RESERVE BANK OF INDIA

REPORT
OF THE
WORKING GROUP
ON
BANK DEPOSITS

BOMBAY

JANUARY 1983

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PREFACE

The Working Group on Bank Deposits was constituted by the Reserve Bank of India under the Chairmanship of Dr. C. Rangarajan, Deputy Governor, on August 5, 1982 with the following terms of reference:

"i) to examine the trends in the growth of bank deposits in relation to the overall growth of financial savings as also the growth in savings mobilised through other financial instruments;

ii) to review the interest rate structure in respect of bank deposits with a view to examining the need to rationalise this structure keeping in mind the return, security, liquidity and tax benefits attaching to the different instruments of financial savings. In doing so, the

Group will also need to consider the cost and other implications of any changes which they may suggest in the present structure;

iii) to review the present regulatory framework regarding deposit mobilisation by banks and to suggest appropriate modifications which may facilitate improvement in the performance of the banks in this respect;

iv) to consider various suggestions which have been made for providing increased incentives to bank depositors. The Group may examine in this context modifications to existing schemes of deposit mobilisation as well as introduction of new schemes; and

v) to make any other suggestions relevant to the subject."

ii. Besides Dr. C. Rangarajan as Chairman, the

Working Group consisted of the following members:

Shri N. Vaghul, Chairman, Bank of India, Bombay.	(Member)
Shri S.L. Baluja, Chairman, Punjab National Bank, New Delhi.	(Member)
Shri B. Ratnakar, Chairman, Canara Bank, Bangalore.	(Member)
Shri V.N. Nadkarni, Deputy Managing Director, State Bank of India, Bombay.	(Member)
Shri V.K. Dikshit, Joint Secretary, Government of India, Ministry of Finance, Department of Economic Affairs, (Banking Division), New Delhi.	(Member)
Dr. Mahfooz Ahmed, Economic Adviser, Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi.	(Member)
Shri U.K. Sarma, Chief Officer, Department of Banking Operations & Development, Reserve Bank of India, Central Office, Bombay.	(Member)
Shri S.S. Tarapore, Adviser, Credit Planning Cell, Reserve Bank of India, Bombay.	(Member)
Dr. S.L. Shetty, Director, Department of Economic Analysis & Policy, Reserve Bank of India, Bombay.	(Member Secretary)

iii. The Working Group was expected to submit its report within three months. The substantive deliberations and recommendations of the Group were completed before the middle of October 1982 so as to be available on the eve of the formulation of the busy season credit policy in that month; the recommendations were communicated by the Chairman to the Governor of RBI and these were taken into account in the credit policy measures announced by the Governor on October 25, 1982. As the deliberations of the Group and the drafting of the final report required some more time, the term of the Working Group was extended upto the middle of January 1983.

iv. Considering the wide-ranging nature of issues involved, the Working Group set up the following four Sub-Groups:

Sub-group No.	Subject	Members constituting the sub-groups
I.	Interest Rate Structure and Impact on Cost Structure of Banking Industry	Dr. C. Rangarajan Shri N. Vaghul Shri B. Ratnakar Shri S.S. Tarapore Dr. S.L. Shetty (Convenor)
II.	Regulatory Measures (including branch banking)	Shri V.N. Nadkarni Shri S.L. Baluja Shri U.K. Sarma* (Convenor)

*In the absence of Shri U.K. Sarma for sometime, Shri N.D. Parameshwaran, Deputy Chief Officer, Department of Banking Operations & Development (DBOD), RBI, functioned as the Convenor.

Sub-group No.	Subject	Members constituting the sub-groups
III.	Fiscal Incentives for Financial Savings	Shri S.L. Baluja Shri V.K. Dikshit Dr. Mahfooz Ahmed (Convenor)
IV.	Special Deposit Schemes and Customer Services	Shri N. Vaghul Shri V.N. Nadkarni Dr. S.L. Shetty (Convenor)

v. An in-depth study of the terms of reference of the Group required more up-to-date and analytical data on different aspects of bank deposits; such data were sought, through a set of special returns, from the major commercial banks and a few co-operative banks. A structured Questionnaire was also sent to the Chairmen of all public sector banks and a few banks in the private sector, as also the chiefs of some foreign banks and co-operative institutions. The Secretariat of the Working Group received a number of suggestions from depositors, academicians and others regarding deposit rates, fiscal incentives, deposit regulations, customer service and such other issues. All of these have been of invaluable help to the Group in its work.

vi. The Working Group held five formal meetings, but members either as constituents of Sub-Groups or otherwise held a large number of meetings to discuss various issues of relevance to the Working Group.

vii. The Secretariat of the Working Group produced a series of Working Papers for the consideration of the Group. The principal ones related to the following themes:

(a) recent deceleration in the growth of bank deposits;

(b) a supplementary note on the behaviour of bank deposits in recent months;

(c) structural aspects of commercial bank deposits;

(d) growth and relative importance of alternative financial savings media;

(e) foreign inward remittances and financial savings;

(f) behaviour of 'reserve money' and aggregate bank deposits in the recent period;

(g) different types of financial assets available to households in India and the nature of their yields and incentives;

(h) deductibility of interest income at source;

(i) some characteristics of deposits accepted by non-banking financial and non-financial companies; and

(j) interest elasticity of savings in India.

viii. The Working Group received prompt and very thoughtful responses to its Questionnaire from bank Chairmen and Chief Executives, and also valuable data from banks through the special set of returns prescribed or otherwise. Some of the bank economists, who were approached, took a personal interest in the Group's task and rendered considerable help at various stages of its labour. The Working Group wishes to convey its thanks and gratitude to all of them. Its thanks are also due to depositors, academicians and others for their various suggestions.

ix. The Department of Economic Analysis and Policy (DEAP), RBI, provided the Secretariat for the Group. Various Divisions of that Department, particularly the Division of National Income, Savings and Flow of Funds (which also provided the Secretariat), the Division of Money and Banking, the Division of Industrial Studies, the Division of International Finance, the Econometrics Division, and the Administrative Division, have made available an enormous amount of data required by the

Group and also rendered help in various other ways; in addition, some departments of RBI, principally the Department of Banking Operations and Development (DBOD), the Department of Statistical Analysis and Computer Services (DESACS), the Foreign Accounts Section of the Department of Government and Bank Accounts (DGBA), the Department of Non-Banking Companies (DNBC), and the Exchange Control Department (ECD) have supplied prompt information whenever asked for. Shri N.D. Parameshwaran of DBOD functioned as the Convenor of a Sub-Group. The Group acknowledges with sincere thanks the help rendered by all of them.

x. The committee wishes to express its deep appreciation of the very valuable services rendered by its Member-Secretary, Dr. S.L. Shetty. Special mention must be made of the great pains and care he took to cull from different sources data relevant for the study. He also provided the analytical frame for examining the various issues. Besides the Member-Secretary, the Secretariat of the Working Group consisted of Shri K.A. Menon, Smt. Sarojini Venkatachalam and Smt. M.V. Kulkarni. They have provided most valuable assistance in organising the meetings of the Group, in processing relevant returns and statistics, and generally in the preparation of the drafts of the main Report and its appendices. Shri V. Ramani shouldered the bulk of the stenography and typing involved in the task of the Group. The Working Group places on record its sincere appreciation and conveys its profound thanks to all members of its Secretariat.

CHAPTER 1

INTRODUCTION

1.1 The Working Group was set up in August 1982 in the context of a perceptible deceleration in the rate of growth of commercial bank deposits. In May 1982, a study was undertaken in the Reserve Bank of India (RBI) identifying the genesis, the causes and the extent and nature of deceleration that took place in bank deposit growth during 1981-82 (April-March). This study (reproduced in Appendix I) and the related issues were discussed at a meeting held by the then Governor with a representative group of bank Chairmen. While there was a general agreement on the sources and nature of the slow-down in deposit growth, there were divergent perceptions regarding the nature of measures required to reverse this trend. It was also felt that these measures could not be conceived in the narrow perspective of bank deposits *per se* as the whole gamut of financial assets was involved. Apart from questions relating to interest rates on bank deposits and yield rates on other financial assets, there were issues relating to the lending rates of banks, the spread between the cost and earnings on their working funds, and their profitability. There was also the question of the relative roles of commercial banks and other financial intermediaries as mobilizers of savings and purveyors of credit, which had to be viewed particularly in the context of the new instruments of saving recently introduced.

1.2 At the practical level and abstracting from short-term issues, there was a need to review some aspects of the regulatory framework regarding bank deposits, the adequacy of the various methods and schemes of deposit mobilisation, and the quality of customer service rendered by banks.

1.3 It was thus felt that a comprehensive and integrated examination of the whole gamut of issues was necessary. Earlier, the question of interest rates on bank deposits was examined by the Committee on Deposit Rates appointed by the Reserve Bank of India in June 1969 under the Chairmanship of Shri B.N.Adarkar. It was on the recommendation of this Committee that the principle of total regulation of bank deposits was introduced; until then the deposit rates had been subjected to a combination of official regulation and inter-bank agreement

(Appendix II presents a brief description of the evolution of bank deposit rates in India from time to time). Subsequently, there have been a number of changes in the interest rates on bank deposits and other financial media and quite apart from inter se distortion in the structure of administered interest rates on various savings instruments, there have been at times inconsistencies in the imperatives determining deposit rates and lending rates of banks.

