gold, silver and jewellery or use in private lending activities or chit funds.

Selected Case Studies :

As regards mobilisation of rural savings by banks, there are a number of case studies@ which deal with the performance of rural branches of banks in the mobilisation of deposits. Some of these studies and surveys conducted by the research institutes and banks have highlighted the poor performance of commercial banks in mobilising rural savings. But none of these studies has taken up exclusively the cases of identifiable factors for successful deposit mobilisation. The case studies in our study relate to those commerical

@ *See bibliography,*

bank branches which were successful in mobilising rural deposits, or in credit deployment, or in both.

At the request of Asian Pacific Regional Agricultural Credit Association (APRACA), five case studies of rural branches of commercial banks were conducted by the Division of Rural Economics and Madras Regional Office of the Department of Economic Analysis & Policy, Reserve Bank of India, during 1985. The main objective of the studies was to identify the factors influencing deposit mobilisation in the rural areas. For the purpose of this investigation, five successful rural branches of five nationalised banks located in five different states in India were selected. The chief criterion for selecting these branches was their successful business operations in respect of deposit mobilisation and/or credit deployment. The selected villages are Naneola (Punjab), Vadal (Gujarat), Baragaon Nandur* (Maharashtra), Barkur (Karnataka) and Ayodhyapatnam (Tamil Nadu). The profiles of the five villages studied are given in Appendix 1.

A few studies on the performance of rural branches and behavioural pattern of rural savings have been brought out in recent years by some nationalised banks and research centres. Findings of these studies shed much light on the deposit mobilisation experience in the rural areas and the pattern of rural savings. In this paper an attempt is also made to pool their findings and use them as reference points in discussing the factors that have a bearing on deposit mobilisation efforts in the rural areas as revealed by the present case studies. Part I discussess the results of the case studies in terms of deposit mobilisation, while Part II provides an assessment of overall performance of the rural branches, Part III presents the results of that part of the field study which highlights constraints on deposit mobilisation. Part IV contains summary and conclusions.

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* *This branch is more successful in credit deployment while others are more successful in deposit mobilisation.*

PART I : DEPOSIT MOBILISATION AND OTHER ACTIVITIES OF BRANCHES

The performance of four out of the five rural branches studied in respect of their deposit mobilisation was relatively impressive during the period 1980-84. The deposit mobilisation efforts of these rural bank offices as compared with other rural bank offices in their respective regions as well as in the country can be viewed from the data presented in Table 1. As against all-India average deposits outstanding per rural branch at Rs. 38.04 lakhs ending December 1984, Barkur branch in Karnataka at Rs. 134.5 lakhs accounted for the highest, followed by Vadal branch in Gujarat with Rs. 122.5 lakhs, Ayodhyapatnam in Tamil Nadu with Rs. 105.3 lakhs and Naneola in Punjab with Rs. 104.5 lakhs. However, Baragaon Nandur branch in Maharashtra was mainly a credit-oriented branch and its total deposits amounted to Rs. 19 lakhs.

The five case studies under review and other studies of rural branches referred to above have identified certain factors as influencing the deposit mobilisation efforts in the rural areas. According to them, the age factor, the product differentials, dynamic role of managers, command area, asset preferences, demand following and supply leading role of a bank, environmental forces like economic prosperity and institutional arrangement, are the main factors affecting the growth of deposits in the selected villages. These are discussed in detail below.

Age factor :

In order to assess separately the impact of age factor on deposit growth, data relating to deposit growth in a rural branch is subjected to different kinds of tests. It is found that there exists sufficient relationship between the deposits (Rangarajan, 1982, p.17) of a rural branch and its age.

The growth of deposits is at a faster rate in the first six years and tapers off subsequently. The same trend is evidenced by the findings of recent studies conducted by a nationalised bank (Bank of India, 1985, p.12). The observations of this study indicate that the annual growth rate of deposits with rural branches appears to be relatively high in the initial years as compared with the later years (Bank of India 1984, p.13). This phenomenon is partly statistical in character arising from the low base in initial years and partly reflects the scope for exploiting the deposit potential when a new branch begins operating. The Barkur branch set up in 1946 is the oldest rural branch among the five studied. The deposits of this branch aggregated Rs.134.5 lakhs as at the end of 1984. The Vadal branch was established in 1968 and its total deposits amounted to Rs. 122.5 lakhs. Naneola and Ayodhyapatnam branches were opened in 1972 and 1975, respectively, and their outstanding deposits were Rs. 104.5 lakhs and Rs. 105.3 lakhs, respectively. The annual compound growth rates of deposits during the four years 1980-84 in the case of Vadal, Baragaon Nandur, Ayodhyapatnam were in the range of about 16 to 25 per cent which were larger than the annual compound growth rate of Barkur with only 14 per cent, which reflects the importance of the age factor.

Product Differentials vs. Price Differentials :

It was observed that the deposits mobilised by commercial bank branches in the selected villages were quite sizeable as compared to the deposits with other two types of financial institutions, namely, co-operative credit societies and post office savings banks operating in the respective villages. The magnitude of deposits mobilised by commercial banks was appreciably higher than deposits with the cooperatives (see Table 2), barring the special case of Baragaon Nandur. In Baragaon Nandur, the Ahmednagar Central Cooperative Bank has a special position since all the financial transactions of the cooperative sugar factory were routed through it. The commercial bank branch in this village is mainly concerned with credit business. The data presented in Table 2 reveal that in the case of all other four villages (Naneola, Vadal, Barkur and Ayodhyapatnam), the size of deposits mobilised by the commercial banks was substantially larger than the size of deposits mobilised by the Central Cooperative Banks in the respective villages as at the end of December 1984.

The better performance of the commercial bank branches in respect of their deposit mobilisation in four villages cannot be explained in terms of price differentials. For, the interest rate structure applicable to deposits of post office savings banks and cooperative banks is higher than that applicable to commercial banks. In view of this, product differentials would offer a better explanation of the disparate growth rates in deposits. The product differentials relate to difference in customer services, liquidity, attitude of the manager and bank staff and their local involvement, which explain the faster growth rates of some branches over others. The conclusions based on the data pertaining to opinion surveys conducted in these selected villages excepting Baragaon Nandur corroborate this observation.

Involvement of Management in the Area :

The observations based on field investigations in the selected villages reveal that the rural branches did not have any special schemes for deposit mobilisation in these areas. Nor were there any incentives given to staff for outstanding performance in respect of deposit mobilisation. Yet, each branch management had evolved its own strategy to mobilise deposits in order to achieve the targets fixed by its head office. The branch managers and their staff have played a dynamic role in the form of their involvement with the local people and their commitment and loyalty to the area. According to case studies, the ability of the managers to instil confidence among the prospective savers in the banks, cordial social relationship, willingness to go beyond the specified domain of routine banking to help rural households, good customer services, establishment of close relationship with marketing agencies, involvement in the rural development activities, etc., were identified as some of the important factors, mainly responsible for the impressive deposit mobilisation efforts in the villages. Besides, such devices as personal contacts, persuasion, demonstration, inducement, spacing of deposit mobilisation drive according to convenience of the income earning groups in the villages, and arranging of social functions, were also adopted by the branch management in the rural areas to mobilise deposits.

It is interesting to note the distinctive role of the managers in collecting deposits from the potential savers in Naneola and Ayodhyapatnam. The Naneola branch manager has thorough knowledge of the socio-economic background of the village; his close relationship with the social groups and caste groups, his attitude towards villagers and his stay in the village were found to be the key factors responsible for the creditable performance of the branch. In order to identify the potential depositors, the manager kept close contacts with the commission agents, *mandi* committees (market committees) and the officials of the Food Corporation of India. As and when the payments were made to agriculturists for the sale of their produce the manager and officer staff approached prospective savers personally to canvass deposits and seek the repayment of the loan instalments.

The deposit mobilisation strategy adopted by the branch management in Ayodhyapatnam was also found to be exemplary. The method used by them to popularise bank deposits was the celebration of Farmers' Fortnight during the harvest time (November-December). All farmers were invited to the function in which exhibition of audio-visuals, talks on the advantages of maintaining deposits, etc., formed part of the celebrations. It was reported that on the eve of Farmers' Fortnight celebration in 1983, as many as 66 new deposit accounts of all types bearing an amount of Rs. 2,01,575 were opened.

To identify the potential depositors, the manager and the staff of Ayodhyapatnam were constantly engaged in collecting different types of information about the local people. The information relating to economic activities of the local people, flow of income and expenditure, transactions of sale and purchase of assets like land, vehicles, etc., was gathered through constant touch with the people, personal rapport with the visitors, local marketing societies, registrar's office, stamp-vendors, commission agents, etc. It was reported that the branch was able to mobilise deposits aggregating Rs. 30,000 every year by adopting this strategy of identifying the potential depositors.

Branch Command Area :

Apart from the dynamic involvement of the managers, the size and potentiality of the command area of the rural branch has a bearing on the deposit mobilisation performance. The infrastructural facilities available in the locality as well as with the branch and the degree of involvement of the branch in the economic development of the rural areas are likely to determine the size of the command area.

The Naneola branch whose deposit mobilisation performance was creditable handled the deposit and loan accounts of as many as 55 surrounding villages. However, its major operations were concentrated in half a dozen villages situated in the radius of about 21 kms. It was found that the bank branch entertained the clientele even from places where other bank branches and other financial institutions existed. Similarly, Vádal branch whose deposit mobilisation efforts were also impressive was marketing its services in eight neighbouring villages. The command area of the Barkur branch consisted of six neighbouring villages. In the total deposits, those obtained from the neighbouring villages were quite substantial.

The general observation in respect of distance and deposit mobilisation is that the major proportion of deposits is mobilised in the respective villages where the bank branch is located. One of the recent studies clearly observes that the average share in total deposits declines both in number of accounts as also in deposit amount outstanding with the increase in distance (Bank of India, 1985, p. 202).

Demand Following vs Supply-Leading :

The five rural branches selected for the study seem to have been established following the demand for bank services. The availability of some infrastructural facilities like irrigation, transport, communication, commercial organisation, etc., in and around the villages have generated initial impetus to economic growth in the villages. Besides, establishment of agro-based industries like sugar factories has also contributed to the economic progress of the rural areas. But, more importantly, the presence of bank branches in Naneola, Baragaon Nandur, Barkur and Ayodhyapatnam has acted as a catalytic agent in bringing about considerable economic transformation in the respective villages. As a result, the demand for services has been augmented significantly. Among other things, availability of financial assistance from the bank branches and the readiness of branch managers to help, seemed to have induced many progressive farmers to invest in income yielding assets like tubewells, agricultural implements, etc., in these villages studied. Consequently the demand for bank services (loans and deposits) in these villages grew considerably.

It was observed that bank credit extended by the Baragaon Nandur branch for various productive purposes like levelling of land, minor irrigation, purchase of agricultural implements, etc., added considerably to the earning assets of the village. Production oriented credit of the bank has turned almost all agriculturists of the village to the cultivation of cash crop (sugarcane). Almost all the villagers ascribed their present prosperity to the initiative taken by the bank officials. Similarly, data collected from Naneola branch regarding the acquisition of durable consumer goods, productive assets and addition to infrastructural facilities brought about by the financial assistance given by the bank branch indicate that the bank finance not only added to the stock of income-earning assets but also helped in increased utilisation of existing productive assets.

The data on purpose-wise classification of credit outstanding by the five rural branches reveal clearly that the percentage share of credit to agriculture, the predominant occupation of the villagers, was substantially high at about 95 per cent of the total credit extended by the Baragaon Nandur Branch, followed by Naneola branch with 69 per cent, Vadal 63 per cent, and Ayodhyapatnam with 61 per cent; in Barkur it was 28 per cent. Many income-earning assets have been generated mainly due to the availability of credit facilities in the villages. The number of wells with pumpsets rose from 320 in 1980 to 466 in 1984 in Baragaon Nandur and from 108 to

281 in Barkur. Similarly, tube wells in Naneola rose from 80 to 100 and combine harvestors from 1 to 4. The number of tractors went up from 20 to 50 in Naneola and 5 to 24 in Baragaon Nandur. In Ayodhyapatnam, the number of wells increased from 243 to 254 and tractors from 1 to 5.

In this connection, it is worth mentioning the interview with one big deposit holder, recorded in one case study as a success story. The big deposit holder in this branch informed that he was able to purchase a combine harvestor in 1974 with the help of financial assistance extended by the branch. As he was prompt in repaying instalments, additional credit was granted to him for the purchase of three additional combine-harvestors. In 1984 he possessed 4 combine-harvestors and had repaid all loan instalments. His savings during the last three years in fixed deposit accounts amounted to Rs. 3 lakhs. According to him, loan facilities made available to him by the branch were mainly responsible for his present prosperity and additional savings.

It follows from the above that the economic prosperity in these villages could be attributed to the financial assistance extended by the bank branches in the respective villages. It is noteworthy that the assistance was timely and adequate for the purpose. This in turn had contributed to the growth of deposits with the branches. It was thus observed that economic progress in these villages was propelled by banks which in turn had a considerable bearing on their deposit mobilisation efforts.

Institutional Factors :

Another important factor contributing to deposit mobilisation efforts in the rural areas, as identified by the case studies, is the existence of institutional agencies like marketing organisations, *Gramoday Kendras*, etc., Linking of credit to marketing has paid rich dividends to banking in these villages studied.

In Baragaon Nandur village, for example, unique scheme of linking production credit by the branch with marketing effected through the Rahuri co-operative sugar factory had greatly facilitated the branch to mobilise deposits. The sugar factory arranged to make payment for the sugarcane purchases through co-operative banks. Subsequently, the amount was transferred to the savings accounts of the farmers with the commercial bank. This institutional arrangement had contributed greatly to deposit mobilisation efforts of both the central cooperative bank and the commercial bank branch in the village. Similarly, the link between Naneola branch and the Food Corporation of India proved helpful to banking, in that it enabled the bank to identify prospective savers. Once the potential savers were identified, the manager approached them personally and pursuaded them to hold deposits with the bank. Gramoday Kendra in Ayodhyapatnam was found to be making concerted efforts in motivating the villagers and exhorting them to inculcate banking habits. This helped the branch not only to attract the rural savings but also to improve its recovery performance.

Banks' Influence on Asset Preferences :

It is relevant to note that prior to 1971, the penetration of financial institutions in the rural areas was not significant. But the rapid expansion in rural branches since 1970 must have brought about some changes in the asset preferences in the rural areas. In this regard, it is worth referring to the findings of a Survey on Agricultural Savings, conducted by Tata Economic Consultancy Services during 1983-84 which throw some light on the nature of savings of rural households (Madhoo Pavaskar and Dolly Dhamosiwala, 1985). Data relating to the asset structure of agricultural households reveal that scarcely 12 per cent of the sample households had invested in gold and jewellery. Of all the five districts studied, the financial assets absorbed two-thirds of the investments, and one-half of these were in the form of bank deposits alone. This observation is against the common belief that agriculturists usually prefer physical assets to financial assets (State Bank of India, 1978, p.25). From our case studies, it was observed that the success in deposit mobilisation in the selected rural branches was due to deliberate efforts of the branch managers to induce the villagers to change their asset preferences.

NRI Deposits :

Among the rural branches under review, only Barkur reported non-resident deposits. A number of persons from Barkur and surrounding villages were employed abroad. Their regular remittances to their families and also credit to their non-resident accounts contributed significantly to the growth of deposits. The non-resident deposits received by the branch rose from Rs. 23.2 lakhs in 1980 to Rs. 91.5 lakhs in 1984. The total deposits of the branch in 1984 amounted to Rs. 2.29 crores. The proportion of non-resident deposits in the total deposits worked out to as much as 40 per cent in 1984.

Structural Pattern of Deposits :

Though volume and growth of deposits in respect of five selected rural branches vary considerably, yet the structural pattern of the deposits with these branches was broadly uniform. The proportion of fixed deposits in the total deposit amount mobilised by these branches was substantially large at about 60 per cent, followed by the share of savings deposits. Excepting Naneola, where current deposits accounted for 7.3 per cent, the share of current deposits in the total was negligible.

In terms of accounts, the share of savings accounts in the total accounts in respect of all branches was significantly large. The share of savings accounts in the total deposit accounts with Baragaon Nandur branch at 89.4 per cent was the highest, followed by Vadal with 72 per cent and Ayodhyapatnam with 71 per cent.

The substantial proportion of savings accounts in the total deposits could be partly due to the fact that every borrower from the bank, as a rule, has to open savings bank account in which he could deposit his savings so as to facilitate repayment of loans. Many savings bank accounts were also found to be dormant and non-operative because they were opened under some obligation and belonged to those who had no regular flow of income.

In terms of amount, however, the share of fixed deposits in the total amount accounted for 76.3 per cent in the case of Ayodhyapatnam, followed by Barkur with 69.5 per cent and Vadal with 66.8 per cent. As against this, the share of fixed deposit accounts in the total accounts varied between 28 per cent and 10 per cent (See Table 3). The distribution of deposits with the five rural branches according to type compares well with the structural pattern of deposits in the rural areas at all-India level. The data on type-wise classification of deposits in rural areas at all-India level ending June 1983 reveal that the percentage share of fixed deposits in the total deposit amount at about 52 per cent was the highest followed by savings deposits (amount) with 41 per cent and current deposits (amount) with 7 per cent. The savings accounts in the rural areas, as per cent of total deposit accounts, stood at 72 per cent, followed by fixed deposit accounts at 25 per cent and current accounts at 3 per cent.

Data on size-wise classification of deposits presented in Table 4 reveal that a significant proportion of savings accounts in respect of all selected branches concentrated in the range of less than Rs. 201. The share of savings accounts in this range in the case of Baragaon Nandur branch was as high as 86 per cent followed by Barkur branch with 59 per cent of the total number of savings accounts. However, the share of these savings deposits amounts with these branches, ranged from 4 to 7 per cent of the total savings deposits amount. In contrast savings deposit accounts with Vadal branch in the range of less that Rs. 201 at 32 per cent were much lower compared with others. But the share of savings deposits amount in this range at about 9 per cent was much larger compared with others.

In the upper ranges - Rs. 1,001 and above - the amount of savings deposit accounted for more than 80 per cent of the total savings deposit amount in the case of all branches while the share of accounts in the total savings accounts with all branches ranged between 40 per cent and 7 per cent.

It would be seen from Table 5 that there was concentration of both fixed deposit accounts and amount in the upper ranges of deposits in respect of Naneola and Vadal branches. The share of fixed deposits accounts in the range of Rs. 2001 and above with the Naneola and Vadal branches stood at 92 per cent and 83 per cent, respectively, while the share of fixed deposits amount accounted for 97 and 98 per cent, respectively. In contrast, the share of accounts in the total was relatively low, while the share of amount was more than 80 per cent in respect of other branches.

Ownership Pattern of Deposits :

It is evident from the data presented in Table 6 that, excepting Vadal and Barkur, more than 90 per cent of the depositors were agriculturists. The deposits held by traders, professionals, wage earners and small industrialists, were negligible. This would indicate the future scope for expansion of business with these classes. An analysis of deposit accounts and deposit amounts indicates the highly skewed nature of deposit mobilisation. It also reveals the rational attitude of savers to earning assets among the agriculturists in the high-income brackets, who mainly held interest bearing deposits in branches.

PART II : OVERALL PERFORMANCE OF RURAL BRANCHES

Alongside the performance of the five rural branches in respect of deposit mobilisation, some aspects of their operations were examined in the case studies. It is interesting to analyse these findings as they throw light on key operational aspects of rural branches.

Credit-Deposit Ratio :

On the basis of credit-deposit ratio, the Vadal branch could be characterised as the deposit oriented bank, while the Baragaon Nandur branch as the credit-oriented bank. As against 32 per cent of credit-deposit ratio in respect of Vadal, Baragaon Nandur branch achieved the ratio of 504 per cent. In the case of other branches, the credit-deposit ratio was hovering around

60 per cent reflecting a proper balance between their deposit and lending activities.

Lending Operations :

The purpose-wise and occupation-wise break up of credit data of all the branches indicate that the branches had disbursed sizeable financial assistance to agriculture and allied activities. The purpose-wise break-up of data indicate that the amount of agricultural advances during 1984 in the range of 60 per cent to 90 per cent of the total advances of these branches was significantly high. The advances to agriculture by these branches include development loans (land improvement, irrigation, etc.), crop loans, and loans for dairy, sheep-rearing, gobar gas, implements like tractors, electric motor, thresher, oil engine, etc. In Naneola, Baragaon Nandur, Ayodhyapatnam and Barkur, the branches were observed to be instrumental in transforming the subsistance agriculture to commercial agriculture. As a result, considerable amounts of income-yielding assets were generated. This enabled the beneficiaries to derive substantial additional income, not only from their main occupation but also from subsidiary occupations. The perceptible expansion in income and employment activities was partly attributed to financial input provided by the branches in respective villages.

Recovery Performance :

The current recovery performance of all the branches studied was more or less satisfactory. Particularly, it was observed to be excellent in respect of Baragaon Nandur, Naneola and Ayodhyapatnam where the recovery rate was placed at about 80 per cent. While the institutional arrangements in Baragaon Nandur and Ayodhyapatnam were mainly responsible for the good recovery performance, the effective credit management was observed to be the main reason for good performance of recovery in respect of Naneola. The unique scheme of linking production credit with marketing evolved as a result of the cooperation among the commercial bank office the Rahuri cooperative sugar factory and the cooperative bank facilitated greatly the smooth recovery of agricultural loans in Baragaon Nandur. The machinery in vogue to speed up recovery in Ayodhyapatnam has been *Gramoday Kendras* (Rural Development Centres) set up to improve the functioning of rural branches for effective implementation of the lending policies. Officials attached to the *Gramoday Kendras* were overseeing the loan recoveries. In Naneola, the good recovery performance was mainly attributed *inter alia* to viable financing, close supervision, follow-up action and proper identification of the needs of beneficiaries.

Productivity and Profitability :

The term productivity is defined here as total business per employee and profitability represents gross profit per Rs. 100 of business. The data on profitability and productivity per employee of five selected branches presented in Table 7 reveal that both productivity and profitability of Naneola and Vadal branches were relatively high. In contrast, the Barkur branch whose productivity was much lower than others incurred losses. Baragaon Nandur branch presents a typical operational experience. The performance of this branch as measured by its productivity was appreciable. Yet its performance in terms of profitability was disappointing. Baragaon Nandur branch extended credit well over its own deposits by borrowing heavily from its Head Office. The cost of borrowing at 10 to 11 per cent was relatively high. This high cost of loanable funds coupled with high operating cost and relatively low earning on its assets were responsible for the heavy losses incurred by the branch.

PART III : CONSTRAINTS ON DEPOSIT MOBILISATION

It is interesting to refer here to some of the observations of the case studies in respect of money lenders and private finance companies. In Ayodhyapatnam there were nearly 22 finance companies with an estimated capital of about Rs. 25 lakhs. The mushrooming of these companies took place in a span of four or five years. These companies catered to the needs of small traders, hawkers, etc., by extending to them timely loans without any guarantee/security. They were also found accepting deposits by paying relatively higher interest rates on deposits. Similarly, in Naneola, money lending business of Mahajans (money lenders) was found to be on the increase. There were five big *Mahajans* and 10 small *Mahajans*. The credit extended by them for various consumer durables and vehicles during the year 1984 was in the region of Rs. 20 lakhs to Rs. 25 lakhs. It was found that the rich farmers and traders who failed to get loans from banks for consumer durables or for holding of inventories have sought financial assistance from the *Mahajans*. The presence of these agencies, therefore, had an adverse impact on the deposit mobilisation efforts of the banks. Findings of the studies reveal that nearly more than 40 per cent of the households in the command areas of the respective branches and about 40 to 50 per cent of the households in the villages where the branches are located did not avail of the banking service.

Information based on opinion survey of non-depositors in the respective villages indicate some important constraints faced by banks in respect of deposit mobilisation. They can be grouped under four major categories in order of their importance : 1) Economic constraints; 2) Social constraints; 3) Educational constraints and 4) Institutional constraints.

Economic constrainsts relate to inadequate incomes and savings. A majority of non-depositors opined that incomes were so meagre that they could hardly save. This points to the need for greater bank involvement in increasing employment and incomes of these classes of people. Preference to hold cash and gold ornaments and other real assets, lack of banking habits, etc., among these households were reported to be the inhibiting social constraints. For this, the banks have to influence the asset preferences of the villagers by personal contact, persuasion, etc. Illiteracy, inadequate apprecia-tion of banks' role and non-familiarity with complicated bank procedures and rules, were some of the educa-tional constraints. Relatively low interest rate and lack of innovative deposit mobilisation schemes suitable to socio-economic environment of the rural areas were observed to be some of the institutional constraints in the selected villages. In view of these institutional constraints, some savers preferred other financial intermediaries like money lenders and finance companies. Banks have to find ways to overcome these constraints if they have to mobilise rural savings on any significant scale.

In this connection, it is worth referring to the main findings of the Report of the Task Force on Deposit Mobilisation in the Agricultural Market Segment (State Bank of India, 1978). Observing that "the existing deposit schemes lack rural flavour", the Task Force had recommended the introduction of "Krishi Deposit", which is a slight variant of the term deposit scheme in respect of its maturity and payment of proceeds of deposits. The maturity period of 'Krishi Deposit' would be 9 months and proceeds of the deposits would be paid in two equal instalments so as to help the farmer meet his expenditure with his own funds.

PART IV : SUMMARY AND CONCLUSIONS

From the findings of five case studies, it is clear that for the success of efforts at deposit mobilisation, there were contributory factors of general economic growth in the villages, good infrastructural facilities and productive land and irrigation facilities. But, more importantly, bank managements played a catalytic role in village development with their readiness to help financially in strengthening the infrastructure and in accelerating production and growth in the villages and in mobilising their savings.

Despite impressive growth in the deposits of the banks studied, there was still a large segment of the rural population in those villages untouched by the banks; such population generally faced low household incomes, unemployment and poverty and hence no savings. In such cases, the banks may have to provide advances to make them productive and income-earning, if they have the potentiality. Where the incomes of the villagers are high enough to have savings, some of them prefer to keep savings in cash, gold and jewellery due to their own asset preferences. Some villagers are not attracted by bank deposits due to illiteracy and aversion to the publicity of banks and their procedures and formalities.

The banks facing these constraints have to counter them by imaginative and innovative methods in respect of each of these categories of villagers. Publicity and education, persuasion through personal contact, some simplification in the procedures and practices of banks devising suitable deposit schemes, etc., are all required to improve their deposit mobilisation performance.

A few more important modifications desired in banking practices are set out below.

1. Experience has shown that the better performance of some branches in the long-run is not due to price differentials but due to product differentials. The quality of customer service, the timeliness and adequacy of loans, the informality and flexibility in the approach of the branch manager and his sfaff are some of the examples of products differentials. In a village where all the institutional agencies are operating such as commercial banks, co-operative banks and post offices, it has been found that commercial banks are preferred by villagers over other institutions because of these product differentials.

2. The deposit mobilisation is a function of a number of variables some of which are internal to the branch. To the extent that there are internal factors, emphasis has to be laid on proper house-keeping and local involvement of the branch. The staff and branch manager residing in the area of the village and deeply committed to the economic upliftment of the village and its people adds to the image of the bank office. The involvement of the management, the attitude of the staff and their strategy are positively correlated to deposit mobilisation of the branch.

3. The development of the deposit business also

depends on the potentiality of the command area and its exploitation by the bank branch. For example, the bank branch can play an accelerating role in the development of infrastructure, water management, marketing facilities, land development and better crop practices. These would improve productivity and incomes of the people and augment their savings which might eventually flow to the banking system. The branches in the village have, therefore, a role in the development of their command area which they should perform with the help of their technical staff or *Gramoday Kendras*.

4. The banks' deposit business is also closely linked with the lending activity of the branch which has to be supply-leading rather than demand-following. Timely and adequate financial assistance to the villagers will ensure their willingness to depend upon the branch and to entrust them with their savings. The recent growth of lending under 20 Point Programme, IRDP, etc., have this objective in view, that is, one of promoting the growth potential of the villagers which in turn will lead to greater flow of savings into the banking system.

5. The branch will have to make concerted efforts at enlisting co-operation of other institutions in the village such as co-operatives, post offices, marketing societies, etc., in sharing credit information and other data and material. For instance, the linking of credit to the marketing requires the co-operation of the marketing societies with the commercial banks. Such linking would improve the recovery performance as well as the potential for future lending and savings mobilisation of the branch.

6. The reluctance of some villagers to approach the bank has been due to illiteracy and lack of appreciation of the usefulness of the bank and their preference of cash, gold and jewellery to bank deposits. Some of the villagers still find it convenient to go to moneylenders, finance companies and other indigenous sources of supply of funds in preference to banks for their own reasons such as

secrecy, informality and flexibility in operations. In these cases, the bank branches have a responsibility of educating the people through exhibitions, films and personal contacts on the role and usefulness of the bank *vis-a-vis* non-bank informal system and the risk and failures associated with such indigenous agencies. The asset preferences of the villages can be influenced in favour of bank deposits *vis-a-vis* cash and jewellery by personal contacts, persuasion, exhibitions and publicity methods with the cooperation of local/village development agencies or *panchayats*.

7. In the case of those having savings but unwilling to come to the banking system due to higher interest rates with private financiers, the banks have to design special instruments of savings suitable to the villagers such as 9 months' deposits to coincide with the seasonal operations or linking of deposits with the purchase of durable household assets, etc. Besides, village branches have to adopt simplified forms and procedures, informality in their dealings and flexibility in procedures to satisfy the villagers' requirements.

8. The commercial banks have an advantage over RRBs and cooperatives due to their organised methods and practices, high degree of liquidity and abundance of expertise in terms of human resources. These inbuilt strengths will enable them to stand out as promoters of savings and investment in the rural areas in the years to come. It is, therefore, necessary that the commercial banks gear themselves up to organise their rural branches in a more systematic manner towards playing a dynamic role in the village economies and to replicate the practices and methods adopted by the rural branches included in the present case studies. A change in the rural scenario can be brought about only by a multi-dimensional package which a commercial bank branch is able to offer to the villagers in the form of mobilisation of their savings and meeting all their financial requirements.

TABLE 1 : DEPOSITS PER RURAL BRANCH - DECEMBER 1984

(Rupees lakhs)

	Village*	Deposits of the branch	Average deposits per rural branch in the respective State	Average deposit per rural branch in the respective region
	1	2	3	4
1.	Naneola	104.5	50.53	54.82
2.	Vadal	122.5	55.15	44.65
3.	Barkur	134.5£	33.10	35.52
4.	Baragaon Nandur	19.1	30.02	44.65
5.	Ayodhyapatnam	105.3	35.66	35.22
	All India average deposit per rural branch :			38.04

* Deposits of the villages relate to end-December 1984

£ Exclusive of deposits of Rs.91.5 lakhs under Non-Resident Accounts.

Source : Reserve Bank of India, **Banking Statistics, Quarterly Handout - December 1984,** for Columns (3) and (4).

TABLE 2 : GROWTH OF DEPOSITS

(Rs. in lakhs)

Years End - Dec.	Naneola		Vadal		Barkur		Ayodhyapatnam		Baragaon Nandur	
	Commercial Bank 1972@	Co-operative Bank 1973@	Commercial Bank 1968@	Co-operative Bank 1973@	Commercial Bank 1946@	Co-operative Bank	Commercial Bank 1975@	Co-operative Bank 1982@	Commercial Bank 1974 @	Co-operative Bank 1982 @
1980	68.2	-	66.7	-	83.0	0.24	48.0	-	7.7	-
1981	76.7 (+12.5)	-	89.9 (+34.8)	-	101.5 (+22.3)	0.51 (+112.5)	61.6 (+28.3)	-	9.9 (+28.6)	-
1982	88.6 (+15.5)	-	99.0 (+10.1)	9.6	106.9 (+5.3)	0.38 (-25.5)	83.6 (+35.7)	26.9	13.6 (+37.4)	9.8
1983	91.0 (+2.7)	-	119.0 (+20.2)	11.7 (+21.9)	121.8 (+13.9)	0.44 (+15.8)	84.5 (+1.1)	39.6 (+47.2)	12.6 (-7.4)	11.3 (+15.3)
1984	104.5 (+14.8)	34.3	122.5 (+2.9)	16.36 (+39.8)	134.5 (+10.4)	0.53 (+20.5)	105.3 (+24.6)	51.6 (+30.3)	19.1 (+51.6)	24.3 (+115.0)

@ Year of establishment.

Note : Figures in brackets are percentage variations over the previous year.

Source : **Five Case Studies of Rural Branches,** Reserve Bank of India.