1.4 The problem of customer service by banks was examined by the Working Group on Customer Service in Banks* appointed by the Government of India in 1975, and the Working Group submitted a large number of recommendations, all of which have been accepted. Despite the fact that a majority of them are said to have been implemented, the quality of customer service by commercial banks, particularly for depositor clientele, appears to have deteriorated.

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*The Working Group was appointed in March 1975 with Shri R.K. Talwar as Convenor who continued in that capacity upto August 3, 1976. The Final Report incorporating the Group's interim recommendations made in August 1975 was submitted by Shri T.R. Varadachary as Convenor in March 1977.

1.5 It was against the above background that the Reserve Bank of India constituted this Working Group to look into the totality of issues enumerated above with wide-ranging and comprehensive terms of reference.

1.6 Since the appointment of the Group in early August 1982, there has occurred a noticeable improvement in deposit growth. This may give an apparent impression that the context in which the Group came to be constituted is no longer relevant. With the sharp increase in the interest rates on other financial savings media, the rate differentials as between those savings media and bank deposits have widened significantly, and to the extent that the differentials have adversely affected the competitiveness of bank deposits, as they appear to have as shown in the next Chapter, and if these differentials persist, there is reason to believe that the relative competitiveness of bank deposits will continue to be eroded. Almost all aspects of the Working Group's terms of reference have wider and longer-term implications: the relative growth of bank deposits and other financial savings media; the relative balance in their yield rates along with fiscal concessions; the appropriateness of existing 'spread' as between the deposit rates and lending rates of commercial banks; the nature and extent of flexibility available to banks in their operations to compete amongst themselves and to serve their clientele better; the regulatory measures relating to the mobilisation of deposits by banks; and the quality of customer service. The Working Group has approached its task with a longer term horizon and wider perspective in view.

1.7 The chapter scheme of the Report broadly follows the logical sequence implicit in the terms of reference which has been summarised in the above paragraph. Chapter 2 tries to provide some perspective of the growth of bank deposits since bank nationalisation, and against that background, analyses the phenomena of deceleration during 1981-82 and subsequent improvement in recent months. Chapter 3 reviews the relative growth of bank deposits and other financial savings media with a view to examining specifically two themes: (i) the impact of the other financial instruments on the growth of bank deposits during 1981-82, and (ii) the need for an accelerated growth in bank deposits for enabling banks to achieve the nationally accepted developmental and other socio-economic goals set for them. One of the crucial tasks before the Working Group was to examine the interest rate structure relating to bank deposits vis-a-vis that relating to other saving instruments and suggest proposals for changes, if any. Chapter 4 is devoted to such an assessment and the presentation of Working Group's proposals in this regard. The review of regulatory measures concerning deposit mobilisation is the subject matter of Chapter 5, while Chapter 6 deals with the areas where scope exists for improving customer service in banks. The final chapter summarises the recommendations of the Working Group. Some of the relevant details and statistical data are presented in a series of appendices attached to the Report.

CHAPTER 2

Trends in Bank Deposits in Recent Years

2.1 The explanatory factors accounting for the trends in bank deposits could be broadly classified into three categories: demand factors, supply factors, and institutional factors. The demand factors, which represent the motives for holding bank deposits, are clearly the size of real national income and its sectoral as well as personal distribution, the inflation rate, and the structure of interest rates. The supply factors, which are essentially determined by the actions of the Central Bank and the Government, are represented by the creation of 'reserve money' or 'high-powered money', and by the determinants of the money multiplier including the required reserve ratio and currency-deposit ratio. The expansion of branch network and the growth of banking habit and money roughly represent the institutional factors affecting deposit growth, either through the demand route or supply route.

2.2 While it is thus possible to regroup the various factors into three broad categories, it is somewhat difficult to isolate concretely the effect of any one set of factors on the growth of bank deposits during a given period, as all the three categories are generally simultaneously in operation. Subsumed within these broad factors are specific factors which are sometimes highlighted as having a strong bearing on growth of deposits, e.g., the size of public procurement of foodgrains (which is in a sense related to real income growth and its distribution), the expansion of branches (which is related to the growth of banking habit), the size of the Government budget deficit and the external payments position (which largely determine reserve money) and the stipulated reserve requirements for banks (which affect the distribution of reserve money and hence, the deposit multiplier). These factors have obviously varying degrees of influence and many of them have varying lagged effects.

2.3 Nonetheless, a variety of econometric studies undertaken by scholars in recent years, as also those undertaken specially for the Working Group, have highlighted real national income as having the most dominant influence on bank deposits. Rates of interest, even when they are found to show a statistically significant effect on deposit holdings, have not been quantitatively that important. Interest sensitivity on the part of the bank deposit holders has been, however, discernible in that there had been significant shifts from one type of maturity of deposits to another whenever relative rates of return changed during the 1970's. Distribution of GDP as between agricultural and non-agricultural sectors and also the sectoral terms of trade are the other factors on the demand side which appear as noticeable explanatory variables for bank deposits. A mix of supply and institutional factors such as, the 'reserve money' expansion and the spread of branch network, have also figured as having influenced bank deposits in the quantitative studies referred to above.

2.4 In examining the community's preference for bank deposits, the Working Group found that a more meaningful approach was the one which formulated the demand functions, and studied the explanatory variables, separately for current deposits, savings deposits, and fixed deposits, as the motives for holding different types of deposits differ. As shown in Appendices III and VIII of the Report, the bulk of the current account deposits are held by companies and institutions, while the bulk of savings deposits and a large part of fixed deposits are held by individuals and households. It is found that income variable exerts statistically significant influence in all the three types of deposits, but the income elasticity is less than unity for current account deposits, about unity for savings deposits, and well above unity for fixed deposits. As for the role of interest rate, all components of deposits appear to be significantly and appropriately affected by the rate of interest, with current account and savings account deposits responding negatively, for instance, to the three-year fixed deposit rate. In the case of fixed deposits, the sensitivity to three-year deposit rate is unexpectedly large and positive (partial elasticity being 0.66). This may also be reflective of the limited range of alternative financial assets available with competing yields during the period upto 1980-81 for which the above statistical results are applicable.

2.5 Against this background, we now take a closer look into the behaviour of bank deposits since the beginning of the 1970's in the following paragraphs.

An Overview of the Trends in Bank Deposits During the 1970's

2.6 As may be seen from Table 2.1, there has been a phenomenal increase in bank deposits since 1969-70. The annual rates of increase of aggregate deposits with scheduled commercial banks had generally ranged from 10.0 to 13.0 per cent during the decade ending 1968-69,* with the compound growth rate per annum measuring out to about 12.0 per cent for the decade. In the following twelve year period 1969-70 to 1980-81, the yearly increases ranged from 17.0 per cent to 26.0 per cent; the compound growth rate worked out to 20.0 per cent per annum. During the 1960's aggregate bank deposits as a proportion of gross domestic product had edged up only fractionally from about 11.0 per cent to 13.0 per cent, whereas during the 1970's the same registered a phenomenal increase from 13.0 per cent to about 30.0 per cent (Table 2.1).

2.7 As explained earlier, a series of demand, supply and institutional factors have combined to produce such an impressive bank deposit growth during the 1970's. However, within the decade of the 1970's, there have been some distinct phases marked by the dominance of

*With the exception of the inflation years of 1965-66 and 1966-67 when the rates of increase were about 14.0 per cent and 16.0 per cent, respectively.

Table 2.1 : Aggregate Bank Deposits As a Proportion of GDP at Current Market Prices

Fiscal Year (April-March)	GDP at Market Prices
1	2
1968-69	33,279
1969-70	36,851(+10.7)
1970-71	40,263(+9.2)
1971-72	43,356(+7.7)
1972-73	47,865(+10.4)
1973-74	58,940(+23.1)
1974-75	69,595(+18.0)
1975-76	74,084(+ 6.4)
1976-77	80,341(+ 8.4)
1977-78	90,096(+12.1)
1978-79	97,444(+ 8.2)
1979-80	1,06,151(+ 8.9)
1980-81	1,25,675*(+18.4)
1981-82	1,42,987(+13.8)
Annual Compound Growth Rate (Per cent Per Annum)	
1958-59 to 1968-69	+12.0
1959-70 to 1980-81	+20.0

* Estimated

Note: Figures in brackets represent percentage increases over the previous year.

Table 2.1 : Aggregate Bank Deposits As a Proportion of GDP at Current Market Prices (Contd)

Fiscal Year (April-March)	Aggregate Bank Deposits			
	March 31 Data		Annual Average**	
	Amount	As Percentage of GDP	Amount	As Percentage of GDP
	3	4	5	6
1968-69	4,384	13.2	4,103	12.3
1969-70	5,064(+15.5)	13.7	4,764(+16.1)	12.9
1970-71	5,947(+17.4)	14.8	5,523(+15.9)	13.7
1971-72	7,716(+19.6)	16.4	6,570(+19.0)	15.2
1972-73	8,598(+20.8)	18.0	7,936(+20.8)	16.6
1973-74	10,110(+18.3)	17.3	9,589(+20.8)	16.3
1974-75	11,922(+17.2)	17.1	11,186(+16.6)	16.1
1975-76	14,325(+20.2)	19.3	13,147(+17.5)	17.7
1976-77	18,046(+26.0)	22.5	16,214(+23.3)	20.2
1977-78	22,211(+23.1)	24.7	20,072(+23.8)	22.3
1978-79	27,256(+22.7)	28.0	24,592(+22.5)	25.2
1979-80	32,237(+18.3)	30.4	29,755(+21.0)	28.0
1980-81	38,111(+18.2)	30.3	35,030(+17.7)	27.9
1981-82	43,820£(+15.0)	30.6	41,713(+19.1)	29.2

** Average of weeks for each year

£ Last Friday of March

Note: Figures in brackets represent percentage increases over the previous year certain specific factors. The possible explanatory variables which the Group perceived to be important for various phases are displayed in Table 2.2.

2.8 Following the nationalisation of major banks, there was a very rapid spread of branch net work during the early years of the 1970's. This early period coincided with an unusually high and uninterrupted growth in real national income for five years from 1967-68 to 1971-72 which averaged about 5.0 per cent per annum. Thus, the initial impulse to deposit growth in the 1970's came from these two factors: widening and strengthening of institutional structure and continuous real income growth. Aggregate bank deposits as a proportion of the GDP shot up from 13.2 per cent in 1968-69 to 18.0 per cent in 1972-73. The next two years 1973-74 and 1974-75 were years of unprecedented inflation following crop failures, large currency expansion and increase in petroleum prices. The average GDP growth in three years 1972-73 to 1974-75 was just about 1.5 per cent. The deposit growth was high but lower than in the previous years and also not high enough to keep pace with the increase in the nominal values of GDP; the deposit-GDP ratio declined from 18.0 per cent in 1972-73 to 17.1 per cent in 1974-75.

2.9 The above period was followed by a phase of four years 1975-76 to 1978-79 which experienced the highest rates of bank deposit accruals attributable to a combination of five key factors: (i) real GDP growth of as much as 6.0 per cent per annum during the four year period; (ii) unprecedented accumulation of foreign exchange assets primarily due to rapid flow of foreign inward remittances; (iii) massive expansion in commercial bank branch network again; (iv) a sharp increase in the rates of interest paid on deposits which with inflation under check, pushed up further the <u>real</u> rates of interest; and (v) a perceptible shift of terms of trade against agricultural sector which is known to have lower marginal propensity to save (see Table 2.2). The deposit-GDP ratio galloped from 17.1 per cent in 1974-75 to 28.0 per cent in 1978-79. The subsequent two years 1979-80 and 1980-81 were again years of high inflation, set back to <u>real</u> output and depletion of foreign exchange reserves to some extent; the rate of branch expansion also slowed down around this period. The rate of bank deposits accruals decelerated, but the deceleration was somewhat moderated because of very rapid increases in currency expansion, and the bank

Table 2.2 : Key Explanatory Factors Relevant for Bank Deposit Growth During 1970's

Fiscal Years (April-March)	GDP at at factor cost (70-71 prices) (Rs crores)	Wholesale Price Index (WPI) (1970=100.0)	Increase in Net Foreign Exchange Assets (Rs crores)	Increase in Currency (As on 31st March) (Rs crores)	Reserve Money (RM) (As on 31st March) (Rs crores)
1	2	3	4	5	6
1968-69	32,725 (2.7)	91.3 (-1.1)	81	302	4,000 (8.3)
1969-70	34,802 (6.3)	94.8 (3.8)	256	336	4,444 (11.1)
1970-71	36,736 (5.6)	100.0 (5.5)	(-) 36	367	4,822 (8.5)
1971-72	37,313 (1.6)	105.6 (5.6)	68	434	5,381 (11.6)
1972-73	36,910 (-1.1)	116.2 (10.0)	(-) 36	640	6,033 (12.1)
1973-74	38,646 (4.7)	139.7 (20.2)	91	887	7,273 (20.6)
1974-75	38,979 (0.9)	174.9 (25.2)	(-)249	26	7,604 (4.5)
1975-76	42,662 (9.4)	173.0 (-1.1)	525	358	7,807 (2.7)
1976-77	43,208 (1.3)	176.6 (2.1)	1589	1168	9,798 (25.5)
1977-78	46,948 (8.7)	185.8 (5.2)	1917	758	10,941 (11.7)
1978-79	49,403 (+5.2)	185.8 (-)	893	1600	14,083 (28.7)
1979-80	46,948 (-5.0)	217.6 (17.1)	(-) 43	1422	16,573 (17.7)
1980-81	50,489 (7.5)	257.3 (18.2)	(-)613	1772	19,443 (17.3)
1981-82	..	280.2 (8.9)	(-)2151*	1112*	20,975 (7.9)

(-) means no change .. means not available

* as on last Friday of March.

Figures in brackets represent increase/decrease over the previous year.

Table 2.2 : Key Explanatory Factors Relevant for Bank Deposit Growth During 1970's.(Contd)

Fiscal Years (April-March)	No. of Bank Branches@	Terms of Trade Indicators Share of Agriculture in GDP at 70-71 Prices	at Current Prices	Prices of agricultural products as per cent of non-agricultural products
	7	8	9	10
1968-69	8,262 (14.0)	44.4	46.3	96.5
1969-70	10,131 (22.6)	44.5	46.0	103.6
1970-71	12,013 (18.6)	45.7	45.7	100.0
1971-72	13,622 (13.4)	44.7	44.3	92.0
1972-73	15,362 (12.8)	42.3	44.3	91.8
1973-74	16,936 (10.2)	43.5	48.1	99.4
1974-75	18,730 (10.6)	42.2	44.3	95.3
1975-76	21,220 (13.3)	43.6	40.1	85.6
1976-77	24,802 (16.9)	40.3	38.1	83.9
1977-78	28,016 (13.0)	41.9	38.8	90.4
1978-79	30,202 (7.8)	40.4	36.4	88.0
1979-80	32,419 (7.3)	37.1	34.2	79.6
1980-81	35,706 (10.1)	38.9	35.3	72.8
1981-82	39,180 (9.7)	..	..	..

@ As at the end of June

deposit-GDP ratio improved from 28.0 per cent in 1978-79 to 30.3 per cent in 1980-81.

2.10 The behaviour of bank deposits during the 1970's could thus be classified into fairly distinct phases when the role of certain specific factors has been more dominant than that of others. Those explanatory variables have undoubtedly affected the structural characteristics of bank deposits during the 1970's which have been highlighted in Appendices III and VIII. For instance, it is revealed that the new branch network has raised the share of rural branches in aggregate deposits from 3.0 per cent in June 1969 to 13.8 per cent in March 1982. In deposits of rural areas, savings and fixed deposits dominate. It is also revealed that with the increase in the interest rates on fixed deposits in July 1974, the share of fixed deposits in total deposits increased steadily from 51.9 per cent in June 1974 to 58.4 per cent in June 1977, and within fixed deposits, the longest maturity of above five years attracted the largest share which is indicative of the role of interest rate structure.

Recent Trends in Bank Deposits

2.11 The experiences of 1981-82 and thereafter in regard to the behaviour of bank deposits have been somewhat unusual and deserve a special explanation. While the explanatory factors involved in this behaviour could broadly be the same, as in earlier periods their role in this phase has been qualitatively different from that in the past. A fairly comprehensive Paper on the subject of "Recent Deceleration in the Growth of Bank Deposits - An Explanation" was prepared by the RBI in June 1982 to which a reference was made earlier and which is appended to this Report (see Appendix I). With its focus on the sharp deceleration in deposit growth during 1981-82, the Paper highlighted the nature and extent of the slow-down and also pinpointed the possible factors responsible for the phenomenon. Based on the information contained in that Paper and supported by additional data gathered by the Working Group, an assessment is presented here of the experience of setback to deposit growth during 1981-82. It is followed by an analysis of the improvement in deposit accretions during 1982-83 so far. Finally, an attempt is made to draw from these two divergent experiences some lessons relevant for policy. This assessment is facilitated by an examination of the changing profile of bank deposits over the years which is set out in Appendix III on 'Structural Aspects of Commercial Bank Deposits'.

The Deceleration of Bank Deposits in 1981-82

2.12 During the fiscal year 1981-82, there was a perceptible slow-down in the growth of commercial bank deposits from 19.6 per cent in 1980-81 to 15.1 per cent, the lowest pace of growth since the nationalisation of major banks in 1969.

Table 2.3: Quarterly Expansion in Aggregate Bank Deposits (Final Data)

(Rupees, crores)

Quarters	1980-81		1981-82	
April-June	+1,618	(+ 5.1)	+2,561	(+ 6.7)
July-September	+1,107	(+ 3.3)	+1,036	(+ 2.6)
October-December	+2,416	(+ 7.0)	+2,538	(+ 6.1)
January-March	+1,088	(+ 2.9)	- 389	(- 0.9)
Annual Increases	+6,229	(+19.6)	+5,746	(+15.1)

(Figures in brackets represent percentage increases)

As is evident from Table 2.4, the slow-down had begun with fixed deposits and almost from the early months of 1981-82. The share of term deposits in total deposits declined from 55.6 per cent in December 1980 to 54.5 per cent in March 1982. It is pertinent to observe that this occurred in the wake of the announcements made along with the Budget proposals of February 1981 to introduce a new 12 per cent National Saving Certificate and to raise the interest rate ceiling on debentures from 12.0 per cent to 13.5 per cent.