TABLE 3 : STRUCTURE OF DEPOSITS, DECEMBER 1984

Village	Current		Saving		Fixed		Total	
	No. of Accounts	Amount (Rs.000')	No. of Accounts	Amount (Rs.000')	No. of Accounts	Amount (Rs.000')	No. of Accounts	Amount (Rs.000')
1. Naneola	94	769	1,795	3,741	698	5,939	2,587	10,449
	(3. 63)	(7. 36)	(69. 39)	(35. 80)	(26. 98)	(56. 84)	(100%)	(100%)
2. Vadal	35	439	2,101	3,628	771	8,184	2,907	12,251
	(1 .21)	(3.58)	(72 27)	(29.61)	(26. 52)	(66. 81)	(100%)	(100%)
3. Barkur	11	20	5,144	4,080	2,081	9,350	7,236	13,450@
	(0 .15)	(0. 15)	(71.09)	(30.33)	(28 .76)	(69 .52)	(100%)	(100%)
4. Baragaon Nandur	3	62	1,127	705	131	1,142	1,261	1,909
	(0 .24)	(3 .25)	(89 .37)	(36 .93)	(10.39)	(59.82)	(100%)	(100%)
5. Ayodhyapatnam	52	199	4,700	2,292	1,869	8,039	6,621	10,530
	(0 .78)	(1.89)	(70 .99)	(21 .77)	(28.23)	(76 .34)	(100%)	(100%)

@ Exclusive of Deposits under Non-Residents Accounts of Rs.91.5 lakhs

TABLE 4 : SIZE-WISE BREAK-UP OF SAVING DEPOSITS, END-DECEMBER 1984

No. of Accounts : Actual
Amount : Rupees thousands

Size range of Deposits (Actual amounts)	Naneola		Vadal		Barkur		Baragaon Nandur		Ayodhyaptnam	
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
Less than Rs.201	697	107	675	338	3053	300	968	26	2154	33
	(38.8)	(2.9)	(32.1)	(9.2)	(59.3)	(7.3)	(85.9)	(3.7)	(45.8)	(1.5)
Rs.201 - 500	322	87	496	153	735	310	64	21	226	48
	(17.9)	(2.3)	(23.6)	(4.1)	(14.3)	(7.6)	(5.7)	(3.0)	(4.8)	(2.1)
Rs.501 - 1000	104	69	394	183	528	370	23	15	443	200
	(5.8)	(1.8)	(18.8)	(5.0)	(10.3)	(9.1)	(2.0)	(2.1)	(9.4)	(8.7)
Rs.1001 - 2000	248	318	186	242	512	670	21	27	1569	1036
	(13.8)	(8.5)	(8.9)	(6.6)	(10.0)	(16.4)	(1.9)	(3.8)	(33.4)	(45.2)
Rs.2001 - 7500	199	1047	200	897	165	460	23	90	230	404
	(11.1)	(28.0)	(9.5)	(24.3)	(3.2)	(11.3)	(2.0)	(12.8)	(4.9)	(17.6)
Rs.7501 - 10000	165	1421	150	1872	88	650	7	62	62	402
	(9.2)	(38.0)	(7.1)	(50.8)	(1.7)	(16.0)	(0.6)	(8.8)	(1.3)	(17.5)
Above Rs.10000	60	692	-	-	63	1320	21	464	16	169
	(3.3)	(18.5)			(1.2)	(32.3)	(1.9)	(65.8)	(0.4)	(7.4)
Total	1795	3741	2101	3685	5144	4080	1127	705	4700	2292
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

- = Nil.
Figures in brackets indicate percentage share to the total.

TABLE 5 : SIZE-WISE BREAK-UP OF FIXED DEPOSITS, END-DECEMBER 1984

No. of Accounts : Actual
Amount : Rupees thousands.

Size range of Deposits (Actual Amount)	Naneola		Vadal		Barkur		Baragaon Nandur		Ayodhyapatnam	
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
Less than Rs.201	11 (1.6)	1 (..)	1 (0.1)	..	167 (8.0)	30 (0.3)	17 (13.0)	15 (1.3)	517 (27.7)	35 (0.4)
Rs.201 - 500	11 (1.6)	3 (0.1)	-	-	325 (15.6)	110 (1.2)	6 (0.2)	2 (7.0)	130 (7.0)	39 (0.5)
Rs.501 - 1,000	34 (4.9)	20 (0.3)	32 (4.1)	25 (0.3)	360 (17.3)	260 (2.8)	19 (14.5)	14 (1.2)	227 (12.11)	193 (2.4)
Rs.1,001 - 2,000	108 (15.5)	165 (2.8)	97 (12.6)	138 (1.6)	512 (24.6)	570 (6.1)	18 (13.7)	25 (2.2)	230 (12.3)	243 (3.0)
Rs.2,001 - 7,500	414 (59.3)	3,245 (54.6)	293 (38.0)	1,459 (16.7)	312 (15.0)	1,370 (14.7)	31 (23.7)	117 (10.3)	305 (16.3)	697 (8.7)
Rs.7,501 - 10,000	95 (13.6)	1,055 (17.8)	348 (45.2)	7,108 (81.4)	210 (10.1)	1,930 (20.6)	8 (6.1)	69 (6.0)	250 (13.4)	2,775 (34.5)
Above 10,000	25 (3.6)	1,450 (24.4)	-	-	195 (9.4)	5,080 (54.3)	32 24.4)	900 (78.8)	210 (11.2)	4,057 (50.5)
Total	698 (100.0)	5,939 (100.0)	771 (100.0)	8,730 (100.0)	2,081 (100.0)	9,350 (100.0)	131 (100.0)	1,142 (100.0)	1,869 (100.0)	8,039 (100.0)

.. = Negligible - = Nil.

Figures in brackets indicate percentage shares to the total

TABLE 6: CLASSIFICATION OF DEPOSITS ACCORDING TO TYPES OF DEPOSITORS (END-DECEMBER 1984)

(In number)

Type of Depositor	Naneola	Vadal@	Barkur	Ayodhyapatnam	Baragaon. Nandur
1. Agriculturists	4821 (90.7)	-	8495 (83. 1)	2792 (96.0)	1231 (93.3)
2. Traders	247 (4.6)	-	550 (5.4)	29 (1.0)	4 (0 .3)
3. Professionals	125 (2 .4)	-	350 (3 .4)	70 (2.4)	3 (0.2)
4. Wage earners	105 (2. 0)	-	750 (7. 3)	-	-
5. Small Scale Industries	17 (0 .3)	-	80 (0 .8)	6 (0 .2)	14 (1 .1)
6. Others	-	-	-	10 (0. 3)	-
Total	5315 (100. 0)	-	10225 (100.0)	2907 (100. 0)	1252 (100. 0)

Figures in brackets indicate percentage to total
@ The data are not available in this case

TABLE 7 : PROFITABILITY AND PRODUCTIVITY OF RURAL BRANCHES (END-DECEMBER 1984)

(In Rs.)

Village	Productivity (Business per employee)	Profit per Rs. 100 of business
1. Naneola	1723.4	+ 1.68
2. Vadal	1475.4	+ 0.29
3. Barkur	1179.4	- 0.62
4. Baragaon Nandur	1948.1	- 0.52
5. Ayodhyapatnam	-	+ 0.44

APPENDIX I

PROFILE OF THE FIVE VILLAGES STUDIED

Sr. No.	Items	Baragaon Nandur	Barkur	Naneola	Vadal	Ayodhya-patnam
	1	2	3	4	5	6
1.	District & State	Ahmednagar Maharashtra	Dakshina Kannada Karnataka	Ambala Haryana	Junagadh Gujarat	Salem Tamil Nadu
2.	Population (as per 1981 Census)	5,615	8,838	2,962	7,100	7,433
3.	Village Area	9,615 acr.	3,438 acr	1,378 acr	5,199 acr	1,285 acr
4.	Main Occupation	Agriculture	Agriculture	Agriculture	Agriculture Construction Workers/ Cottage Industries & Other professionals	1) Agriculture 2) Trading 3) Artisans 4) Others
5.	Cropped area	3,578 acr.	4,038 acr.	1,182 acr.	4,953 acr.	988 acr.
	a) Irrigated	3,078 acr.	1,403 acr.	1,157 acr.	629 acr.	323 acr.
	b) Un-irrigated	500 acr.	2,635 acr.	25 acr.	4,324 acr.	665 acr.

... (Contd.)

APPENDIX 1 *(Concld.)*

1	2	3	4	5	6
6. Percentage of land under different crops	100.0 acr.	100.0 acr.	100.0 acr.	100.0 acr.	100.0 acr.
a) Sugaracane	51.2	7.3	1.1	1.1	1.0
b) Jowar	13.1	-	5.3	1.4	13.0
c) Bajra	9.3	-	-	4.4	18.5
d) Wheat	7.2	-	40.8	6.0	-
e) Paddy	-	53.6	36.0	-	6.1
f) Mustard	-	-	5.7	-	-
g) Coconut	-	13.4	-	-	-
h) Groundnut	-	-	-	78.4	12.0
i) Vegetables	2.0	16.3	1.4	1.9	8.9
j) Pulses	0.9	-	5.6	-	-
k) Cotton	1.5	-	-	-	22.4*
l) Tapioca	-	-	-	-	17.9
m) Others	14.8	9.4	4.1	6.9	0.2

* It includes Cotton, Plantation crops, pulses etc.

Sources : RBI (Department of Economic Analysis and Policy, Division of Rural Economics) , **Rural Savings Mobilisation Study-India** (five separate case studies), July 1985.

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RESOURCE MOBILISATION THROUGH SMALL SAVINGS

R. Krishnaswamy @

Objective

The objective of this paper is to analyse the relative roles of different types of instruments of small savings available in India and to assess their contribution, instrument wise and state-wise, to the Central Government resource mobilisation efforts during the period 1951-52 to 1986-87. The recent lowering of interest rates on deposits of banks and other savings instruments in April 1987 may have its impact on the quantum of savings and the relative rates of mobilisation of various savings media including small savings. Factors influencing mobilisation of small savings are examined in this context, through State-wise analysis. The emerging scenario of future mobilisation of small savings to reach the target in the Seventh Five Year Plan period is set out at the end.

Historical Perspective

The savings bank movement launched by Rev. Dr. Henry Duncan in Scotland, by opening a saving bank in Ruthwell (Dumfrieshire) during 1810[1] could be considered as the precursor to the small savings scheme. Rev. Duncan's decision was actuated by his conviction that importation of the English system of **Poor Relief** into Scotland would destory the independence of the Scottish people, lessen their incentive to work, loosen family ties and sap initiative and vigour. His efforts were, therefore, directed at helping the poor to help themselves. Motivation for the early savings bank movement could also be traced to the same causes as the other philanthrophic movements at

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the beginning of the nineteenth century: concern for the conditions of the poor, particularly the industrial working classes, dissatisfaction with the system of poor relief and the need for the virtues of thrift and industry.

Reiterating the importance of encouraging personal savings, the Royal Commission on the Taxation of Profits and Income (UK, 1955)[2] observed: "A complex of reasons, moral, social and economic, supports the view that a man ought to save from consumption some part of his income during most parts of his life; his independence, his relationship with other citizens, his duty as a member of the society whose future is pledged to economic progress. We recognise that changing conditions may change the relative emphasis of these different factors: but we do not think their total weight is in any sense less today than it was in the past". Likewise, Harry Page Committee to Review National Savings (UK, 1973)[3] gave three main reasons for encouraging national savings from a wider economic point of view: to substitute saving for taxation in the management of demand; to improve rate of growth; and to assist in financing the Government's borrowing requirements. However, government could not turn savings on and off like a tap. But under certain conditions, a rise in overall saving would enable the government to reduce taxation.

In India the Government was conducting savings bank business from the days of the East India Company. The first savings bank was established at the Presidency Bank of Bengal in 1833[4], and within the next two years, savings banks were opened in the other Presidency towns of Bombay and Madras. Savings banks were also opened in selected district treasuries in 1870 and in the Post Offices throughout India in 1882. Post Office savings banks took over the savings bank business of district treasuries in 1886 and that of Presidency banks in 1876. Since 1896, all savings bank business of the Government is being conducted by the Postal department. However, small savings as a movement had gathered momentum only in 1945, as a method of mopping up purchasing power to fight the rising spiral of Inflation[5].

The National Savings Organisation (NSO) is the main medium through which the Government's direct participation in the small personal savings rests in India. The government encourages personal savings in a variety of other forms, but mainly thorugh tax reliefs.

Main Characteristics of Small Savings Scheme

Small savings media are all backed by Government guarantees for fulfilment of the conditions under which they are offered to the public. They are mainly designed to attract money in small amounts from individuals. Accruals and withdrawals are in relatively small amounts from a large number of people. The scheme, however, serves not only lower income groups but a sizeable participation by high income earners under many schemes bacause of the attractiveness of tax exemptions. All small savings facilities have some form of tax exemption and also relatively higher returns. These holdings are usually subject to maximum limit of investment and are non-negotiable. They are generally liquid and can be redeemed or repaid at their original purchase price on demand$ though usually with some penalty in the form of loss of interest or bonus. They provide no protection against inflation in the form of capital gains. The major differences as between different small savings instruments are set out in Table 1.

Trends in Small Savings Collections

The Government of India has launched a number of small savings schemes since 1950-51 in order to mobilise resources for five-year plan investments. Data on collections from small savings for the period 1951-52 to 1986-87 under major heads are presented in Statement - 1, Plan-wise accruals are given in Table 2. Gross receipts which amounted to Rs. 148 crores during the first year of the First Five Year Plan increased by about 55 times by the end of the second year of Seventh Five Year plan (1986-87) to reach a level of Rs. 8,164 crores. The average annual gross collections

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$ *National Savings Certificates (VI issue) issued after April 1, 1986 cannot be redeemed before maturity.*

increased from a meagre Rs. 166 crores during the First Five Year Plan period to Rs. 4,859 crores during the Sixth Five Year plan; they rose to as much as Rs. 8,360 crores per annum during the first two years of Seventh Five Year plan (1985-87) (Table 2). However, the net amount of collections£ which is more relevant, indicated a more or less steady rise from Rs. 42 crores in 1951-52 to Rs. 87 crores in 1961-62; the net collections reached Rs. 1450 crores by 1981-82 and thereafter, there was a quantum jump to Rs. 4,338 crores by 1985-86, before falling to Rs. 3,193 crores during 1986-87. The relative decline in 1986-87 was due to changes effected in the regulations governing investments of the Employees' Provident Fund. The level of outstandings in small savings had risen by sixty-eight times in nominal terms from Rs. 378 crores at the end-of 1951-52 to a level of Rs. 25,602 crores by the end of 1986-87. Net receipts deflated by the Whole Sale Prices Index rose from Rs. 42 crores in 1951-52 to Rs. 113 crores by 1971-72 and further to Rs. 428 crores by 1986-87 (at 1951-52 prices),viz., about 10 times over the entire period.

Targets and Achievements

A Plan-wise analysis reveals that during the First Five Year Plan, the net collections surpassed the target amount of Rs. 225 crores by Rs. 20 crores. The net collections during the Second Five Year Plan fell short of the target amount of Rs. 500 crores by Rs. 97 crores. In the Third Five Year Plan period (1961-66) the average annual collections amounted to Rs.114 crores and net collections during this period amounting to Rs.567 crores were, however, less than the target of Rs.600 crores. The shortfall was partly explained by the diversion of deposits to the commercial banking sector, which had earlier got channalised into Post Office savings banks following the failure of two commercial banks in 1960 (Palai Central Bank and

£ *Withdrawals or disinvestments may occur due to repayment on maturity, reinvestment by withdrawing from one media to another media of better yield sometime even outside the small savings spectrum, and premature withdrawals or encashment.*

Laxmi Bank).[6] During the Fourth Five Year Plan period (1969-74), the net amount mobilised reached a high of Rs.1380 crores as against the target amount or Rs.1,000 crores. Encouraged by this good performance, the Central Government had fixed a target of Rs.1,850 crores for the Fifth Five Year Plan (1974-79), while actual net colletions reached a level of Rs.2826 crores.

Sizeable investment in small savings media took place during the Sixth Five Year Plan Period (1980-85) mainly due to increased liquidity in the economy. The average net annual net collections during the Sixth Five Year Plan period worked out to Rs.2167 crores as against an average annual target of Rs.1,300 crores (or Rs.6463 crores for the five year period).

The proportion of net collections to gross collections worked out to 45 per cent during the Sixth Five Year Plan period as compared with 30 per cent during the previous plan period. This high proportion was mainly due to smaller repayment during the Sixth Five Year Plan period because of the type of collections through fixed period instruments such as the National Savings Certificats (NSC) - VI issue. During the Sixth Five Year Plan period, out of the collections of Rs.10837 crores in small savings, about 48 per cent was accounted for by this six-year NSC - VI issue, which was introduced from May 1981. The high yield on the principal and reinvestment of accrued interest, in addition to the tax exemption, are the attractions of the series*.