2.13 The pace of expansion in savings deposits slowed down mainly in the latter part of 1981-82; in fact, these deposits stagnated in the last quarter. Likewise, current deposits fell in absolute terms during January-March 1982 reflecting the slow-down in the pace of credit expansion in the second half of 1981-82.

2.14 As shown in the Paper in Appendix I, the fall in bank deposits in the last quarter of 1981-82 was essentially in the major metropolitan centres (Bombay, Delhi, Calcutta and Madras). Data obtained by the Working Group through the special set of

Table 2.4: Cumulative Increases in Different Types of Deposits: 1980-81, 1981-82, 1982-83 (upto October, 82)

(Rupees, Crores)

	Current Deposits		
	Outstanding	Cumulative variation over March	
1980-81			
March 1980	5,247 [16.5]		
April	5,151	- 96	(- 1.8)
May	5,097	- 150	(- 2.9)
June	5,264	+ 17	(+ 0.3)
July	5,032	- 215	(- 4.1)
August	5,061	- 186	(- 3.5)
September	5,135	- 112	(- 2.1)
October	5,133	- 114	(- 2.2)
November	5,495	+ 248	(+ 4.7)
December	5,915	+ 668	(+ 12.7)
January 1981	5,790	+ 543	(+ 10.4)
February	5,834	+ 587	(+ 11.2)
March	6,312 [16.6]	+1,065	(+ 20.3)
1981-82			
April	6,247	- 65	(- 1.0)
May	6,339	+ 27	(+ 0.42)
June	6,692	+ 380	(+ 6.0)
July	6,391	+ 79	(+ 1.3)
August	6,405	+ 93	(+ 1.5)
September	6,382	+ 70	(+ 1.1)
October	6,510	+ 198	(+ 3.1)
November	6,449	+ 137	(+ 2.2)
December	7,185	+ 873	(+ 13.8)
January 1982	6,681	+ 369	(+ 5.8)
February	6,684	+ 372	(+ 5.9)
March	6,921 [15.8]	+ 609	(+ 9.6)
1982-83			
April	7,054	+ 133	(+ 1.9)
May	7,176	+ 255	(+ 3.7)
June	7,520	+ 599	(+ 8.7)
July	7,170	+ 249	(+ 3.6)
August	7,138	+ 217	(+ 3.1)
September	7,112	+ 191	(+ 2.8)
October	7,219 [15.0]	+ 298	(+ 4.3)

Table 2.4: Cumulative Increases in Different Types of Deposits: 1980-81, 1981-82, 1982-83 (upto October, 82) (Contd.)

(Rupees, Crores)

	Fixed Deposits		
	Outstanding	Cumulative variation over March	
1980-81			
March 1980	17,382/54.7/		
April	18,157	+ 775	(+ 4.5)
May	18,300	+ 918	(+ 5.3)
June	18,711	+1,329	(+ 7.7)
July	18,903	+1,521	(+ 8.8)
August	19,317	+1,935	(+ 11.1)
September	19,601	+2,219	(+ 12.8)
October	19,876	+2,494	(+ 14.4)
November	19,853	+2,471	(+ 14.2)
December	20,491	+3,109	(+ 17.9)
January 1981	20,690	+3,308	(+ 19.0)
February	20,711	+3,329	(+ 19.2)
March	20,742/54.6/	+3,360	(+ 19.3)
1981-82			
April	21,121	+ 379	(+ 1.8)
May	21,685	+ 943	(+ 4.5)
June	22,217	+1,475	(+ 7.1)
July	22,448	+1,706	(+ 8.2)
August	22,773	+2,031	(+ 9.8)
September	23,035	+2,293	(+ 11.1)
October	23,243	+2,501	(+ 12.1)
November	23,371	+2,629	(+ 12.7)
December	23,941	+3,199	(+ 15.4)
January 1982	23,863	+3,121	(+ 15.0)
February	23,943	+3,201	(+ 15.4)
March	23,818/54.5/	+3,076	(+ 14.8)
1982-83			
April	24,242	+ 424	(+ 1.8)
May	24,661	+ 843	(+ 3.5)
June	24,991	+1,173	(+ 4.9)
July	25,652	+1,834	(+ 7.7)
August	26,043	+2,225	(+ 9.3)
September	26,218	+2,400	(+ 10.1)
October	26,577/55.3/	+2,759	(+ 11.6)

Table 2.4: Cumulative Increase in Different Types ofDeposits: 1980-81, 1981-82, 1982-83 (upto October, 82)(Contd)

(Rupees, Crores)

	Savings Deposits		
	Outstanding	Cumulative variation over March	
1980-81			
March 1980	9,131[28.8]		
April	9,069	- 62	(- 0.7)
May	9,235	+ 104	(+ 1.1)
June	9,402	+ 271	(+ 3.0)
July	9,611	+ 480	(+ 5.3)
August	9,679	+ 548	(+ 6.0)
September	9,749	+ 618	(+ 6.8)
October	9,998	+ 867	(+ 9.5)
November	10,122	+ 991	(+ 10.9)
December	10,494	+1,363	(+ 14.9)
January 1981	10,677	+1,546	(+ 16.9)
February	10,827	+1,696	(+ 18.6)
March	10,934[28.8]	+1,803	(+ 19.8)
1981-82			
April	11,248	+ 314	(+ 2.9)
May	11,369	+ 435	(+ 4.0)
June	11,644	+ 710	(+ 6.5)
July	11,925	+ 991	(+ 9.1)
August	12,019	+1,085	(+ 9.9)
September	12,169	+1,235	(+ 11.3)
October	12,403	+1,469	(+ 13.4)
November	12,592	+1,658	(+ 15.2)
December	12,996	+2,062	(+ 18.9)
January 1982	12,884	+1,950	(+ 17.9)
February	12,968	+2,034	(+ 18.6)
March	12,995[29.7]	+2,061	(+ 18.8)
1982-83			
April	13,069	+ 74	(+ 0.6)
May	13,208	+ 213	(+ 1.6)
June	13,603	+ 608	(+ 4.7)
July	13,766	+ 771	(+ 5.9)
August	14,031	+1,036	(+ 8.0)
September	14,109	+1,114	(+ 8.6)
October	14,249[29.7]	+1,254	(+ 9.6)

Note: Data from March 1980 to February 1982 are final; Those from March 1982 are partially revised on the basis of returns received upto December 25, 1982.

Figures in square brackets represent percentage to total.

returns confirm this finding. In respect of 23 major banks which responded to the special returns, absolute amount of metropolitan deposits almost stagnated between December 1981 and June 1982 (see Appendix VIII). As would be expected, the shift in the distribution of deposits by type was pronounced in deposits of metropolitan branches.

2.15 A reduction in the growth of Government disbursements, the demand constraints faced by certain segments of Indian industry and consequential sluggishness in industrial activity, a larger loss of foreign exchange reserves, a perceptible reduction in the growth of 'currency' as well as 'reserve money', the slowing down of inflation, and a general slow-down in the domestic expenditure stream were factors accounting for the reduced pace of deposit growth. The slower tempo of deposit expansion was, however, accentuated by the simultaneous occurrence of fresh competition from other instruments such as, the Special Bearer Bonds, company debentures and deposits, Postal certificates, and units of the UTI, which attracted a larger proportion of household savings.

2.16 The extent of competition offered by various savings instruments to bank deposits during the recent years has been analysed in the next chapter, but suffice it to say here that some of the instruments like the Postal certificates, company debentures and units of the UTI, attracted amounts of household savings during 1981-82 which were conspicuously higher than in the past. In addition, the total collections by the Government through the Special Bearer Bonds aggregated Rs.876 crores during 1981-82, which directly or indirectly affected bank deposit growth.

2.17 Total disbursements of the Central and State Governments according to the revised estimates grew by 12.1 per cent (or Rs.4,627 crores) during 1981-82 against an increase of 21.1 per cent (or Rs.6,691 crores) during 1980-81. The deceleration in the growth of development expenditure has been sharper: 11.2 per cent in 1981-82 against 24.3 per cent in 1980-81*. Net bank credit to Government increased only by Rs.4,964 crores (or by 19.1 per cent) in 1981-82 against an increase of Rs.5,845 crores (or 29.1 per cent) in 1980-81. The contractionary impulses were also manifested in a lower order of

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* cf RBI, Annual Report, 1981-82 and 1980-81.

increase in non-food credit to the commercial sector: Rs.3,903 crores (or 16.5 per cent) in 1981-82 against Rs.4,175 crores (or 21.5 per cent) in 1980-81. In such a milieu, the draw-down in the country's foreign exchange assets to the tune of Rs.2,069 crores against Rs.613 crores in the previous year would have worked towards reducing aggregate liquidity.

2.18 The experience of 1981-82 and the forces which operated in it thus constitute in some respects a special case. The changes described above were all sudden and sharp and so was the impact inter alia on deposit growth. While those aspects of economic and financial policies which relate to the tempo of Government expenditure programmes and allied issues are outside the purview of the terms of reference of this Working Group, the lesson most relevant to our task concerns the role of interest rate differentials on various instruments of saving which, according to our view, did affect deposit growth during 1981-82.

B. Recovery in Deposit Expansion in Recent Months

2.19 Deposit growth has undoubtedly picked up in recent months and this has been mainly contributed by time deposits as distinguished from demand deposits, or among the three categories of deposits, the expansion in fixed deposits has been the highest followed by saving deposits; the growth in current deposits continues to be sluggish.

2.20 During the seven-month period June-December 1982, the increase in aggregate deposits at Rs.5,626 crores has surpassed that achieved during the corresponding seven-month period of 1981 (Rs.4,730 crores). Even so, the increase in during the calendar year 1982 turned out to be over Rs.700 crores less than the increase in 1981, i.e., at Rs.6,548 crores in 1982 as compared with Rs.7,223 crores in 1981, (Table 2.5).

Table 2.5: Growth of Bank Deposits
(Calendar Year Period)

(Rupees, crores)

Period (1)	1980 (2)	1981 (3)	1982 (4)
Outstanding at end December of preceding year	31,463	36,900	44,123
Increase during			
January - May	+1,169	+2,493	+ 922
June - December	+4,268	+4,730	+5,626
January - December	+5,437 +(17.3)	+7,223 +(19.6)	+6,548 +(14.8)

(Figures in brackets represent percentage increases)

In percentage terms, the rate of expansion in aggregate deposits slackened to 14.8 per cent in 1982 as compared to 19.6 per cent in 1981 and 17.3 per cent in 1980.

2.21 However, when we consider the fiscal year period, the picture improves somewhat. During the first nine months of the current year (April-December 1982), aggregate deposits with scheduled commercial banks expanded by Rs.6,937 crores or 15.9 per cent as compared to Rs.6,504 crores or 17.1 per cent (Table 2.6). It may be recalled that the expansion during 1981-82 as a whole got finally depressed and remained at about 15 per cent (or Rs.5,746 crores) because there was an absolute fall of Rs.389 crores in the final quarter (January - March) of that year which was associated with (a) the collection of about Rs.580 crores by the Government in the months of December 1981 and January 1982 through its Special Bearer Bonds Scheme, and (b) the situation of credit stringency faced by industry and trade giving rise to curtailment of their current account balances. While assessing the rate of growth of bank deposits during 1982-83, which is likely to be at about 15 to 16 per cent, that is, almost the same as achieved during 1981-82, it is necessary to bear in mind that a perceptible reduction has occurred in the average inflation rate, as measured by the increase in Wholesale Price Index, from about 18.2 per cent in each of the two successive year 1979-80 and 1980-81 to 9.2 per cent in 1981-82 and probably to about 2 to 3 per cent in 1982-83.

Table 2.6: Month-wise Expansion in Aggregate Deposits of Scheduled Commercial Banks

(Rupees, crores)

Month	1980-81	1981-82	1982-83
Outstanding at end-March of preceding year	31,759	37,988	43,734
Increase in			
April	+ 619	+ 628	+ 631
May	+ 254	+ 777	+ 680
June	+ 745	+1,156	+1,069
July	+ 169	+ 216	+ 474
August	+ 510	+ 432	+ 624
September	+ 428	+ 388	+ 227
October	+ 523	+ 559	+ 606
November	+ 463	+ 268	+ 267
December	+1,797	+2,080	+2,359
April to December	+5,508 (+17.3)	+6,504 (+17.1)	+6,937 (+15.9)
End-December@	37,267	44,492	50,671

@ Figures are for December 31, 1982 and those for the corresponding weeks a year ago and two years ago are for January 1, 1982 and January 2, 1981, respectively.

2.22 A fuller profile of the deposit accruals during 1982-83 is not available. The distribution of incremental deposits between time and demand suggests that both the types of deposits have experienced similar rates of increases during 1982-83 as in the previous year (Table 2.7). During April-December 1982, time deposits increased by Rs.5,528 crores or 15.6 per cent as compared with the increase of Rs.1,409 crores or 16.8 per cent in demand deposits; in the previous year, the rates of increase in these two types of deposits were similarly identical: 16.4 per cent in time deposits and 15.2 per cent in demand deposits.

Table 2.7: Increase in Demand and Time Deposits: Fiscal and Calendar Year Periods

(Rupees, crores)

Period	Demand	Time	Total
April-December			
1980-81	+ 820 (12.3)	+4,321 +(17.2)	+5,141 +(16.2)
1981-82	+1,183 +(15.2)	+4,952 +(16.4)	+6,135 +(16.1)
1982-83	+1,409 +(16.8)	+5,528 +(15.6)	+6,937 (15.9)
January-December			
1980	+1,178 +(18.7)	+4,259 +(16.9)	+5,437 (17.3)
1981	+1,518 +(20.3)	+5,705 +(19.4)	+7,223 +(19.6)
1982	+ 816 +(9.1)	+5,732 +(16.3)	+6,548 (14.8)

2.23 Distribution of bank deposits by <u>current</u>, <u>savings</u> and <u>fixed</u> deposit categories provisionally available up to October 1982 further suggest that the cumulative expansions in all the three categories of deposits during the current year particularly since June 1982 have kept very close pace with the similar cumulative expansions during 1981 (see earlier Table 2.4). In terms of the rate of expansion since the beginning of the current fiscal year (or that of the calendar year), the performance has been the best in <u>fixed deposits</u> followed by <u>savings accounts.</u>

2.24 The sharp setback to deposit growth particularly during January-March 1982 was partly attributable to certain policy changes including, <u>inter alia</u>, the sharp rise in reserve ratios (CRR and SLR) by an aggregate of approximately 3 percentage points of the deposit liabilities of banks; this required a change in the components of reserve money. Superimposed on this measure was the shrinkage in reserve money itself which rapidly put the banking system in a liquidity bind. The emergence of large defaults in the maintenance of reserve requirements and the consequent sharp cut-back in credit expansion were rapidly reflected in a virtual petering out of the growth of bank deposits. With the easing of the reserve ratios in the early months of the financial year 1982-83, the rectification of defaults in reserve requirements and the resurgence in the growth of reserve money, there has been a sharp increase in the pace of deposit growth.

2.25 During April-December 1982, net RBI credit to Government expanded by Rs.2,666 crores as against an increase of Rs.1,368 crores in the comparable period of 1981 (Table 2.8). Depletion in foreign exchange assets was of a lower order at Rs.1,171 crores during April-December 1982 against Rs.1,679 crores last year. As a result, there was a sizeable increase in currency with the public: Rs.1,291 crores against only Rs.113 crores. The 'reserve money' expansion was more phenomenal: Rs.2,027 crores in contrast to an absolute fall of Rs.255 crores.

Table 2.8: Increases in Key Monetary Aggregates

(Rupees, crores)

Aggregates	March 27 to January 1	March 26 to December 31	April-June	
	1981-82	1982-83	1981-82	1982-83
(1)	(2)	(3)	(4)	(5)
1. M_1	1,343 (+5.8)	2.726 (+10.9)	789 (+3.4)	1,534 (+6.2)
(i) Currency with the public	113 (+0.8)	1,291 (+ 8.9)	474 (+3.5)	1,075 (+7.4)
2. Net bank credit to Government	2,493 (+9.6)	3,701 (+12.0)	1,611 (+6.2)	2,525 (+8.2)
(i) RBI credit	1,368	2,666	835	1,022
3. Net bank credit to commercial sector	6,460	5,230	1,468	809
4. Net foreign exchange assets of banking sector	(-)1,679	(-)1,171	(-)527	(-)271
5. Reserve Money	-255	2,027	269	644

C. An Overall Assessment

2.26 The policy induced changes in aggregate liquidity have played, as indicated earlier, a significant role in affecting deposit growth in both the phases described above. It is also now evident that among the non-bank financial savings media, the debenture capital of private sector companies as well as public deposits, which attracted a sizeable amount of household savings during 1981-82, would be unable to maintain the tempo of growth because of the general slow-down in the pace of growth of the industrial sector. Therefore, a part of the deposit accruals in savings and fixed accounts in the current year could possibly be described as being in the nature of 'precautionary' balances, which considering the interest rate differentials, could again be diverted to debenture and such other long-term financial savings instruments. The once-and-for-all measures like the Special Bearer Bonds and the UTI's Special Unit Scheme, 1982 are not available during the current year. The Government's Capital Investment Bonds and Social Security Scheme are available but on tap and eventually in the last quarter of the year, the same may fetch more subscriptions to take advantage of the tax concessions. Available data suggest that upto the end of December 1982, the collections under the Capital Investment Bonds have aggregated about Rs.60 crores.

It must also be borne in mind that the yields on the Capital Investment Bonds would be highest in respect of those who belong to high-income brackets and who also have to pay wealth tax as well as gift tax. Nevertheless, the continued increases in the collections under some of the attractive Postal instruments suggest that beyond a limit determined by appropriate safety and liquidity considerations, the interest rate differentials between bank deposits and other financial savings media have been disturbed, thereby generating a tilt against bank deposits.