The target for small savings during the Seventh Five Year plan period (1985-90) was set at Rs.17,916 crores. In the first two years of Seventh Plan (1985-87), the collections accounted for 42 per cent of the target.

Small Savings Vis-a-Vis Macro Economic Variables

In order to gauge the degree of success attained in respect of resources mobilised through small savings,

* *When six-year National Savings Certificate (VI-issue) was introduced, the invested amount could be withdrawn after three years at a reduced rate of interest. However, from April 1986, this certificate can be redeemed only on maturity.*

it may be appropriate to view these magnitudes in relation to some selected macro-economic variables. The relevant data are presented in Table 3. The proportion of small savings to the household sectors financial savings, which was around 20 per cent during the Second Five Year Plan period, deteriorated in the next four Five Year Plan periods, but from the Fifth Five Year Plan onwards, the proportion rose to touch 23.2 per cent by 1985-86. However, the average contribution during the Sixth Five Year Plan period as a whole was about 16.8 per cent (Table 3). Consistent with the trend in the proportion of domestic savings to national income, the proportion of small savings to national income, which ranged between 0.4 per cent and 1.1 per cent during the three decades from 1951 to 1980, gathered momentum during the eighties and reached 2.2 per cent in 1985-86, (Table 3). The share of small savings in the internal liabilities of the Union Government was around 19 per cent in the first three Five Year Plans. However, in the subsequent plan periods, it declined and stood at 18.7 per cent in 1985-86.

Small Savings Vis-a-Vis Other Savings Media

Table 4 presents data on the net amounts collected under small savings along with the amounts mobilised in alternative savings media. This table is intended to present the performance of small savings in certain perspective. It will be seen from this table that the amount of savings mobilised under small savings has emerged as the third largest in volume next only to deposits with scheduled commercial banks and those with non-banking companies. The relative attractiveness of small savings *vis-a-vis* other savings instruments is due to the tax concessions that these enjoy, as referred to earlier. The interest rates have also been relatively higher than those on deposits of comparable maturities.*

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* *This picture has, however, undergone a change with the lowering of the maximum maturity period for commercial bank deposits to two years effective from April 1, 1987.*

Scrip-Wise Analysis

Several schemes have been introduced to suit the saving capacity and the needs of people of different income brackets from time to time. Table 5 presents the contribution of each of the scrips to the total collection of small savings. The net receipts and outstandings in respect of deposits and under different scrips are shown in Statements 1 to 4.

The Post Office savings deposit scheme is the oldest one currently available for small savers. Initially, such deposits contirbuted substantially to the total small savings, but over the years their share has dwindled. In 1961-62 their contribution was 41 per cent. However, their importance was reduced with the introduction of Post Office Time deposits in March 1970 and their contribution to total small savings collections came down to 23 per cent of total small savings in 1971-72 (Table 5). Although the collections under the scheme in the subsequent years rose in absolute terms, the rate of growth deteriorated in comparison with the collection in other savings media. The massive branch expansion of commercial banks, especially in the rural and semi-urban areas after the nationalisation of major commercial banks, also contributed to the decline.@ The Post Office savings deposits contributed less than 5 per cent of the total during the eighties.

The Post Office Time Deposits Scheme was introduced in March 1970$. According to the National Savings Commissioner's Report, the investment in these accounts mostly emanated from the Employees' Provident Fund collections. The net collections under this scheme showed substantial increase from Rs.76.9 crores

@ *While post office time deposits collection grew at an annual average rate of 17 per cent between 1969-70 and 1985-86, the annual growth rate in the mobilisation of deposits by scheduled commercial banks in rural and semi-urban areas works out to about 22 per cent during the period.*

$ *A special two-year time deposits plan was also introduced in August 1,1973.*

in 1970-71 to Rs.1,052 crores by 1985-86. In 1986-87, however, there was a decline in net collections (Statement 2) mainly due to a change in the investment procedure applied to the Employees' Provident Fund with effect April 1, 1986. Prior to the amendment, proportions prescribed for the investment of there Provident Fund collections were 40 per cent in Government Securities, 20 per cent in special deposits, and 40 per cent in Post Office time deposits. However, following the amendment 85 per cent is required to be invested in special deposits and 15 per cent in Government securities; Post Office time deposits were thus left out of the ambit of such investment. Moreover, the amount matured during the year was also not reinvested in small savings as it was the practice earlier.

The six-year National Savings Certificate (6-year NSC - VI-Issue) was introduced in May 1981 and since its inception the net collection under the scheme has exceeded that under other schemes in every year and in 1986-87 the net collection of Rs.2,752 crores formed about 86 per cent of total small savings collections. As said earlier, remunerative returns coupled with income-tax benefits greatly attracted the investors in general and especially middle-class salary earners to this scheme. All the other schemes including the NSC (VII issue) currently available, perhaps barring *Indira Vikas Patra*, do not find much favour with the investing public due to unfavourable returns or less attractive features. Under *Indira Vikas Patra* introduced in November 1986, the amount invested was to double in five years, from April 1, 1987. The amount now doubles in a period of $5\frac{1}{2}$ years consequent on the lowering of interest rates; it mobilised 26 per cent of the total net small savings in 1986-87.

Scrips which are not in currency in 1986-87 are termed as Uncurrent Scrips. The details of these schemes upto 1973-74 for which data are available are presented in Statement 4. Since then, there have been only repayment under Uncurrent Scrips and total outstanding under these schemes as at the end of 1986-87 stood at Rs.108 crores.

SMALL SAVINGS : STATE-WISE ANALYSIS

States' Participation

Co-operation and active support of the States in canvassing for the various schemes is essential for increasing small savings collections as the small savers are spread over the urban and rural areas of entire country. In order to encourage the active participation by States, the Central Government has operated a system since 1952 of sharing the proceeds from small savings with them. It was decided at a Finance Ministers' Conference held in October 1952 that the excess collections in a State over the target fixed for it would be made available to that State in the shape of loans for financing its development projects, subject to overall limitation that the Central Government first retained Rs.45 crores out of the aggregate all-India collections This stipulation was, however, subsequently waived.[8] According to the arrangement in force at the end of 1969-70, the States got back two-thirds of net collections raised in their respective areas, as a loan for the period of ten years.

Accepting the National Savings Movement Reorganisation Committees[@] recommendations, the Government of India liberalised further in May 1970 the conditions for grant of loans to State Governments out of small savings. The new formula provides an additional increase of loan of 2½ per cent of small savings for every 5 per cent in execess of national average of net to gross collections achieved. Repayment of loans is also spread over 25 years with a moratorium for the first 5 years. Thus, the larger the net collections from a State, the higher is the amount that will be returned to it by way of loan from the Centre.

The above sharing arrangement has some sort of built-in attraction for States to maximise collections from their respective areas. According to the recommendations of National Savings Central Advisory Board in 1971-72, collections under the Public Provident Fund

@ *The Committee was appointed by the National Savings Central Advisory Board inter alia to suggest ways and means to step up the collections of small savings.*

were also included in the net small savings collections for the purpose of grant of loans to the State Governments[10]. However, the change made by the Centre in the investment pattern of the Employees' Provident Fund in 1986-87 had reduced the States' share in the small savings and the Centre had to remedy the situation by granting *ad-hoc* loans to the States.

The Union Finance Minister announced during the meeting of the National Savings State Advisory Boards in September 14, 1987, that the States' share of loans out of the net small savings had been raised by 8.33 per cent with retrospective effect from April 1, 1987. As a result, the States would now get three-fourths of the net small savings collections as long-term instead of two-thirds earlier.

Net Collections

Table 6 shows the State/Union Territary-wise collections of small savings from 1951-52. The data indicate that Maharashtra occupied the pride of place with the maximum net collections in most of the years. The collection which was Rs.18.5 crores in 1961-62 rose to Rs.831.5 crores by 1985-86, but relegated to the fourth position in 1986-87 by the better performance of Uttar Pradesh, West-Bengal and Gujarat. Uttar Pradesh, which was vying for the second place, occupied the first place with a collection of Rs.506.5 crores in 1986-87, Gujarat, second place with a collection of Rs.399.0 crores, and West-Bengal, third place with Rs.393.0 crores. In fact, all the States recorded substantial gains especially between 1981-82 and 1985-86. However, in 1986-87 there was a setback in the mobilisation of small savings by States which was more pronounced in the case of Maharashtra with a decline from Rs.831.5 crores in 1985-86 to Rs.299.0 crores in 1986-87 mainly due to change in the pattern of investment by the Employees' Provident Funds.

Average Per Capita Small Savings

Table 7 relating to distribution of States according to average per capita small savings reveals that Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Maharashtra, Punjab and West Bengal mobilised higher per capita small savings than the all-India average per capita of Rs.40.8 during 1986-87. While Punjab reported the highest per capita collection of Rs.110.7, Manipur reported the lowest per capita small savings of Rs.6.3 in 1986-87.

The data on per capita small savings as a percentage of per capita incomes, presented State-wise in Table 8, show that the all-India average was 1.26 per cent for the period 1980-81 to 1984-85. The States which recorded a higher level than the all-India average are the industrially advanced States like Maharashtra, Gujarat, West Bengal and Karnataka. Besides, some agricultural States like Uttar Pradesh, Jammu & Kashmir, Sikkim, Meghalaya and Manipur also showed a higher level of savings than the all-India average. The States which have the lowest proportions are Kerala, Tamil Nadu, Orissa and Andhra Pradesh.

Income Elasticity of Small Savings

Table 9 presents the data on income elasticity* of small savings - for all-India and major States - for the latest quinquennium 1981-82, 1985-86. The data show that the income elasticity for all-India was 2.3 during 1981-82 to 1985-86. Although it is assumed here that income influences savings there are a number of other factors which influence small savings such as, wealth, distribution of income, asset preferences, etc. The States which showed a substantially higher income elasticity than the all-India average are Rajasthan, Orissa, Gujarat, Haryana, Karnataka, Andhra Pradesh and Maharashtra. Of these States, Orissa, Haryana, Andhra Pradesh and Rajasthan have a high ratio of agricultural income to total income indicating that agricultural prosperity is one of the reasons for increased savings in these instruments by rural and semi-urban population. In some industrially advanced States like Maharashtra, Karnataka and Gujarat, although the ratio of agricultural income to total income is low, small savings are relatively high due to the high propensity to save among metropolitan and urban population

* *Income elasticity* = $\dfrac{\text{\%age change in small Savings } (\Delta S/S)}{\text{\%age change in Income } (\Delta Y/Y)}$

to take advantage of tax exemptions. The lowest propensity to save in the form of these instruments is found in Assam, Jammu and Kashmir and Himachal Pradesh probably due to their low per capita incomes and/or low agricultural incomes.

It will be seen from the above that the performance of small savings is a function of income as also the marginal propensity to save. The relative proportion of agricultural incomes to total income and the agricultural prosperity of the States, are some of the factors which explain the performance of small savings, in addition to efforts made by State Governments to mobilise these savings.

Loans to States Against their Net Collections

Data on loans granted to States out of the net savings mobilised in respective States are given in Table 10. The proportion of such loans to net collection of small savings has increased over the period 1961-62-1986-87 in case of all states except Andhra Pradesh, Gujarat, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Punjab, Manipur and Nagaland. In 1986-87 Assam, Bihar, Haryana, Andhra Pradesh, Karnataka, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal received loans more than two-thirds of their respective collections. However, Madhya Pradesh, Nagaland, Sikkim received less than one-third of their collections. In case of all other States, this percentage was between 47 and 66, i.e., below two-thirds of their respective collections.

Financing of Plan Through Small Savings

A part of the State Governments' Plan outlays may have been financed out of the loans granted by the Central Government from the collections of small savings in the respective States (Table 11). Financing of Plan outlays by loans sanctioned to States is arranged according to class intervals, as depicted in Table 12.

West Bengal financed more than 25 per cent of its Plan outlay by small savings in 1971-72 and also in 1986-87. Haryana financed more than 25 per cent in 1971-72, but only 19.6 per cent in 1986-87. Assam, Bihar and Himachal Pradesh were able to finance more than 10 per cent in 1971-72 and also in 1986-87. Maharashtra, Punjab, Gujarat stood in more than 25 per cent class interval in 1986-87. Karnataka, Tamil Nadu and Uttar Pradesh ascended from their position in the class interval 5-10 per cent in 1971-72 to 10-25 per cent in 1986-87. Orissa maintained its position in 5-10 per cent class inverval in 1971-72 and 1986-87. However, Madhya Pradesh moved down from 5-10 per cent class in 1971-72 to 0-5 per cent class in 1986-87. Andhra Pradesh, Rajasthan and Kerala graded up from 0-5 per cent class in 1971-72 to 10-25 per cent class in 1986-87. Jammu and Kashmir kept the same position in the class interval of 0-5 per cent both in 1971-72 and 1986-87.

Conclusions

During the period studied, 1951-52 to 1986-87, small savings played a significant role in the financing of public outlays by the Governments - Centre and States. Net collection of small savings recorded a more or less steady rise from Rs.42 crores in 1951-52 to Rs.1126 crores in 1979-80 and thereafter it accelerated to reach Rs.3193 crores by 1986-87. The amount outstanding at Rs.25,602 crores at the end of 1986-87 was nearly sixty-eight times as high as the amount outstanding at the end of 1951-52. The average gross collections per annum during the period of 1951 to 1979 amounted to Rs.784 crores, which spurted up to Rs.4,858 crores during the Sixth-Five Year Plan period (1980-85). The net receipts in real terms (adjusted for inflation) also rose by about ten times during the period studied. The proportion of net collections to national income ranged between 0.4 per cent and 1.1 per cent during 1951-52 to 1978-79 but steadily rose thereafter to 2.2 per cent in 1985-86. The proportion of small savings to domestic financial savings of household sector stood at about 23 per cent in 1985-86 as compared with 13.6 per cent in 1956-57.

As compared with alternative media of savings, cumulative balances of small savings as well as annual net collections were higher than the savings with UTI and LIC, but lower than the deposits with scheduled commercial banks and those with non-banking companies. Instrument-wise trends revealed that NSC (VI issue) with 86 per cent of total collections and *Indira Vikas Patra* with 8 per cent of total collections formed the back-bone of small savings at present, displacing Post Office savings deposits and other savings certificates.

Concerning State-wise performance, Uttar Pradesh, Gujarat, West Bengal and Maharashtra have made considerable progress in the mobilisation of small savings in that order, which together accounted for about 50 per cent of total collections in 1986-87. The Southern States, viz., Kerala, Karnataka, Andhra Pradesh and Tamil Nadu, together contributed 15 per cent of total collections in 1986-87. Among the Union Territories, the share of Delhi was 6.0 per cent, while that of all other Union Territories was less than 1.4 per cent of total collections. Maharashtra occupied the pride of place in small savings mobilisation in almost all the years under study. West Bengal and Uttar Pradesh vied with each other to occupy the second place. By and large the States with low per capita State domestic product also recorded low per capita savings and *vice versa*. Maharashtra with high average per capita domestic product also had the the highest per capita small savings. Contrary to the trend, Manipur, Kerala, Andhra Pradesh, Meghalaya, Tamil Nadu and Karnataka, which have relatively high average per capita state domestic product reported low per capita small savings.

Admittedly, there are wide State-wise variations in the performance of small savings. Basically small savings are motivated by precautionary and contingency motives of the public. As such they are a function of income, wealth and asset preferences of the public. Some of these savings are, however, involuntary and and contractual while some are solely for tax exemption purposes. There are also institutional factors such as efforts of State Governments to mobilise small savings, availability of Post Office savings facilities nearby, services provided by the agents, etc.

The more recent changes in the policy affecting small savings are: first, the lowering of interest rates all through the line of financial instruments *pari passu* with other interest rates in the economy; secondly, the changes in the rules governing the investment of Employees Provident Funds also affect the prospects of small savings in future; and finally, the introduction of the net saving principle may also shape the future collection. Under the new Scheme introduced in the Budget for 1987-88, the fiscal concessions are available only for net savings and 50% of the deposits upto a maximum of Rs.20,000 are eligible for tax deduction. However, in the year of withdrawal, 50% of the amount withdrawn would be added to the taxable income. As the new scheme is just initiated, no assessment of the same is as yet possible.

Although the recent changes might induce some small savers to shift to more attractive instruments in the Government and corporate sectors, it is likely that the present set of savers may continue with the existing instruments of small savings, mainly due to tax concessions, non-availability of the alternatives in the rural and semi-urban areas, their existing pattern of asset preferences, and the general familiarity with the small savings media. It would, therefore, appear that broadly the attractiveness of small savings to the household sector would continue and the present pattern of flows would remain unchanged.