CHAPTER 3

Growth and Relative Importance of Alternative Financial Savings Instruments

3.1 This chapter attempts a comparison of the growth of bank deposits with that of alternative financial savings media. In attempting a critical assessment of the relative growth of various financial instruments, it is necessary to bear in mind the differential advantages each one of them enjoys vis-a-vis the other in regard to interest rates, term structure, and fiscal benefits. A comparison of interest rates, tax incentives and other benefits offered on all types of financial assets including bank deposits is presented in Appendix V. Also, the nature of differences that exist in the fiscal provisions regarding tax deductibility at source in respect of interest or dividend income earned from various financial assets is described in Appendix VI.

3.2 The principal financial savings instruments which compete with commercial bank deposits are : (i) Postal savings, (ii) deposits with co-operative institutions; (iii) company deposits and debentures, and (iv) units of the Unit Trust of India (UTI). The Group has also examined the Special Bearer Bonds Scheme, the Capital Investment Bonds and the Social Security Certificates introduced in the last Budget. The nature of their yield and fiscal advantages enjoyed by them have also been discussed in Appendix V.

Postal savings

3.3 The amount of Postal deposits under various certificates and other saving schemes are presented in Table 3.1. Total Postal deposits including those under uncurrent series as a proportion of commercial bank deposits steadily declined from 37.4 per cent in 1970-71 to 22.5 per cent in 1981-82. The compound growth rate of Postal savings and certificates during the eleven-year period from 1970-71 to 1981-82 works out to 14.5 per cent* per annum as against 20.0 per cent for the deposits with the scheduled commercial banks.

3.4 It may be noted that despite higher rates of interest and tax benefits, the overall growth of Postal savings and certificates during the past 11 years has lagged behind the rate of growth of commercial bank deposits. This is by and large true even of 1981-82

*If the uncurrent series are excluded, the growth rate for postal savings works out to about 20.0 per cent for the eleven year period. But, a part of these increases is also attributable to higher investments in Postal savings by non-Government provident funds.

TABLE - 3.1: ACCUMULATIONS UNDER POSTAL SAVINGS MEDIA

(Rupees, Crores

Year end	Post Office Savings Bank Deposits	Cumulative Time Deposits Total	Cumulative Time Deposits of which 10 year	Post Office Recurring Deposits	Post Office Time Deposits Total	Post Office Time Deposits of which 5 year	Total Deposits
1	2	3	4	5	6	7	8
1970-71	990	115	47	1	77	69	1,183
1971-72	1,046 (+5.7)	134 (+16.5)	58	8 (+700.0)	227 (+194.8)	186	1,416 (+19.7)
1972-73	1,107 (+5.8)	147 (+9.7)	69	23 (+187.5)	494 (+117.6)	403	1,771 (+25.1)
1973-74	1,252 (+13.1)	164 (+11.6)	82	47 (+104.4)	809 (63.8)	641	2,272 (+28.3)
1974-75	1,221 (-2.5)	176 (+7.3)	100	78 (+66.0)	1,097 (+35.6)	861	2,571 (+13.2)
1975-76	1,475 (+20.8)	185 (+5.1)	116	108 (+38.5)	1,415 (+29.0)	1,154	3,183 (+23.8)
1976-77	1,537 (+4.2)	194 (+4.9)	137	146 (+35.2)	1,729 (+22.2)	1,447	3,607 (+13.3)
1977-78	1,677 (+9.1)	209 (+7.8)	162	189 (+29.5)	2,056 (+18.9)	1,797	4,130 (+14.5)
1978-79	1,850 (+10.3)	238 (+13.9)	199	246 (+30.2)	2,443 (+18.8)	2,269	4,777 (+15.7)
1979-80	2,036 (+10.1)	284 (+19.3)	246	317 (+28.9)	3,020 (+23.6)	2,898	5,658 (+18.4)
1980-81	2,334 (+14.6)	341 (20.1)	307	381 (+20.2)	3,576 (+18.4)	3,460	6,632 (+17.2)
1981-82	2,341 (+0.3)	395 (+15.8)	364	429 (+12.6)	4,245 (+18.7)	4,105	7,410 (+11.7)
1982-83	2,293 (-2.1)	410 (+3.8)	381	476 (+11.0)	4,438 (+4.5)	4,285	7,617 (+2.8)

Cont..

Table 3.1 (Contd.)

Year end	CERTIFICATES			
	7 year National Saving Certificates II to V Issues	6 year National Saving Certificates VI Issue	VII Issue	Total
	9	10	11	12
1970-71	92	-	-	92
1971-72	188	-	-	188
1972-73	263	-	-	263
1973-74	320	-	-	320
1974-75	377	-	-	377
1975-76	455	-	-	455
1976-77	542	-	-	542
1977-78	634	-	-	635 +
1978-79	890	-	-	892 +
1979-80	1,176	-	-	1,179 +
1980-81	1,408	-	-	1,412 +
1981-82	1,342	560	101	2,016 +
1982-83	1,303	966	159	2,438 £

Cont...

Table 3.1 (Contd.)

Year end	Public Provident Fund Scheme 1968*	Total Current Series	Total uncurrent Series	Total Current & uncurrent Series (14+15)	Column 14as percentage of Scheduled Commercial Bank Deposits	Column 16 as percentage of Scheduled Commercia Bank Deposits.
	13	14	15	16	17	18
1970-71	5	1,280 -	947	2,227 -	21.5	37.4
1971-72	7	1,610 (+25.8)	854	2,464 (+10.6)	22.6	34.6
1972-73	11	2,045 (+27.0)	763	2,808 (+14.0)	23.8	32.7
1973-74	16	2,608 (+27.5)	674	3,282 (+16.9)	25.6	32.3
1974-75	21	2,970 (+13.9)	571	3,541 (+7.9)	24.9	29.7
1975-76	33	3,671 (+23.6)	573	4,244 (+19.9)	25.6	29.6
1976-77	40	4,188 (+14.1)	476	4,664 (+9.9)	23.2	25.8
1977-78	59	4,828 (+15.3)	398	5,227 (+12.1)	21.7	23.5
1978-79	94	5,695 (+20.0)	323	6,018 (+17.0)	20.9	22.1
1979-80	141	7,010 (+21.0)	254	7,264 (+18.7)	21.7	22.5
1980-81	200	8,280 (+18.1)	207	8,486 (+16.8)	21.7	22.3
1981-82	238	9,734 (+17.6)	157	9,846 (16.6)	22.1	22.5
1982-83	217	10,389 (+6.7)	153	10,542 (6.6)		

* Public Provident Fund Scheme, 1968 does not strictly form a part of the Small Savings or postal savings **media.**

\+ Includes National Saving Annuity Certificates.

Figures in brackets represent percentage increases over the previous year.

£ Includes National Saving Annuity Certificates and Social Security Certificates.

as the overall rate of increase of Postal savings (inclusive of uncurrent series) nevertheless remained at 16.00 per cent during 1981-82. The new instrument of 6 Year National Saving Certificates (VI and VII Issues) fetched over Rs.670 crores during 1981-82, but it was partly at the cost of other Postal savings instruments. The accruals under the Post Office Savings Bank Deposits, for instance, stagnated for the first time, those under Cumulative Time Deposits increased by 15.8 per cent in 1981-82 against 20.0 per cent in 1980-81, and those under Post Office Recurring Deposits increased by 12.6 per cent against 20.2 per cent. However, Post Office Time Deposits sustained their pace of accruals at 18.7 per cent in 1981-82 and 18.4 per cent in 1980-81.

3.5 The experience of 1981-82 shows that the Postal savings instruments have considerable interest elasticity. For example, the two issues of 6-Year National Saving Certificates together attracted over Rs.670 crores within ten months of their introduction during 1981-82. During the current year 1982-83 also, they are being subscribed at the same rate, the total collections at the end of September 1982 reaching

Rs.1,125 crores. More significantly, the collection under the VI Issue of 6-Year National Saving Certificates were markedly larger at Rs.966 crores as against Rs.159 crores under the VII Issue. Though both these issues carry the same interest of 12.0 per cent, interest is disbursed half-yearly under the VII series, whereas it is compounded half-yearly and payable at maturity under the VI series. The compounded rate works out to 17.0 per cent of simple interest per annum. This reflects the savers' preference for higher accumulated yield. Although it is not possible to precisely identify the factors responsible for the unprecedented increase in Postal savings, particularly under the VI series, the yield factor appears to be quite important. The preference for longer maturity compounded yield is also evident in household savings in bank deposits where special deposit schemes with such high long-term earnings are preferred.

Company debentures and deposits

3.6 There was also a remarkable increase in debenture capital raised by private sector companies from Rs.31 crores in 1980-81 to Rs.221 crores in 1981-82 (Table 3.2). The ceiling on the interest rate on

Table 3.2: Company Deposits and Debentures

(Rs.crores)

Year end	Non-Banking Company Deposits Outstandings: Financial companies		Non-financial companies		Total (2 + 3)		Colmn.(4) as a proportion of scheduled commercial bank deposits
1.	2.		3.		4.		5.
1970-71	150	-	883	-	1,033	-	17.4
1971-72	211	(+40.7)	986	(+11.7)	1,197	(+15.9)	16.8
1972-73	230	(+ 9.0)	1,099	(+11.5)	1,329	(+11.0)	15.5
1973-74	304	(+32.2)	1,158	(+ 5.4)	1,462	(+10.0)	14.4
1974-75	442	(+45.4)	1,254	(+ 8.3)	1,696	(+16.0)	14.2
1975-76	462	(+ 4.5)	1,455	(+16.0)	1,917	(+13.0)	13.4
1976-77	696	(+50.6)	1,559	(+ 7.1)	2,255	(+17.6)	12.5
1977-78	750	(+ 7.8)	1,725	(+10.6)	2,475	(+ 9.8)	11.1
1978-79	1,039	(+38.5)	1,854	(+ 7.5)	2,893	(+16.9)	10.6
1979-80	1,308	(+25.9)	2,062	(+11.2)	3,370	(+16.5)	10.4
1980-81	1,418	(+ 8.4)	2,514	(+21.9)	3,932	(+16.7)	10.3
1981-82	1,683	(+18.7)	2,903	(+15.5)	4,586	(+16.6)	10.5

Figures in brackets are percentage changes over the previous year.