The Seventh Five-Year Plan has projected for total net collections of small savings at around Rs.18,000 crores of which about 42 per cent were already collected during the first two years (viz., 1985-86 and 1986-87). Given this pattern of collections, it is possible that the target could be achieved during the Seventh Plan. On the assumption that existing instruments are continued and the present pattern of interest rates remain unchanged, the relative position of collections in small savings may not significantly change *vis-a-vis* bank deposits and other corporate investments. The maintenance of *interse* parity in interest rates and the tax concessions available to the small savings instruments could continue to keep them attractive for the small savers. However, to facilitate larger collection of savings, an area which can be further explored is the mobilisation of rural savings. It is understood that there is potential for mobilising rural savings by banks as well as Post Offices. It is, therefore, necessary that the future thrust of small savings drive may be in the direction of mobilising rural and semi-urban savings in the economy.

TABLE 1 : CURRENT SMALL SAVINGS MEDIA IN FORCE

Name of the Scheme (Security)	Introduced from	Limits of Investments	Rate of Interest per annum	Whether the Interest is tax-free under Sec.10/Sec.80-L of the Income-Tax Act	Whether the amount invested qualifies for deduction under Sec. 80-C of the Income Tax Act $	Whether the investment qualifies for exemption from Wealth-Tax under Sec.5 of the Wealth Tax Act	
						Within the prescribed limit of Rs.5,00,000	In addition to the limit of Rs.5,00,000
1	2	3	4	5	6	7	8
1. Post Office Savings Bank Account	1833	Minimum Rs.20 and Maximum Rs.25,000 (Rs.50,000 Jointly)	5.50% Payable annually by credit to Account	Yes Sec. 10 (15) (ii)	No	Yes	No
2. 7-year National Savings Certificate II Issue	April 1970	Maximum Rs.75,000 (Jointly Rs.1,50,000)	6.50% Payable at Maturity	Yes Sec. 10 (15) (ii)	No	Yes	No
3. 10-Year Post Office Cumulative Time Deposit Accounts #	January 1959	Maximum Rs.1,000 per month (Rs.2,000 Jointly)	6.75% Compounded and Payable at Maturity	Yes Sec.10 (15) (ii)	Yes	In addition to Rs.5,00,000	Yes
4. 6-Year National Savings Certificates VI Issue	May 1981	No limit	11.30% Compounded half yearly and Payable at maturity	Qualifying for deduction under Sec.80-L within limit of Rs.7,000	Yes	Yes	No
5. 6-Year National Savings Certificates VII Issues	May 1981	No limit	11.00% Payable half yearly	- do -	Yes	Yes	No
6. 10-Year Social Security Certificates	June 1982	Maximum Rs.5,000	11.30%	- do -	No	Yes	No
7. Post Office Time Deposits Accounts	March 1970	No limit	Between 9.50% and 11.00% Payable annually calculated half yearly	- do -	No	Yes	No

....(Contd.)

TABLE 1 : CURRENT SMALL SAVINGS MEDIA IN FORCE *(Concld.)*

1	2	3	4	5	6	7	8
8. Post Office Recurring Deposit Accounts (Period 5 years)	April 1970	No limit	11.50% Compounded and payable at maturity	- do -	No	Yes	No
9. Indira Vikas Patra (Period 5½ years)	November 1986	No limit	13.43% Compounded and Payable at maturity	- do -	No	No	No

Source : Reserve Bank of India, Report on Currency and Finance

Notes : # Opening of new accounts under the Scheme has been discontinued w.e.f. April 1, 1986
$ Qualifying amount is limited to Rs.40,000 only in a year.

TABLE 2 : PLAN-WISE SMALL SAVINGS COLLECTIONS

(Rs. Crores)

Period	Gross Receipts	Net Receipts	Repayments	Out-Standing at the end of the Period
1	2	3	4	5
First Five Year Plan (1951-52 to 1955-56)	829 (165.8)	244 (48.8)	585 (70.6)	580
Second Five Year Plan (1956-57 to 1960-61)	1418 (283.6)	402 (80.2)	1016 (71.6)	982
Third Five Year Plan (1961-62 to 1965-66)	2067 (413.4)	567 (113.4)	1500 (72.5)	1549
Plan-Holiday (1966-67 to 1968-69)	1703 (567.7)	353 (117.7)	1350 (79.3)	1902
Fourth Five Year Plan (1969-70 to 1973-74)	4700 (940.0)	1380 (276.0)	3310 (70.4)	3282
Fifth Five Year Plan (1974-75 to 1978-79)	9215 (1843.0)	2826 (565.2)	4289 (46.5)	6109
Annual Plan (1979-80)	2906	1126	1780 (61.3)	7234

....(Contd.)

TABLE 2 : PLAN-WISE SMALL SAVINGS COLLECTIONS *(Concld.)*

1	2	3	4	5
Sixth Five Year Plan (1980-81 to 1984-85)	24293 (4858.6)	10837 (2167.4)	13456 (55.4)	18071
Seventh Five Year Plan £ (1985-86 to 1989-90)	16552 (8276.0)	7531 (3765.5)	9021 (54.5)	25602
(Estimated Target - Rs.17916 Crores during the Seventh Five Year Plan)				

Notes: Figures in brackets under column 2 and 3 are annual averages during the respective Plans.
Figures in brackets under coulmn 4 represent share of repayments to Gross collections during the respective Plans.
£ - Data relates to first two year i.e., 1985-86 and 1986-87, of the Seventh Five Year Plan.

Source: Reserve Bank of India : Report on Currency and Finance - Various issues.

TABLE 3 : SMALL SAVINGS VIS-A-VIS SOME MACRO-ECONOMIC VARIABLES

	Domestic Savings as Percentage of National Income	Proportion of Small Savings to Net National Income	Household Sectors Savings in Financial Assets	Internal Liabilities$
1	2	3	4	5
1951-52	7.1	0.5	300.0	17.0
1952-53	4.7	0.5	55.6	18.4
1953-54	5.5	0.4	28.2	20.5
1954-55	7.2	0.6	19.9	20.4
1955-56	10.6	0.7	15.6	20.9
Total First Five Year Plan	**7.0**	**0.5**	**83.9**	**19.4**
1956-57	10.4	0.6	18.6	20.2
1957-58	7.8	0.7	23.7	19.2
1958-59	6.5	0.7	21.8	18.9
1959-60	8.9	0.7	20.3	19.1
1960-61	10.0	0.8	23.0	19.5
Total Second Five Year Plan	**8.7**	**0.7**	**21.5**	**19.4**
1961-62	9.2	0.6	17.8	19.5
1962-63	10.4	0.5	15.0	20.2
1963-64	10.7	0.8	17.1	18.4
1964-65	10.1	0.6	17.9	18.8
1965-66	12.4	0.7	14.1	17.7

....(Contd.)

TABLE 3 : SMALL SAVINGS VIS-A-VIS SOME MACRO-ECONOMIC VARIABLES

1	2	3	4	5
Total Third Five Year Plan	**10.6**	**0.6**	**16.4**	**18.9**
1966-67	13.0	0.5	13.7	17.1
1967-68	10.5	0.4	14.1	17.1
1968-69	10.5	0.4	14.2	17.4
Total Plan Holiday	**11.2**	**0.4**	**14.0**	**17.2**
1969-70	13.1	0.4	14.4	17.4
1970-71	13.3	0.6	14.2	18.2
1971-72	14.0	0.7	15.3	18.6
1972-73	12.8	0.9	16.7	16.7
1973-74	16.6	0.9	13.3	17.8
Total Fourth Five Year Plan	**14.0**	**0.7**	**14.8**	**17.7**
1974-75	15.4	0.4	10.2	17.3
1975-76	17.4	1.1	17.7	18.8
1976-77	20.2	0.6	9.0	18.5
1977-78	20.1	0.7	9.8	16.8
1978-79	22.6	1.1	13.2	17.9

(Contd.)

TABLE 3 : SMALL SAVINGS VIS-A-VIS SOME MACRO-ECONOMIC VARIABLES *(Concld.)*

1	2	3	4	5
Total Fifth Five Year Plan	**19.1**	**0.8**	**12.0**	**17.9**
1979-80	20.3	1.3	18.5	18.1
1980-81	19.8	1.2	14.9	17.5
1981-82	20.0	1.2	15.5	17.8
1982-83	19.3	1.4	15.2	16.6
1983-84	18.7	1.6	18.5	18.0
1984-85	19.4	2.2	19.7	18.7
Total Sixth Five Year Plan	**19.4**	**1.5**	**16.8**	**17.7**
1985-86	19.2	2.2	23.2	18.7

@ Proportion of Net receipts of small savings.

$ Proportion of Outstandings of small savings.

Sources:
1. Reserve Bank of India : Report on Currency and Finance - Various Issues.
2. Central Statistical Organisation, National Account Statistics, January 1987

TABLE 4 : SAMLL SAVINGS VIS-A-VIS OTHER SAVINGS MEDIA

(Rs. Crores)

Year	Small Savings (Net)	Deposit with Scheduled Banks	Life Insurance Premium Income	Deposits with Non-Banking Companies#	Investment in Units of Unit Trust of India
1	2	3	4	5	6
1951-52	42	-47	42	-	-
1952-53	40	-4	44	-	-
1953-54	40	12	49	-	-
1954-55	55	99	51	-	-
1955-56	67	100	38	-	-
Total First Five Year Plan	**244**	**160**	**224**	-	-
1956-57	62	135	88	-	-
1957-58	69	295	74	-	-
1958-59	78	187	85	-	-
1959-60	88	267	98	-	-
1960-61	105	-89	113	-	-

....(Contd.)

TABLE 4 : SMALL SAVINGS VIS-A-VIS OTHER SAVINGS MEDIA

(Rs. Crores)

1	2	3	4	5	6
Total Second Five Year Plan	**402**	**795**	**458**	-	-
1961-62	87	176	150	-	-
1962-63	75	120	151	18	-
1963-64	127	243	147	32	-
1964-65	128	298	162	23	-
1965-66	150	367	180	75	1
Total Third Five Year Plan	**567**	**1204**	**790**	**148**	**1**
1966-67	118	540	197	147	7
1967-68	122	433	208	47	14
1968-69	113	501	230	116	16
Total Plan Holiday	**353**	**1474**	**635**	**310**	**37**
1969-70	132	704	254	39	20
1970-71	194	997	284	12	15
1971-72	237	1220	328	47	13
1972-73	345	1569	384	56	20
1973-74	472	1522	440	281	27
Total Fourth Five Year Plan	**1380**	**6012**	**1690**	**435**	**95**
1974-75	260	1698	492	168	-3
1975-76	695	2605	548	68	18
1976-77	429	3572	603	470	26
1977-78	561	4763	653	328	62
1978-79	881	4976	717	573	92

....(Contd.)

TABLE 4 : SMALL SAVINGS VIS-A-VIS OTHER SAVINGS MEDIA *(Concld.)*

(Rs. Crores)

1	2	3	4	5	6
Total Fifth Five Year Plan	**2826**	**17614**	**3013**	**1607**	**195**
1979-80	1126	4906	809	818	44
1980-81	1252	6377	894	734	34
1981-82	1450	5926	1012	1304	130
1982-83	1871	7794	1114	3702	152
1983-84	2641	9516	1236	1930	314
1984-85	3623	12068	1412	5026	736
Total Sixth Five Year Plan	**10837**	**41681**	**5688**	**11696**	**1366**
1985-86	4338	13160.	-	-	823

Note : # Includes Deposits and Exempted Deposits.

Sources: 1. Reserve Bank of India, Report on Currency and Finance - Various Issues
2. Reserve Bank of India Bulletin - Various Issues.
3. Life Insurance Corporation of India, Annual Report - Various Issues.

TABLE 5 : COMPOSITION OF DIFFERENT TYPES OF SCRIPS IN THE TOTAL NET SMALL SAVINGS (Proportions in percentage)

Scrips	1951-52	1961-62	1971-72	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Total Net Small Savings (Rs. Crores)	**42**	**87**	**237**	**1450**	**1871**	**2641**	**3623**	**4338**	**3193**
Of which : (Proportion in percentage)									
Post Office Savings Deposits	38	41	23	1	8	6	5	5	3
Cumulative Time Deposits	-	4	8	4	3	1	1	1	-
Post Office Time Deposits	-	-	64	49	28	19	21	24	-20
Post Office Recurring Deposits	-	-	3	4	6	5	5	4	6
7-Year National Savings Certificates	-	-	40	-4	-2	-1	-2	-6	-8
6-Year National Savings Certificates (VI-Issue)	-	-	-	39	45	55	64	64	86
6-Year National Savings Certificates (VII-Issue)	-	-	-	7	6	7	7	6	7
Social Security Certificates	-	-	-	-	1	-	-	-	-
Indira Vikas Patra	-	-	-	-	-	-	-	-	26
Uncurrent Scrips	62	55	-39	-6	-1	-	-	-	-

TABLE 6 : STATE-WISE NET COLLECTION IN SMALL SAVINGS SINCE 1951-52

(Rs. Crores)

	1951-52	1961-62	1971-72	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Andhra Pradesh	3.1 (a)	2.7	2.9	34.7	46.3	72.6	108.2	156.9	187.9	148.9
	(7.4)	(3.1)	(1.3)	(3.1)	(3.3)	(4.2)	(4.5)	(4.4)	(4.4)	(4.7)
Assam	0.7	4.3	8.5	34.4	38.6	37.4	56.4	68.5	71.9	65.0
	(1.7)	(4.9)	(3.7)	(3.1)	(2.8)	(2.2)	(2.3)	(1.9)	(1.7)	(2.0)
Bihar	2.2	7.6	20.8	89.8	119.0	145.0	176.5	293.5	360.2	152.5
	(5.2)	(8.8)	(9.1)	(8.0)	(8.5)	(8.4)	(7.3)	(8.2)	(8.4)	(4.8)
Gujarat	14.1 (b)	9.1	13.6	91.5	125.9	141.2	250.5	318.6	364.5	399.0
	(33.4)	(10.5)	(6.0)	(8.2)	(9.0)	(8.2)	(10.4)	(8.9)	(8.5)	(12.5)
Haryana	3.9 (c)	4.7 (c)	-8.3	42.4	-2.3	15.1	56.8	80.5	105.7	107.4
	(9.3)	(5.4)	(-3.6)	(3.8)	(-0.2)	(0.9)	(2.4)	(2.3)	(2.5)	(3.4)
Himachal Pradesh	-	0.1	2.2	13.2	16.0	26.7	28.4	36.0	39.7	43.1
		(0.1)	(1.0)	(1.2)	(1.2)	(1.5)	(1.2)	(1.0)	(0.9)	(1.4)
Jammu & Kashmir	-	0.8	1.4	12.9	11.8	12.3	13.6	20.5	26.0	35.9
		(0.9)	(0.6)	(1.2)	(0.8)	(0.7)	(0.6)	(0.6)	(0.6)	(1.1)
Karnataka	0.3	2.5	9.6	40.2	57.0	82.4	114.3	189.1	249.9	150.6
	(0.7)	(2.9)	(4.2)	(3.6)	(4.1)	(4.8)	(4.7)	(5.3)	(5.8)	(4.7)
Kerala	0.6	1.7	3.6	16.0	19.5	18.9	27.1	58.5	57.8	84.1
	(1.4)	(2.0)	(1.6)	(1.4)	(1.1)	(1.1)	(1.1)	(1.5)	(1.3)	(2.6)

....(Contd.)

TABLE 6 : STATE-WISE NET COLLECTIONS IN SMALL SAVINGS SINCE 1951-52 *(Contd)*

(Rs. Crores)

	1951-52	1961-62	1971-72	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Madhya Pradesh	2.0	2.7	7.7	40.7	38.2	79.0	73.1	138.7	174.4	114.6
	(4.7)	(3.1)	(3.4)	(3.6)	(2.7)	(4.6)	(3.0)	(3.9)	(4.1)	(3.6)
Maharashtra	14.1 (b)	18.5	47.9	166.8	261.7	315.1	517.1	673.3	831.5	299.0
	(33.4)	(21.3)	(21.1)	(14.9)	(18.7)	(18.3)	(21.5)	(18.8)	(19.4)	(9.4)
Manipur	-	0.1	0.1	0.2	0.1	0.3	0.4	0.8	1.2	1.1
		(0.1)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Meghalaya	-	-	-	1.3	2.0	2.2	3.3	4.5	4.3	5.4
				(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Nagaland	-	-	0.1	0.3	0.2	0.2	0.4	0.9	1.3	1.3
			(-)	(-)	(-)	(-)	(-)	(-)	(0.1)	(0.1)
Orissa	0.1	2.1	7.2	24.4	29.4	47.6	8.0	41.6	62.2	48.3
	(0.2)	(2.4)	(3.2)	(2.7)	(2.1)	(2.8)	(0.3)	(1.2)	(1.4)	(1.5)
Punjab	3.9 (c)	4.7 (c)	10.7	40.4	44.3	58.1	83.2	127.2	175.3	209.3
	(9.3)	(5.4)	(4.7)	(3.6)	(3.2)	(3.4)	(3.5)	(3.6)	(4.1)	(6.6)
Rajasthan	0.3	1.1	5.6	25.4	45.0	58.5	66.6	147.4	161.2	90.5
	(0.7)	(1.3)	(2.5)	(2.3)	(3.2)	(3.4)	(2.8)	(4.1)	(3.8)	(2.8)
Sikkim	-	-	-	0.1	1.8	0.1	0.1	0.1	0.1	0.3
				(-)	(0.1)	(-)	(-)	(-)	(-)	(-)

....(Contd.)