(-) Means not relevant.

2nd page (contd.)

Table 3.2: Company Deposits and Debentures (Concld.)

(Rs. crores)

Year End	Fresh debenture capital raised by private sector companies	Increase in non-banking company deposits	Fresh debenture capital plus increase in non-banking deposits Total (6+7)	Increase in scheduled commercial bank deposits	Colmn. (8) as a proportion of Colmn. (9)
	6.	7.	8.	9.	10.
1970-71	7*	-	-	-	-
1971-72	18*	164	182	1,169	15.6
1972-73	47*	132	179	1,482	12.1
1973-74	17*	133	150	1,572	9.5
1974-75	27	234	261	1,751	14.9
1975-76	25	221	246	2,404	10.2
1976-77	43	338	381	3,720	10.2
1977-78	38	220	258	4,166	6.2
1978-79	42	418	460	5,045	9.1
1979-80	55	477	532	4,981	10.7
1980-81	31	562	593	5,874	10.1
1981-82	221	654	875	5,832	15.0

* Refer to calendar year figures.

(-) Means not relevant.

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non-convertible debentures was raised from 12.0 per cent to 13.5 per cent in March 1981 and further to 15.0 per cent in March 1982. The interest ceiling on convertible debentures, however, was maintained at 13.5 per cent. As a result, there was a spate of debenture issues during 1981-82 and the most popular were the convertible debentures due to their attractiveness both because of the access to equity capital together with relatively high interest rate. Those debentures which attracted attention were the convertible debentures of FERA and other big houses. Although the interest rate was 15 per cent on non-convertible debentures, these were not successful. It is not possible to estimate the impact of debenture issues on bank deposits. However, some amount of switching of funds from bank deposits cannot be ruled out. Moreover, due to better terms, debentures will compete with bank deposits, particularly with the development and strengthening of a secondary market for them.

3.7 Company deposits are also known traditionally to compete with commercial bank deposits. With the decision to retain the existing ceiling of 35.0 per cent on company deposits and with the fixation of a ceiling rate of 15 per cent on interest payable on such deposits for three years' maturity effective from April 1981, the acceptance of deposits by bigger companies received a fillip during 1981-82. Precise data on the size of such deposits and on the types of such deposits (public deposits, exempted categories, etc.), are not available beyond 1980-81.* Estimates attempted by the RBI suggest that the total of such deposits accepted by financial and non-financial companies as a percentage of commercial bank deposits, which had steadily declired from 17.4 per cent in 1970-71 to 10.3 per cent in 1980-81, edged up slightly to 10.5 per cent in 1981-82 (see Table 3.2); if deposits to the tune of about Rs.106 crores accepted by the public sector companies and corporations during 1981-82 are also included, this proportion would increase further.

UTI Units

3.8 Table 3.3(A) presents information on various unit schemes through which the Unit Trust of India (UTI)

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* In Appendix VII, sample data on interest range-wise and maturity-wise classification of deposits accepted by financial and non-financial companies are presented.

Table 3.3(A): Sales and Repurchases of Units

(Rs. crores)

Year (July-June)	Unit Scheme 1964			Unit Scheme 1971 (Unit Linked Insurance Plan)			Unit Scheme 1976		
	Sales	Repur-chases	Out-standing as on June 30	Sales	Repur-chases	Out-standing as on June 30	Sales	Repur-chases	Out-standing as on June 30
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1970-71	18.00	3.19	92.25	-	-	-	-	-	-
1971-72	15.08	2.60	104.70	0.03 (Oct.-June)	-	0.03 (Oct.-June)	-	-	-
1972-73	23.04	3.00	124.80	0.13	-	0.16	-	-	-
1973-74	30.31	3.70	151.40	0.33	-	0.49	-	-	-
1974-75	16.74	20.36	147.83	0.49	0.01	0.98	-	-	-
1975-76	20.77	10.95	157.64	0.73	0.02	1.68	7.47	-	7.47
1976-77	33.51	7.80	183.35	1.07	0.03	2.73	-	0.20	7.27
1977-78	70.86	10.86	243.36	2.41	0.05	5.09	-	0.32	6.95
1978-79	96.08	9.13	330.31	5.45	0.11	10.43	-	0.22	6.73
1979-80	48.93	13.76	365.48	8.92	0.20	19.13	-	0.45	6.28
1980-81	39.66	15.36	389.78	12.44	0.41	31.16	-	1.87	4.41
1981-82	65.15	21.70	433.23	16.00	1.29	45.87	-	4.41	-
1982-83 (Upto Dec.82)	52.23	6.57	N.A.	15.24	-	N.A.	-	-	-

N.A. :- Not Available.

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Table 3.3(A): Sales and Repurchases of Units (Concld.)

(Rs.crores)

	Scheme for Charitable and religious Trust and Registered Societies (CRTS-1981)			Income Unit Scheme 1982		
	Sales	Repurchases	Outstanding as on June 30	Sales	Repurchases	Outstanding as on June 30
	11.	12.	13.	14.	15.	16.
1970-71	-	-	-	-	-	-
1971-72	-	-	-	-	-	-
1972-73	-	-	-	-	-	-
1973-74	-	-	-	-	-	-
1974-75	-	-	-	-	-	-
1975-76	-	-	-	-	-	-
1976-77	-	-	-	-	-	-
1977-78	-	-	-	-	-	-
1978-79	-	-	-	-	-	-
1979-80	-	-	-	-	-	-
1980-81	-	-	-	-	-	-
1981-82	9.16	-	9.16	67.91	-	67.91
1982-83 (Upto Dec.81)	4.42	-	-	-	-	-

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has been mobilising savings, and Table 3.3(B) gives the growth of total amount of units outstanding and other related data. The total amount mobilised by UTI in net terms aggregated Rs.131 crores during 1981-82 against Rs.34.5 crores during 1980-81 /Table 3.3(B)/; amount mobilised in 1981-82 was the highest mobilised by the Trust in any year so far.

3.9 The Unit Trust of India has stepped up the rate of dividend for 1981-82 to 12.5 per cent from 11.5 per cent under the Unit Scheme 1964 and to 9.5 per cent from 8.75 per cent under the Unit Scheme 1971. The scheme for Charitable and Religious Trust and Registered Societies (CRTS-81) also offered 12.5 per cent dividend for 1981-82. A new Income Unit Scheme was opened for sale in May 1982 for two months. The dividend offered under this scheme is to gradually rise from 12.0 per cent to 13.0 per cent per annum and payable on a half-yearly basis. About Rs.67 crores were collected under the scheme within a brief period of two months.

Table 3.3(B): Trends in Operations of the U.T.I.@

(Rs.crores)

Year (July-June)	Units Sold (Face Value)	Units Re-purchased (Face Value)	As at the end of June: Units Out-standin (Face Value)	Investible Funds	Investmen in shares debenture
1.	2.	3.	4.	5.	6.
1970-71			92.3		
1971-72	15.1	2.6	104.7	119.3	100.7
1972-73	25.1	3.0	124.8	142.0	123.7
1973-74	30.3	3.7	151.4	172.1	147.5
1974-75	17.2	20.4	148.8	170.0	151.9
1975-76	29.0	11.0	166.8	184.6	163.6
1976-77	34.6	8.0	193.3	214.4	177.1
1977-78	73.3	11.2	255.4	288.2	193.0
1978-79	101.5	9.6	347.5	402.4	219.8
1979-80	57.9	14.4	390.9	467.0	254.9
1980-81	52.1	17.6	425.4	523.2	283.6
1981-82	158.2	27.4	556.2	679.3	361.0
1982-83 (Dec.82)	71.9	6.6	-	-	-

@ Covers Unit Schemes 1964, 1971 and 1976, and CRTS - 1981 and Income Unit Scheme 1982.

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Table 3.3(B):Trends in Operations of the U.T.I.@ (Concld.)

(Rs. crores)

	Divident Rate 1964 Scheme	Divident Rate 1971 Scheme	Divident Rate CRTS 1981	Income Units Scheme	Rate of yield (1964 Scheme)
	7.	8.	9.	10.	11.
1970-71					
1971-72	8.25	7.00			
1972-73	8.50	7.00			
1973-74	8.50	7.00			
1974-75	8.60	7.00			
1975-76	8.75	7.00			
1976-77	9.00	8.00	-		
1977-78	9.00	8.00	-		7.96
1978-79	9.00	8.00	-		7.67
1979-80	10.00	8.50	-		8.56
1980-81	11.50	8.75	-		9.62
1981-82	12.50	9.50	12.50		10.30
1982-83 (Dec.82)	-	-	-		-

@ Covers Unit Schemes 1964, 1971 and 1976, and CRTS - 1981 and Income Unit Scheme 1982.