TABLE 6 : STATE-WISE NET COLLECTIONS IN SMALL SAVINGS SINCE 1951-52 *(Concld.)*

(Rs. Crores)

	1951-52	1961-62	1971-72	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Tamil Nadu	3.1 (a) (7.4)	2.3 (2.6)	13.1 (5.8)	56.8 (5.1)	57.9 (4.1)	54.2 (3.1)	76.0 (3.2)	150.8 (4.2)	160.3 (3.7)	81.0 (2.5)
Tripura	-	0.1 (0.1)	0.4 (0.2)	2.2 (0.2)	1.7 (0.1)	3.2 (0.2)	4.1 (0.2)	4.8 (0.1)	4.8 (0.1)	6.0 (0.2)
Uttar Pradesh	4.9 (11.6)	12.8 (14.7)	37.1 (16.3)	135.3 (12.1)	176.4 (12.6)	199.1 (11.6)	264.3 (11.0)	386.7 (10.8)	505.9 (11.8)	506.5 (15.9)
West Bengal	8.2 (19.4)	11.7 (13.5)	34.3 (15.1)	173.6 (15.5)	223.6 (16.0)	264.2 (15.3)	330.9 (13.7)	448.1 (12.5)	470.3 (11.0)	393.0 (12.3)
Delhi	1.8 (4.3)	2.0 (2.3)	8.9 (3.8)	63.1 (5.6)	65.1 (4.7)	67.1 (3.9)	116.7 (4.8)	184.2 (5.1)	215.7 (5.0)	190.3 (6.0)
Goa	-	-	0.1 (-)	10.9 (1.0)	13.1 (0.9)	13.7 (0.8)	19.3 (0.8)	23.8 (0.7)	21.1 (0.5)	13.6 (0.4)
Mizoram	-	-	-	0.2 (-)	-	-0.3 (-)	0.1 (-)	0.2 (-)	0.2 (-)	0.3 (-)
Others (d)	-	-	-	2.5 (0.2)	7.8 (0.6)	9.3 (0.5)	14.2 (0.6)	25.8 (0.7)	33.6 (0.8)	32.9 (1.0)
Total	**42.2 (100.0)**	**86.9 (100.0)**	**227.4 (100.0)**	**1121.6 (100.0)**	**1399.9 (100.0)**	**1723.3 (100.0)**	**2410.4 (100.0)**	**3577.0 (100.0)**	**4292.8 (100.0)**	**3189.6 (100.0)**

Note : (a) Combined Savings of Andhra Pradesh and Tamil Nadu, (b) Combined Savings of Bombay & Saurashtra (c) Combined Savings of Punjab & Haryana, (d) Others includes Chandigarh, Lakshadweep, Pondichery, Andaman and Nicobar Islands, Arunachal Pradesh and Base.

Share of individual States/UTs to All-India are given in parenthesis.

Sources: Report of National Savings Commissioner, Nagpur & Sanchayaka July 1987, by monthly publication of National Savings Organisation.

TABLE 7 : PER CAPITA SMALL SAVINGS

State	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Andhra Pradesh	6.4	8.4	13.0	19.0	27.0	31.7	24.7
Assam	17.1	18.7	17.8	26.2	31.1	32.0	28.2
Bihar	12.8	16.5	19.7	23.5	38.3	46.8	19.1
Gujarat	36.7	35.9	39.4	68.6	85.6	96.1	103.3
Haryana	32.5	-1.8	10.9	40.1	55.3	70.7	70.2
Himachal Pradesh	30.6	36.4	59.6	62.3	77.4	83.9	89.5
Jammu & Kashmir	21.5	19.2	19.5	21.1	31.1	38.6	52.0
Karnataka	10.7	14.9	21.1	28.6	46.4	60.1	35.5
Kerala	6.3	7.5	7.1	10.0	19.4	20.6	29.5
Madhya Pradesh	7.7	7.1	14.4	13.0	24.2	29.8	19.2
Maharashtra	26.4	40.5	47.7	76.6	97.8	118.6	41.9
Manipur	1.4	0.7	2.0	2.6	5.0	7.7	6.3
Meghalaya	9.6	14.4	15.4	22.4	29.8	27.8	33.6
Nagaland	3.8	2.4	2.4	4.5	9.8	13.9	13.2

....(*Contd.*)

TABLE 7 : PER CAPITA SMALL SAVINGS *(Concld.)*

1	2	3	4	5	6	7	8
Orissa	9.2	10.9	17.3	2.9	14.6	21.4	16.4
Punjab	23.9	25.7	33.0	46.3	69.5	94.2	110.7
Rajasthan	7.3	12.7	16.0	17.8	38.3	40.8	22.3
Sikkim	3.1	54.5	2.9	2.8	2.7	2.6	7.5
Tamil Nadu	11.7	11.7	10.8	14.9	29.0	30.3	15.1
Tripura	10.6	8.0	14.7	18.3	21.0	20.6	25.0
Uttar Pradesh	12.1	15.5	17.1	22.2	31.9	40.8	40.0
West Bengal	31.6	39.9	46.2	56.7	75.3	77.6	63.6
All India	16.3	19.9	23.9	32.7	47.6	56.0	40.8

Note : Calculated on the basis of estimate of mid-year population as published in Reserve Bank of India, Report on Currency and Finance, 1986-87, Table 2, Volume 2.

TABLE 8 : PER CAPITA STATE DOMESTIC PRODUCT AND PER CAPITA SMALL SAVINGS

States	Average Per Capita State Domestic Product (1980-81 to 1984-85)	Average Per Capita Small Savings (1980-81 to 1984-85)	Percentage (2) to (1)
Andhra Pradesh	1739	14.8	0.85
Assam	1540	22.2	1.44
Bihar	1150	22.2	1.93
Gujarat	2496	53.2	2.13
Haryana	2829	27.4	0.97
Himachal Pradesh	1986	53.3	2.68
Jammu & Kashmir	1759	22.5	1.28
Karnataka	1757	24.3	1.38
Kerala	1732	10.1	0.58
Madhya Pradesh	1466	13.3	0.91
Maharashtra	2709	57.8	2.13
Manipur	1751	2.3	1.31
Meghalaya	1388	18.3	1.32
Nagaland	-	4.6	-
Orissa	1384	11.0	0.79
Punjab	3318	39.7	1.19
Rajasthan	1604	18.4	1.14
Sikkim	1029	13.2	1.28
Tamil Nadu	1688	15.6	0.92
Tripura	-	14.5	-
Uttar Pradesh	1498	19.8	1.32
West Bengal	1989	49.9	2.51
All India	**2220**	**28.1**	**1.26**

Sources : 1. Reports of National Savings Organisation.
2. Central Statistical Organisation, Estimates of State Domestic Product.

TABLE 9 : INCOME ELASTICITY OF SMALL SAVINGS

	Income Elasticity for the Quinquenium 1981-82 to 1985-86	Average Contribution of Agriculture to State Domestic Product for the Quinquenium 1981-82 to 1985-86 (Per cent)	Average Contribution of Manufacturing to State Domestic Product for the Quinquenium 1981-82 to 1985-86 (Per cent)
All-India	**2.3**	**33.4**	**16.1**
Andhra Pradesh	3.3	41.3	10.5
Assam	1.2	45.1	8.8
Bihar	2.6	41.8	12.4
Gujarat	3.5	30.7	18.3
Haryana	5.9	46.0	16.8
Himachal Pradesh	2.0	36.9	5.7
Jammu & Kashmir	1.5	42.9	10.6
Karnataka	4.2	38.1	19.1
Kerala	2.8	37.4	14.9
Madhya Pradesh	3.1	42.8	14.0
Maharashtra	3.5	25.4	25.2
Orissa	8.3	57.2	7.2
Punjab	2.7	43.5	12.2
Rajasthan	3.5	48.7	10.0
Tamil Nadu	2.0	17.5	24.8
Uttar Pradesh	2.6	40.7	13.4
West Bengal	1.6	34.5	18.0

Source : Central Statistical Organisation, *Estimates of State Domestic Product*, June 1987.

TABLE 10 : DISTRIBUTION OF LOANS FROM SMALL SAVINGS BY CENTRE TO STATE

(Proportion of Loans to Net Collections)

	1971-72[1]	1981-82[1]	1982-83[1]	1983-84[2]	1984-85[2]	1985-86[2] RE	1986-87[2] BE
Andhra Pradesh	109.4	64.8	58.6	52.0	56.8	63.9	88.7
Assam	64.0	75.2	71.7	65.0	50.0	66.8	81.5
Bihar	63.7	54.9	68.9	42.5	62.8	70.8	177.0
Gujarat	74.3	67.4	75.7	71.5	64.9	65.8	66.2
Haryana	21.1	-	107.1	65.4	52.9	61.5	69.8
Himachal Pradesh	97.3	77.8	55.0	58.7	63.0	65.5	66.1
Jammu & Kashmir	81.5	59.0	72.0	88.2	53.7	59.6	47.4
Karnataka	58.0	63.0	63.9	60.2	50.9	62.0	99.6
Kerala	2.2	54.2	78.5	49.2	44.7	69.2	52.3
Madhya Pradesh	65.6	67.3	41.4	57.7	38.1	59.1	14.4
Maharashtra	64.0	65.7	69.6	52.0	N.A	67.3	194.0
Manipur	-	90.0	33.3	-	N.A	50.0	54.5
Meghalaya	-	55.0	70.2	57.0	61.8	69.8	61.1

....(Contd.)

TABLE 10 : DISTRIBUTION OF LOANS FROM SMALL SAVINGS BY CENTRE TO STATE *(Concld)*.

	1971-72[1]	1981-82[1]	1982-83[1]	1983-84[2]	1984-85[2]	1985-86[2] RE	1986-87[2] BE
Nagaland	-	60.0	80.0	50.0	27.8	46.9	19.2
Orissa	65.2	52.3	43.9	-	26.7	70.7	82.8
Punjab	58.5	56.7	58.6	N.A	57.7	59.9	54.9
Rajasthan	58.7	71.6	57.9	73.5	57.1	69.8	124.6
Sikkim	-	-	-	-	-	80.0	30.0
Tamil Nadu	46.9	61.9	76.4	129.4	52.0	83.1	149.4
Tripura	-	67.1	49.7	67.3	126.7	72.9	66.7
Uttar Pradesh	52.2	61.1	66.6	71.6	57.8	64.2	67.1
West Bengal	48.9	63.1	76.3	95.2	57.1	76.5	92.4

Soruces: 1. Reports of National Savings Organisation.

2. Finances of State Governments' in Reserve Bank of India Bulletin.

TABLE 11 : FINANCING OF PLAN OUTLAY BY LOANS FROM SMALL SAVINGS

(Proportion of Loans to Plan Outlay)

	1971-72[1]	1981-82[1]	1982-83[1]	1983-84[2]	1984-85[2]	1985-86[2]	1986-87[2]
Andhra Pradesh	1.9	5.9	7.4	7.2	9.2	10.8	11.0
Assam	10.7	13.9	11.8	14.3	9.9	11.5	10.1
Bihar	13.4	11.7	16.8	12.7	25.0	24.6	23.6
Gujarat	8.9	11.7	14.2	29.0	31.0	45.8	44.5
Haryana	28.7	11.6	4.8	16.0	14.4	18.5	19.6
Himachal Pradesh	10.2	10.5	11.4	13.6	12.5	12.8	14.9
Jammu & Kashmir	3.5	4.2	5.0	5.3	4.0	4.4	4.3
Karnataka	7.1	8.1	9.9	13.5	15.5	22.3	20.9
Kerala	0.1	3.5	5.4	3.3	6.3	10.0	10.6
Madhya Pradesh	5.1	3.9	4.6	5.4	6.0	10.1	1.3
Maharashtra	24.0	15.5	16.1	24.5	N.A	44.5	39.0
Manipur	-	0.2	0.2	-	N.A	0.7	0.6
Meghalaya	-	2.4	3.3	3.2	4.5	3.6	3.6
Nagaland	-	0.3	0.4	0.3	0.4	0.7	0.3

....(Contd.)

TABLE 11 : FINANCING OF PLAN OUTLAY BY LOANS FROM SMALL SAVINGS *(Concld)*.

(Proportion of Loans to Plan Outlays)

	1971-72[1]	1981-82[1]	1982-83[1]	1983-84[2]	1984-85[2]	1985-86[2]	1986-87[2]
Orissa	8.9	5.6	7.0	6.8	2.2	7.1	5.7
Punjab	6.8	7.3	8.8	-	29.1	35.7	33.0
Rajasthan	4.7	9.2	9.8	10.8	18.0	20.0	19.5
Sikkim	-	0.2	5.2	-	-	0.1	0.1
Tamil Nadu	5.9	5.9	5.7	14.4	10.7	16.7	14.6
Tripura	-	2.4	2.9	3.4	6.3	2.8	2.9
Uttar Pradesh	8.5	9.6	11.2	15.9	14.4	20.9	21.0
West Bengal	25.1	28.3	42.8	52.0	59.6	55.2	48.2

Note : Plan Outlays include both Revenue Expenditures and Capital Outlay

Sources: 1 - Reports of National Savings Organisation

2 - Finances of State Governments' in Reserve Bank of India Bulletins.

TABLE 12 : DISTRIBUTION OF STATES ACCORDING TO PERCENTAGES OF SMALL SAVINGS TO PLAN OUTLAYS

(Class Intervals of Percentage Ratios of Small Savings to Plan Outlays)

1971-72				1986-87			
More than 25%	10% - 25%	5% - 10%	Less Than 5%	More Than 25%	10% -25%	5%- 10%	Less than 5%
Haryana	Maharash-tra	Gujarat	Andhra-Pradesh	West-Bengal	Bihar	Orissa	Jammu & Kashmir
West-Bengal	Bihar	Orissa	Jammu & Kashmir	Gujarat	Uttar Pradesh		Meghalaya
	Assam	Uttar Pradesh	Rajasthan	Maharash-tra	Karnataka		Tripura
	Himachal Pradesh	Karnataka	Kerala	Punjab	Haryana		Madhya-Pradesh
		Tamil Nadu			Rajasthan		Manipur
		Madhya-Pradesh			Himachal Pradesh		Nagaland
		Punjab			Tamil Nadu		Sikkim
					Andhra Pradesh		
					Kerala		
					Assam		

STATEMENT 1 : SMALL SAVINGS

	Deposits			Current Certificates			Uncurrent Certificates			Public Provident Fund*			5- Year National Development Bond			Total		
	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.
1951-52	111	16	203				37	26	175							148	42	378
53	113	18	221				34	22	197							147	40	418
54	119	16	237				36	24	221							155	40	458
55	134	25	262				43	30	251							177	55	513
56	157	37	299				45	30	281							202	67	580
TOTAL PLAN -I	**634**	**112**	**1222**				**195**	**132**	**1125**							**829**	**244**	**2347**
1956-57	177	31	330				48	31	312							225	62	642
58	179	18	348				84	51	363							263	69	711
59	190	20	368				95	58	421							285	78	789
60	210	28	396				97	60	481							307	88	877
61	239	47	443				99	58	539							333	105	982
TOTAL PLAN - II	**995**	**145**	**1885**				**423**	**258**	**2117**							**1418**	**402**	**4001**
1961-62	254	39	482				97	48	587							351	87	1069
63	250	12	494				114	63	650							364	75	1144
64	274	48	542				129	79	729							403	127	1271
65	304	50	592				130	78	807							434	128	1399
66	393	98	690				122	52	859							515	150	1549
TOTAL PLAN -III	**1475**	**247**	**2800**				**592**	**320**	**3632**							**2067**	**567**	**6432**
1966-67	414	70	761				113	47	906							527	118	1667
68	471	71	831				109	52	958							580	122	1789
69	498	68	899				98	45	1003							596	113	1902
TOTAL PLAN HOLIDAY	**1383**	**209**	**2491**				**320**	**144**	**2868**							**1703**	**353**	**5359**
1969-70	549	97	996	4	4	4	101	28	1032	3	3	3				657	132	2035
71	695	188	1184	88	88	92	-	-84	948	2	2	5				785	194	2229
72	818	232	1416	96	96	188	-	-93	854	2	2	7				916	237	2465
73	970	356	1772	77	75	263	-	-91	763	5	5	12				1052	345	2810
74	1222	500	2272	64	57	320	-	-89	674	4	4	16				1290	472	3282
TOTAL PLAN - IV	**4254**	**1373**	**7640**	**329**	**320**	**867**	**101**	**-329**	**4271**	**16**	**16**	**43**				**4700**	**1380**	**12821**

....(Contd.)

STATEMENT 1 : SMALL SAVINGS *(Concld.)*

(Rs. Crores)

	Deposits			Current Certificates			Uncurrent Certificates			Public Provident Fund*			5-Year National Development Bond			Total		
	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stand-ing	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.
1974-75	1243	301	2573	77	57	377	-	-103	571	5	5	21				1325	260	3542
76	1445	606	3179	99	78	455	2	2	573	9	9	30				1555	695	4237
77	1595	428	3607	111	88	543	-	-97	476	11	10	40				1717	429	4666
78	1846	524	4131	168	92	635	-	-78	398	19	19	59	4	4	4	2037	561	5227
79	2188	646	4777	340	258	893	-	-76	322	35	35	94	18	18	22	2581	881	6108
TOTAL PLAN - V	**8317**	**2505**	**18267**	**795**	**573**	**2903**	**2**	**-352**	**2340**	**79**	**78**	**244**	**22**	**22**	**26**	**9215**	**2826**	**23780**
1979-80	2480	851	5628	362	286	1179	-	-68	254	48	47	141	13	10	32	2906	1126	7234
1930-81	2759	1004	6632	302	232	1411	-	-47	207	59	59	200	4	4	36	3124	1252	8486
82	3195	837	7469	730	611	2022	-	-81	126	82	82	282	1	1	37	4008	1450	9936
83	3279	827	8296	1088	923	2945	-	-13	113	112	137	419	-	-3	34	4479	1871	11807
84	3738	815	9111	1694	1617	4562	-	-2	111	126	228	647	-	-17	17	5558	2641	14448
85	4270	1173	10284	2710	2500	7062	-	-1	110	143	-39	608	-	-10	7	7123	3623	18071
TOTAL PLAN - VI	**17241**	**4656**	**41792**	**6525**	**5883**	**18002**	**-**	**-144**	**667**	**522**	**467**	**2156**	**5**	**-25**	**131**	**24293**	**10837**	**62748**
86	5285	1487	11772	3187	2812	9873	-	-2	108	82	47	655	-	-6	1	8554	4338	22409
87	4003	-352	11419	3995	3547	13420	-	-	108	..	-	..	-	-1	-	7998	3193	25602

Note :* *Relate to SBI Transactions only.* Data available on quarterly basis only.
$ Exclude data on 5-year fixed deposits-banks from September 1971 and 10 year National Plan Certificates from April 1971 as data are not available.

Source:. Reserve Bank of India : Reports on Currency and Finance, Various Issues.

STATEMENT 2 : SMALL SAVINGS - DEPOSITS

(Rs. Crores)

	Post Office Savings Bank Deposits			Cumulative Time Deposits (b)			Post Office Time Deposits (c)			Post Office Recurring Deposits (d)			Total Deposits		
	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1951-52	110.8	16.1	203.4										110.8	16.1	203.4
53	113.1	17.6	221.0										113.1	17.6	221.0
54	119.2	16.0	237.0										119.2	16.0	237.0
55	134.2	25.0	262.0										134.2	25.0	262.0
56	157.3	36.4	298.4										157.3	36.4	298.4
TOTAL PLAN - I	634.6	111.1	1221.8										634.6	111.1	1221.8
1956-57	176.5	31.3	329.7										176.5	31.3	329.7
58	178.9	18.0	347.7										178.9	18.0	347.7
59	190.5	20.2	367.9	0.1	0.1	0.1							190.6	20.3	368.0
60	209.6	27.7	395.6	0.8	0.8	0.8							210.4	28.4	396.4
61	236.9	45.2	440.8	1.8	1.8	2.6							238.7	47.0	443.4
TOTAL PLAN - II	992.4	142.4	1881.7	2.7	2.7	3.5							995.1	145.0	1885.2
1961-62	250.5	35.5	476.3	3.3	3.3	5.9							253.8	38.8	482.2
63	244.8	6.7	483.0	5.6	5.4	11.2							250.4	12.1	494.2
64	264.3	39.2	522.2	9.2	8.2	19.4							273.5	47.4	541.6
65	293.7	42.5	564.7	10.7	7.5	26.9							304.4	50.0	591.6
66	378.5	88.7	653.4	14.1	9.8	36.7							392.6	98.5	690.1
TOTAL PLAN - III	1431.8	212.6	2699.6	42.9	34.2	100.1							1474.7	246.8	2799.7
1966-67	395.3	57.6	711.0	18.8	12.8	49.5							414.1	70.4	760.5
68	448.3	58.5	769.5	23.0	12.0	61.5							471.3	70.5	831.0
69	469.6	51.0	820.5	27.7	16.8	78.3							497.3	67.8	898.8
TOTAL PLAN HOLIDAY	1313.2	167.1	2301.0	69.5	41.6	189.3							1382.7	208.7	2490.3
1969-70	515.3	76.7	897.2	33.7	20.1	98.4							549.0	96.8	995.6
71	576.7	93.1	990.3	40.0	16.7	115.1	77.1	76.9	76.9	1.3	1.3	1.3	695.0	188.0	1183.6
72	615.2	56.0	1046.3	42.4	18.9	134.0	153.6	150.5	227.4	6.7	6.6	7.9	817.9	232.0	1415.6
73	628.3	60.7	1107.0	46.6	13.2	147.2	278.4	266.8	494.2	16.7	15.4	23.3	970.0	356.1	1771.7
74	805.1	144.5	1251.5	49.1	16.5	163.7	341.2	315.1	809.3	26.4	23.9	47.2	1221.8	500.0	2271.7

....(Contd.)

STATEMENT 2 : SMALL SAVINGS - DEPOSITS (Concld.)

(Rs. Crores)

	Post Office Savings Bank Deposits			Cumulative Time Deposits (b)			Post Office Time Deposits (c)			Post Office Recurring Deposits (d)			Total Deposits		
	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding
	1	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
TOTAL PLAN-IV	**3140.6**	**431.0**	**5292.3**	**211.8**	**85.4**	**658.4**	**850.3**	**809.3**	**1607.8**	**51.1**	**47.2**	**79.7**	**4253.7**	**1372.9**	**7638.2**
1974-75	816.9	-30.8	1220.7	49.0	12.2	175.9	341.0	288.0	1097.0	36.0	31.0	78.0	1242.9	300.4	2572.6
76	861.0	254.3	1475.0	50.0	5.1	181.0	482.0	317.0	1414.0	51.0	30.0	108.0	1445.0	605.4	3179.0
77	893.0	62.0	1537.0	51.0	13.0	194.0	573.0	315.0	1729.0	79.0	38.0	146.0	1595.0	428.0	3607.0
78	1017.0	140.0	1677.0	56.0	15.0	209.0	677.0	327.0	2056.0	96.0	43.0	189.0	1846.0	524.0	4131.0
79	1191.0	173.0	1850.0	69.0	29.0	238.0	811.0	387.0	2443.0	117.0	57.0	246.0	2188.0	646.0	4777.0
TOTAL PLAN - V	**4778.9**	**598.5**	**7759.7**	**275.0**	**74.3**	**997.9**	**2884.0**	**1634.0**	**8739.0**	**379.0**	**199.0**	**767.0**	**8316.9**	**2504.8**	**18266.6**
1979-80	1322.0	157.0	2007.0	86.0	46.0	284.0	931.0	577.0	3020.0	141.0	71.0	317.0	2480.0	851.0	5528.0
81	1455.0	327.0	2334.0	104.0	57.0	341.0	1032.0	556.0	3576.0	168.0	64.0	381.0	2759.0	1004.0	6632.0
82	1620.0	17.0	2351.0	116.0	55.0	396.0	1237.0	710.0	4286.0	222.0	55.0	436.0	3195.0	837.0	7469.0
83	1718.0	145.0	2496.0	131.0	63.0	459.0	1162.0	515.0	4801.0	268.0	104.0	540.0	3279.0	827.0	8296.0
84	1931.0	152.0	2648.0	133.0	36.0	495.0	1343.0	498.0	5299.0	331.0	129.0	669.0	3738.0	815.0	9111.0
85	2092.0	184.0	2832.0	136.0	36.0	531.0	1625.0	763.0	6062.0	417.0	190.0	859.0	4270.0	1173.0	10284.0
TOTAL PLAN - VI	**8816.0**	**825.0**	**12661.0**	**620.0**	**247.0**	**2222.0**	**6399.0**	**3042.0**	**24024.0**	**1406.0**	**542.0**	**2885.0**	**17241.0**	**4656.0**	**41792.0**
1985-86	2414.0	215.0	3047.0	137.0	26.0	557.0	2207.0	1052.0	7114.0	527.0	194.0	1053.0	5285.0	1487.0	11772.0
87	2563.0	79.0	3126.0	126.0	11.0	568.0	659.0	-646.0	6468.0	654.0	204.0	1257.0	4003.0	-352.0	11419.0

(a) Receipts and outstandings include interest credited to depositors' account from time to time. Outstandings include balances under Dead Savings Bank Accounts.
(b) Opening of new accounts on 5 and 15 years *cumulative time deposits discountinued from November 1. 1973.*
(c) Introduced from March 16, 1970
(d) Introduced from April 1, 1970.

Source : Reserve Bank of India : Reports on Currency and Finance - Various issues.

STATEMENT 3 : SMALL SAVINGS - CERTIFICATES (Current Series)

(Rs. Crores)

	7 Year National Savings Certificates (1)			6 Year National Savings Certificates: VI Issue (2)			VII Issue (2)			National Annuity Savings Certificates (3)			Social Security Certificates(4)			Indira Vikas Patra (5)			Total Certificates		
	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding	Gross Receipts	Net Receipts	Outstanding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.
1969-70	4	4	4																4	4	4
1970-71	88	88	92																88	88	92
72	96	96	188																96	96	188
73	77	75	263																77	75	263
74	64	57	320																64	57	320
TOTAL PLAN -IV	329	320	867																329	320	867
1974-75	77	57	377																77	57	377
76	99	78	455																99	78	455
77	110	87	542							1	1	1							111	88	543
78	167	91	633							1	1	2							168	92	635
79	339	257	890							1	1	3							340	258	893
TOTAL PLAN - V	792	570	2897							3	3	6							795	573	2903
1979-80	361	286	1176							1	-	3							362	286	1179
1980-81	301	232	1408							-	-	3							302	232	1411
82	63	-55	1353	566	565	565	101	101	101	-	-	3							730	611	2022
83	114	-48	1305	844	843	1408	118	116	217	-	-	3	12	12	12				1088	923	2945
84	140	-27	1278	1345	1440	2848	205	201	418	-	-	3	4	3	15				1694	1617	4552
85	111	-59	1219	2338	2307	5155	260	251	669	-	-	3	2	1	16				2710	2500	7062
TOTAL PLAN - VI	729	43	6563	5093	5155	9976	684	669	1405	-	-	15	18	16	43				6525	5883	18002

....(Contd.)

STATEMENT 3 : SMALL SAVINGS - CERTIFICATES (Current Series)*(Concld.)*

(Rs. Crores)

	7 Year National Savings Certificates (1)			6 Year National Savings Certificates VI Issue (2)			6 Year National Savings Certificates VII Issue (2)			National Savings Annuity Certificates (3)			Social Security Certificates (4)			Indira Vikas Patra (5)			Total Certificates		
	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding	Gross Rece-ipts	Net Rece-ipts	Out-stan-ding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.
1985-86	29	-229	990	2883	2789	7944	274	250	919	-	-	3	2	2	18				3187	2812	9873
87	28	-254	736	2888	2752	10696	244	215	1134	-	-1	2	1	-	18	835	835	835	3995	3547	13420

Notes : (1) 7 year N.S.C. (II) Issue) replaced 12- year N.D.C. (November 15, 1962) as from March 16, 1970.

7 year N.S.C. (III Issue) replaced 10- year Defence Deposit Certificates (November 10, 1962) as from March 16, 1970.

7. year N.S.C. (IV Issue) replaced 10-year N.S.C. (I Issue issued from June 1, 1965) with effect from March 16, 1970.

7 year N.S.C. (V Issue) issued from October 1973.

Includes 7 year National Savings Certificates II Issue, III Issue, IV Issue and V Issue.

(2) Introduced from May 1981.

(3) Introduced from April 1, 1976.

(4) Introduced from June 1982.

(5) Introduced from November 19, 1986.

Source : Reserve Bank of India : Report on Currency and Finance : Various issues.

STATEMENT 4 : SMALL SAVINGS - UNCURRENT SCRIPS

(Rs. Crores)

	10-Year Treasury Savings Deposit Certificates (a)		National Savings Certificates (b)		Post Office Cash and Defence Savings Certificates (c)		10-Year National Plan Certificates (d)		15-Year Annuity Certificates (e)		12-Year National Plan Savings Certificates (f)		12-Year National Defence plan Certificates(g)		10-Year National Savings Certificates(h) (First Issue)		10-Year Defence Deposit Certificates (i)		5-Year fixed deposit (j)		Total uncurrent Scrips	
	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.	22.
1951-52	13.1	18.4	17.9	141.1	-5.2	15.1															25.8	174.6
3	7.2	25.6	18.5	159.6	-3.5	11.6															22.2	196.8
4	6.5	32.1	20.3	179.9	-3.1	8.5															23.7	220.5
5	5.1	37.2	19.8	199.7	-2.2	6.3	7.4	7.4	0.5	0.5											30.6	251.1
6	4.1	41.2	19.4	219.1	-2.4	3.9	9.0	16.4	0.4	0.9											30.5	281.5
TOTAL PLAN - I	**36.0**	**154.5**	**95.9**	**899.4**	**-16.4**	**45.4**	**16.4**	**23.8**	**0.9**	**1.4**											**132.8**	**1124.5**
1956-57	3.2	44.4	19.1	238.2	-1.1	2.8	9.0	25.4	0.4	1.3											30.6	312.1
8	4.7	49.1	-22.3	215.9	-0.9	1.9	-2.3	23.1	0.6	1.9	71.4	71.4									51.2	363.3
9	5.2	54.3	-25.8	190.1	-1.0	0.9	-2.1	21.0	0.5	2.4	81.4	152.8									58.2	421.5
60	9.2	63.5	-19.1	171.0	1.2	2.1	-1.2	19.8	0.5	2.9	68.9	221.7									59.5	481.0
61	12.6	76.1	-18.6	152.4	-0.7	1.4	-0.9	18.9	0.5	3.4	65.0	286.7									57.9	538.9
TOTAL PLAN - II	**34.9**	**287.4**	**-66.7**	**967.6**	**-2.5**	**9.1**	**2.5**	**108.2**	**2.5**	**11.9**	**286.7**	**732.6**									**257.3**	**2116.8**
1961-62	4.7	80.8	-16.8	135.6	-0.4	1.0	-1.0	17.9	0.2	3.6	61.2	347.9									47.9	586.8
3	0.2	81.0	-18.1	117.5	-0.2	0.8	-1.0	16.9	0.2	3.8	19.7	367.6	53.6	53.6			8.5	8.5			62.9	649.7
4	-6.4	74.6	-17.5	100.0	-0.1	0.7	-0.9	16.0	0.1	3.9	-23.0	344.6	106.4	160.0			20.6	29.1			79.2	728.9
5	-5.4	69.2	-17.3	82.7	-	0.7	-3.8	12.2	-	3.9	-15.3	329.3	99.6	259.6			20.2	49.3			78.0	806.9
6	-6.0	63.2	-19.0	63.7	-	0.7	-5.4	6.8	-0.2	3.7	-19.3	310.0	73.5	333.1	18.1	18.1	10.6	59.9			52.3	859.2
TOTAL PLAN - III	**-12.9**	**368.8**	**-88.7**	**499.5**	**-0.7**	**3.9**	**-12.1**	**69.8**	**0.3**	**18.9**	**23.3**	**1699.4**	**333.1**	**806.3**	**18.1**	**18.1**	**59.9**	**146.8**			**320.2**	**3631.5**
1966-67	-5.0	58.2	-17.7	46.0	-	0.7	-4.4	2.4	-0.3	3.4	-16.6	293.4	67.8	400.9	15.9	34.0	7.5	67.4			47.2	906.4
68	-5.4	52.8	-16.4	29.6	-0.1	0.6	-1.5	0.9	-0.3	3.1	-12.0	281.4	70.0	470.9	10.3	44.3	7.1	74.5	0.1	0.1	51.3	958.2
69	-5.3	47.5	-15.2	14.4	0.2	0.8	-0.3	0.6	-0.2	2.9	-9.1	272.3	59.1	530.0	8.6	52.9	5.4	79.9	2.0	2.1	45.2	1003.4
TOTAL PLAN, HOLIDAY	**-15.7**	**158.5**	**-49.3**	**90.0**	**0.1**	**2.1**	**-6.2**	**3.9**	**-0.8**	**9.4**	**-37.7**	**847.1**	**196.9**	**1401.8**	**34.8**	**131.2**	**20.0**	**221.8**	**2.1**	**2.2**	**144.2**	**2863.0**
1969-70	-7.8	39.7	-5.5	8.9	-0.1	0.7	-0.5	0.1	-0.2	2.7	-33.1	239.2	56.3	586.3	10.3	63.2	4.3	84.2	4.5	6.6	28.2	1031.6

....(Contd.)

STATEMENT 4 : SMALL SAVINGS - UNCURRENT SCRIPS (Concld.)

(Rs. Crores)

	10-Year Treasury Savings Deposit Certificates (a)		National Savings Certificates (b)		Post Office-Cash and-Defence Savings Certificates (c)		10-Year National Plan-Certificates (d)		15-Year Annuity Certificates (e)		12-Year National Plan Saving Certificates (f)		12-Year National Defence Plan Certificates (g)		10-Year National Savings Certificates (h)		10-Year Defence Deposit Certificates (i)		5-Year fixed deposit (j)		Total uncurrent Scrips	
	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts.	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding	Net Receipts	Outstanding
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.	22.
71	-12.1	27.6	-1.8	7.1	-	0.7	-	0.1	-0.3	2.4	-45.6	193.6	-22.0	564.3	-4.4	58.8	-0.8	83.4	2.8	9.4	-84.1	947.5
72	-13.8	13.8	-1.4	5.7	-0.1	0.6	-	-	-0.3	2.1	-47.1	146.5	-26.5	537.8	-5.2	53.6	1.3	84.7	-	9.4	-93.3	854.2
73	-7.3	6.5	-1.1	4.6	-0.2	0.4	-	-	-0.4	1.7	-42.6	103.9	-27.1	510.7	-4.8	48.8	-6.3	78.4	-1.3	8.1	-91.1	763.1
74	-1.3	5.2	-1.4	3.2	-	0.4	-	-	-0.4	1.3	-45.7	58.2	-20.6	490.1	-2.3	46.5	-15.5	62.9	-2.0	6.1	-89.2	673.9
TOTAL PLAN - IV	-42.3	92.8	-11.2	29.5	-0.4	2.8	-0.5	0.2	-1.6	10.2	-214.1	741.4	-39.9	2689.2	-6.4	270.9	-17.0	393.6	4.0	39.6	-329.4	4270.3

$ After 1973-74 details are not available. For total outstanding Statement 1.

Notes:

(a) Includes both 3½ % certificates issued from 1.2.1951 to 31.5.1957 and 4% certificates issued from 1.6.1957 and discontinued from 10.11.1962.

(b) Includes 12 Year, 7-year and 5-year National Savings certificates. 5 year certificates discontinued from 1.7.1953 and others from 1.6.1957.

(c) Includes defence savings bank deposits upto 1954-55.

(d) Issued from 10.05.1954 to 30.05.1957.

(e) Relates to 1 - Series issued from July 1954 to December 1957 and to 2 - Series from January 1958. discontinued from September 1.1971. Outstandings include both the series.

(f) Issued from 1.6.1957 and discontinued from 15.11.1962.

(g) Issued from 15.11.1962. It was Replaced by 7-year National Savings Certificates (Second Issue) from March 16, 1970.

(h) Issued from 01.06.1965. It was replaced by 7 year National Savings Certificates (Fourth Issue) from March 16, 1970.

(i) Issued from 10.11.1962. It was replaced by 7 year National Savings Certificates (Third Issue) from March 16, 1970.

(j) Introduced from 15.3.1968 and discontinued from 1.8.1971.

Source : Reserve Bank of India : Report on Currency and Finance : Various issues.

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Review Article

WORLD MONETARY AND FINANCIAL SYSTEM-ISSUES FOR REFORM BY N.A. SARMA & V.K. BHALLA

(ICRIER, New Delhi, 1987)*

This book is the outcome of a study on the *World Monetary and Financial System* by the ICRIER, undertaken with the grant support mainly from the RBI. In this study, an attempt is made to analyse the past trends, identify current issues and present the outlook on international financial and monetary system in relation to development. The accent is on policy options for immediate and medium-term action.

Overview

The book reviews critically the factors leading to the breakdown of the Bretton Woods System and subsequent developments in the exchange rate mechanism including the floating rates. This is followed by an examination of the World oil market and its impact on the non-oil developing countries and the problems of India and other developing countries in respect of their balance of payments and development with particular reference to their external debt burden. In the background of a review of World output and trade trends and working of the IMF and the World Bank, the book throws up the needed approaches for improved investment and trading climate for development of the LDCs.

Lastly, the book has offered some useful proposals for reform of international monetary system in the form of institutional as well as attitudinal changes. The book has advanced cogent arguments with requisite facts at every stage of its presentation .

Breakdown of the Bretton Woods System

In Part one, the book starts with a review of acute disturbances in foreign exchange markets follow-

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* *Indian Council For Research on International Economic Relations.*

ing suspension of convertibility of dollars into gold and other reserve assets in August 1971, when all major currencies started floating and exchange rate parity was severely disturbed. Stability in exchange rates could not be attained despite the concerted efforts of intervention by the Group of Ten countries. Dollar was devalued twice in just two years and even after that it continued to depreciate. The impact of these factors was felt on the determination of wage and interest rates in the U.S. and on the economies of partner countries. Consequently, by March 1973 the Brétton Woods system had finally come to an end and a new era of floating rates emerged.

Chapter 2 examines in detail the floating exchange rates, the positive effect of the oil price rise in October 1973 and January 1974 on the US balance of payments and the improved status of dollar vis-a-vis other reserve currencies. This condition did not continue for long and the US dollar reached a low level against all other currencies in late 1978, and remained so until late 1980. Dollar, however, began to appreciate since then and was 50 to 60 per cent above the 1980 level in the early part of 1985.

The exchange rate volatility in the eighties has been discussed against the background of disparate rates of growth of inflation, current account deficits and interest rate divergences. The continued depreciation of the US dollar was to be seen in the background of its trade and budget deficits and the pursuit of domestic economic policies out of tune with its external payments position. The effect of major Central Bank intervention was temporary in the absence of basic economic co-operation among the industrial countries of Europe, Japan and the USA. However, owing to co-ordinated official action and marked fall in interest rates, dollar depreciated. Conversely, the Yen and the D/Mark were appreciating. Even so, the necessary exchange rate alignments were not adequate to reduce the trade deficits of the USA and trade surpluses of West Germany and Japan.

The difficulties of management of exchange rates are also discussed in this part (Chapter 3). In the absence of needed pre-requisites such as proper domestic economic policies, floating of rates did not achieve the desired objectives. The authors have given a lucid account of the lessons drawn from floating exchange rates and concerted efforts made through co-operative intervention by Central banks to minimise the volatility in foreign exchange markets. Developing countries have equally been concerned with the consequences of floating exchange rates and as most of them have pegged their currencies to the US dollar or SDR, they had to face the depreciation of their respective currencies.

Trends in Economies of OPEC and Developing Countries

Part two starts with a discussion on 'world oil market situation' beginning from 1973. The earnings of OPEC showed a sharp rise during 1973-79 due to substantial hikes in oil prices. Their current account surpluses became a major source of IMF borrowings and investment in IBRD bonds and Euro-currency markets. However, with a persistent decline in oil prices since 1982 (which was sharp in 1986) and restrictions on production, backed up by slackening in demand for oil, development strategy of OPEC has undergone a sea change. In fact, some of the members of OPEC are now experiencing current account deficits. Similar problems are also faced by Non-OPEC petroleum producing countries notably by the USA, the UK and Mexico. The USA, which accounts for about 40 per cent of Non-OPEC total supply, was relatively more adversely affected because of low prices and curtailment of supply of oil. Oil market is in a state of flux and the recent rise in prices (as against a year ago) has again adversely affected the balance of payments position of many developing countries (Chapter 4).

In this part, a review of the economy of non-oil developing countries is also set out. The extent they have suffered by external shocks in the form of global recession, high real interest rates, weakened terms of trade and rising (non-tariff) protectionism against their exports in the industrialised countries have been discussed.

The authors have analysed not only the causes of deficits in their balance of payments but also reasons for flight of capital and for debt crisis of some of developing Latin American, African and Asian countries, their low GDP growth rate, etc., which are adversely affecting their development process (Chapter 5).

Chapter 6 is exclusively devoted to 'India' : External Resources, Exports and Debt'. While the two-way trade with the USSR has expanded considerably since 1970-71, trade with the USA has declined. In view of India's declining share in the world exports and poor export performance in recent years, the authors have observed that "if our exports do not rise steadily and substantially, and if oil prices should rise again, trade deficits will presist at current levels" (p.69). They have perceived the possibility of larger imports of vegetable oils, foodgrains, etc., due to severe drought situation in the country at present and of a rise in oil import bill. On the other hand, there may not be any significant rise in invisible receipts due presumably to a decline in private transfer payments (net remittances).

The authors have forcefully argued for the need to augment export revenues through a change in strategy by diversifying and promoting export items such as, marine products, agro-based items and engineering goods. An annual export growth rate of 8 per cent in real terms is imperative in order to keep debt servicing burden within a tolerable limit for India, as per their assessment. In view of the existing resource gap and technology gap, the need for dependence on external sources cannot be dispensed with easily. Various possibilities of obtaining external finance either from the World Bank or on commercial borrowings from Euro-currency markets, or the scope for cutting down domestic investments and for progress towards self-reliance, have been discussed. Nevertheless, Chapter 6 closes with a note of optimism that India may become self-reliant by 1990-95.

Chapter 7 on 'Economic Recovery and World Trade' deals with world growth and trade trends. For industrial countries as a group, GNP growth rate fell from 4.6

per cent in 1984 to 2.5 per cent in 1986. In the developing countries there was a slow down in growth rate from an average of 6 per cent in the two decades prior to 1980 to 4.2 per cent in 1986. Though inflation rate has been contained and oil prices have fallen, countinuing large deficits in the USA and developing countries, volatility in foreign exchange markets high levels of unemployment especially in industrial countries, and debt problem of developing nations, are some of the important reasons which might lead to sluggish World economic growth. This is particularly true for several developing countries, if protectionist tendencies of the USA and lack of coordination of policies among the main industrial countries continue to persist.

International Monetary and Banking Trends

Part III deals with 'Institutional Developments'. Chapter 8 on International Banking Trends deals primarily with the developments in Euro-currency markets, introduction of new financial instruments and innovations, deregulation, globalisation of financial markets, securitisation and better integration of markets. The massive transfer of funds from oil importing to oil exporting countries which eventually took the shape of their deposits in large banks of Europe, USA and Japan helped to promote international banking. As a result, the barriers that used to exist as between currencies and countries disappeared and the markets and trading in currencies became really global. Instruments like zero-coupon, dual-currency bonds, floating rate notes (FRNs) and interest rate and currency swaps were accorded statutory approval by Governments to provide for more efficient and diverisfied capital markets. The authors have also referred to the rapid changes in international banking and increasing competition among countries to borrow in the coming years. As multinational banks were exposed to some particular country debts, the prospects of bank lending to developing countries have become bleak. These along with a slow down in growth in world output and trade would not be congenial for investment and growth in the developing countries. The next two chapters examine in detail the role of the IMF and the International Monetary System, and 'Development Aid': IDA and the World

Bank, respectively. With innovations such as creation of SDRs and new financing facilities such as EFF, SAF, etc., the Fund has been assisting the developing countries to overcome not only temporary balance of payments problems but even structural problems. The authors are highly critical of 'conditionality' which, with limited resources of the Fund, is standing in the way of pursuit of free growth policies and demand management policies of developing countries. They argue that "the surveillance role" of the Fund has been largely ineffective on major industrial countries. The authors put forward a few proposals regarding fresh SDR allocation to members and also for different purposes such as augmentation of Trust Fund for making provision for medium-term concessional finance for balance of payments support to developing countries on concessional terms. While stressing the need for procuring larger share in total resources from quotas and SDRs creation they point out the problems related to adequacy and augmentation of resources through borrowings and a change in voting rights.

The authors have discussed the trends in flow of official development assistance since 1975 and noted with concern the disturbing trend of a fall in net flows of public and private lending to developing countries. The ODA flows are disappointing and commercial lending has become more important now. While the proportion of ODA from DAC countries has declined sharply from 0.51 per cent of GNP in 1960 to about 0.36 per cent for some years now, the proportions of the US and Japanese aid have been awfully low. Owing to the dwindling of real net transfers from these international financial institutions and industrial countries to developing countries, the development programmes of the latter have considerably suffered and long term investment strategy has been distorted.

Main Issues and Needed Reforms.

Part IV is a write-up of the main issues and outlook emanating from the discussion on international monetary situation. The major problems of world economy are highlighted, namely, unemployment in the industrial countries, debt crisis of developing countries, persisting trade restrictions and exchange rate misalignment. The most intriguing issue pertains to the US dollars - a major currency which still accounts for about three - fourths of the total transactions in foreign exchanges, despite its persistent weakness on the exchange markets. The U.S. has become a large net debtor with domestic policies not in alignment with its international payments position. Followed by this is the problem of drastic curtailment of domestic policy independence due to globalisation of financial markets and increasing volume of transactions. The blurred growth scenario of developed nations and recent developments in international economic field which are marked by protectionist policies and unfavourable terms of trade are attributed as reasons for bleak prospects of growth of developing countries. A particular reference has also been made in the study about debtor countries adjustment and investment problems, in particular of Latin American and African countries where the debt situation has become almost unmanageable. The necessary world environment for export-led growth of debt laden developing countries does not exist due to inadequate growth of output and imports of developed countries. The authors are skeptical about the provision of resources to the IMF and the World Bank for conducting debt assistance operations without slowing down development aid.

It has been argued that there is an immediate need for closer co-operation between the IMF and the World Bank, on the one hand, and mutual consultations with UNCTAD and GATT for strengthening multilateral cooperation for revitalising trade and development, on the other. While recognising problems faced by the world economy, the authors suggest the need for major policy changes and change in the attitude of industrial and lending countries. The urgent need to reduce the present financial imbalances amongst the industrial countries as per the agreement reached among them in Paris in February 1987 and reaffirmed in their meeting in Washington in April 1987 and in Venice in June 1987 was emphasised rightly by the authors.

It is apprehended that the system may break down further if there is no effective coordination of domestic and external economic and financial policies among the main industrial countries together with a reform to accelerate the growth and trade of developing countries. The authors have made out a case for modifications in policy approaches and functioning of the existing international financial institutions and the indispensability of larger resources at the disposal of these institutions, through regular creation of SDRs and their allocation in part to Trust Fund and through a modified pattern of voting. Not only debt problem is to be solved but the developmental assistance should continue to grow, for which a change in thinking and in policies pursued by developed countries is required. The effect of recent stock market crisis on the international financial markets and banking might further aggregate the problems far beyond what the authors have expressed. This would create further setback to the normalisation and adjustment process in the international monetary relations and emphasise more unequivocally the urgent need for effective coordination of domestic and external economic and financial policies of developed countries.

The authors have considered the need for a new International Monetary and Financial Conference, but have favoured a more realistic set of reforms and "a change of heart rather than a change of institutions". They have also commended the proposals for the establishment of a South Bank mainly for facilitating the flow of development finance and technology co-operation among developing countries, with realistic objectives.

While reviewing the world monetary and financial system, the book has raised many significant issues for reform and put forward some useful suggestions which deserve consideration.

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