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3.10 The investible funds of the UTI are invested in shares and debentures and in company deposits. Some amount is also put in short-term deposits of banks. The UTI was set up essentially as an institution for inculcating equity cult among the middle income and fixed income groups and thus to strengthen the capital market in the country. It is appropriate that a pre-dominant part of its investment should be in company shares and debentures, particularly shares. The dividend it offers to the unit holders should be determined on the basis of its earnings from such investment outlets. However, the bulk of its funds are deployed into company deposits. Attracting funds from investing public at pre-determined rates of interest in certain schemes and making them available to companies through company deposits thus competes with commercial banking functions and also constrains the achievement of the objectives of monetary policy. The UTI's role in mobilising additional savings in the context of its role in strengthening the capital market, cannot be questioned. Nor can there be any objection to its declaring attractive dividends based on its profitability. However, the schemes with pre-determined and assured rates of interest at 12.0 per cent to 13.0 per cent with adequate security and fiscal benefits often encroach upon the availability of funds to other financial institutions including bank deposits.

Co-operative deposits

3.11 Co-operative institutions are allowed to offer higher interest rates as compared with the commercial banks. This is intended to enlarge the flow of funds to these institutions. Even so, available data suggested that the growth of co-operative bank deposits also suffered a setback during 1981-82. The growth in these deposits was 14.0 per cent in 1981-82 compared witn 22.2 per cent during 1980-81. Significantly, the proportion of co-operative deposits to deposits with scheduled commercial banks has declined over the years albeit gradually from 10.6 per cent in 1970-71 to 9.5 per cent in 1980-81 and further to 9.3 per cent in 1981-82. The compound growth rate for co-operative deposits for the eleven year period 1970-71 to 1981-82 works out to about 18.6 per cent as against 20.0 per cent for the deposits with scheduled commercial banks. In the case of co-operative deposits, it would thus appear that higher interest rate does not neutralise other

Table 3.4: Aggregate Deposits with the Co-operative Sector

(Rs. crores)

Year/Item	Demand Deposits				
	State Co-op. Banks	Central Co-op. Banks	Salary Earners Societies	Urban Co-op. Banks	Total (2+3+4+5)
1.	2.	3.	4.	5.	6.
Last Friday of March					
1970-71	49	169	6	51	275 (-)
1971-72	66	194	1	49	310 (+12.7)
1972-73	73	260	7	74	414 (+33.6)
1973-74	87	294	7	89	477 (+15.2)
1974-75	82	320	8	104	514 (+7.8)
1975-76	88	343	11	116	558 (+8.6)
1976-77	113	431	9	133	686 (+22.9)
1977-78	156	489	11	154	810 (+18.1)
1978-79	163	612	15	223	1,013 (+25.1)
1979-80	161	746	16	285	1,208 (+19.3)
1980-81	195	934	19	387	1,535 (+27.1)
1981-82	223	996	22	459	1,700 (+10.7)
Last Friday of May					
1981-82	211	970	20	414	1,615 (-2.3)
1982-83	273	1019	23	483	1,798 (+12.3)

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Table 3.4: Aggregate Deposits with the Co-operative Sector (Concld.)

(Rs.crores)

	Time Deposits						Co-operative sector Deposits as % of Scheduled Commercial Banks Deposits*
	State Co-op. Banks	Central Co-op. Banks	Salary Earners Socie-ties	Urban Co-op. Banks	Total (7+8+9+10)	Total Deposits (6 + 11)	
	7.	8.	9.	10.	11.	12.	13.
Last Friday of March							
1970-71	88	167	13	83	351 (-)	626 (-)	10.9
1971-72	97	185	8	94	384 (+9.4)	694 (+10.9)	9.8
1972-73	115	231	22	124	492 (+28.1)	906 (+30.5)	10.5
1973-74	138	277	19	153	587 (+19.3)	1,064 (+17.4)	10.5
1974-75	160	309	21	185	675 (+15.0)	1,189 (+11.8)	10.1
1975-76	182	361	30	216	789 (+16.9)	1,347 (+13.3)	9.5
1976-77	239	492	36	267	1,034 (+31.1)	1,720 (+27.7)	9.8
1977-78	271	567	39	293	1,170 (+13.2)	1,980 (+15.1)	8.9
1978-79	331	679	44	382	1,436 (+22.7)	2,449 (+23.7)	9.1
1979-80	408	777	52	486	1,723 (+20.0)	2,931 (+19.7)	9.2
1980-81	428	940	58	620	2,046 (+18.8)	3,581 (22.2)	9.5
1981-82	444	1,066	64	766	2,340 (+14.4)	4,040 (12.8)	
Last Friday of May							
1981-82	482	977	58	651	2,168	3,783	9.5
1982-83	459	1,091	66	790	2,406	4,204	9.3

* For Scheduled Commercial Banks also, last Friday figures have been used for this table.

Note:- This table does not cover deposits mobilised by primary agricultural credit societies as also by all non-credit societies.

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disadvantages *vis-a-vis* commercial bank deposits and other alternative form of savings.

Special Bearer Bonds

3.12 One of the factors responsible for affecting deposit growth during 1981-82 was the scheme of Special Bearer Bonds, 1991 which was introduced in February 1981 with a view to canalising unaccounted money into productive purposes. The Bonds issued at par have a face value of Rs.10,000 and a maturity period of 10 years, the holders will be entitled to receive Rs.12,000 implying an annual compound yield of 1.84 per cent. There was no limit of investment nor could questions be asked about the source of money. The scheme was completely independent of the tax system; the value of the Bonds stood exempt from wealth tax, their transfer would not attract capital gains and gift taxes and their premium income on redemption will be free from income-tax. The Bonds are freely transferable.

The sale of Special Bearer Bonds, which began on February 2, 1981 was suspended on May 1, 1981 because of legal hurdles; it was resumed and kept on tap from December 1, 1981 to January 9, 1982 following the judgement of the Supreme Court validating the scheme. Total sales amounted to Rs.963.93 crores of which Rs.88.67 crores were realised in 1980-81. Receipts during 1981-82 amounted to Rs.875.26 crores against the budget estimate of Rs.800 crores. The bulk of the amount - as much as Rs.580 crores - was collected in the second phase of its sale.

Capital Investment Bond

3.13 The Central budget for 1982-83 introduced two new instruments of savings to what it called, "mobilise private savings for public use". The first is the Capital Investment Bond. These bonds will have a maturity of ten years and carry an interest rate of 7.0 per cent, free of income tax. This will also be exempt from wealth tax, and upto Rs.10 lakhs in the case of their first holder from gift tax. The bonds are available on tap and purchasers will have to duly account for these investments. Total sale of these bonds has amounted to Rs.60 crores upto the end of December 1982. It is visualised that the sale would pick up in the last quarter of the year. The budget has visualised a collection of Rs.250 crores during 1982-83.

<u>Social Security Certificate</u>

3.14 The second instrument is Social Security Certificate designed for small savers. Under the Scheme, an individual between the age of 18 and 45 can invest upto Rs.5,000 which will triple in 10 years, thus providing a compound interest rate of 11.61 per cent. In addition, the certificate will provide social security to the holder's family, that is, in the event of his demise, his nominee or legal heir will become immediately entitled to the full maturity value of the certificate. Thus the certificate has a 'life insurance' character and it may offer competition to life business of the Life Insurance Corporation of India (LIC). But as the payment is to be made in lump sum, the growth of bank deposits may also be affected. Available information suggests that the sale of certificates so far has been meagre at Rs.5 crores upto end-October 1982.

3.15 The Special Bearer Bonds Scheme was an once-and-for all measure; the Capital Investment Bond and the Social Security Certificate scheme have been started in the current year; these do not figure in the tabular data presented in this chapter.

An Aggregative Picture

3.16 The total outstanding of financial assets held in the form of four key instruments, namely, Postal savings, co-operative deposits,* company deposits and UTI units were about Rs.19,000 crores at the end of 1981-82 compared with Rs.43,820 crores held in bank deposits. For the eleven years 1970-71 to 1981-82, the compound growth rate of those non-bank assets works out to 15.3 per cent. It may be noted that the total outstandings of those financial instruments was about two-thirds of the deposits with the scheduled commercial banks in 1970-71. This proportion persistently declined and reached 43.4 per cent in 1978-79; thereafter this proportion is sustained (Table 3.5). As a percentage of GDP at current market prices, the total of these instruments improved moderately from a little less than 10 per cent in 1970-71 to 13.3 per cent in 1981-82. In contrast, the comparable percentage of commercial bank deposits to GDP shot up from 14.8 per cent to 30.6 per cent.

*Co-operative data are included here only because they enjoy certain interest rate advantages; it is not the intention of the Working Group in any way to imply that their role is not of the same genre as that of the commercial banks.

Table 3.5: A Summary Picture of Key Financial Assets (Concld.)

(Rs.crores)

	Aggregate Deposits of Scheduled Commercial Banks ++	Gross Domestic product (At Current Market Prices)	Col.(6) as Percentage of Col.(7)	Col.(6) as Percentage of Col.(8)	Col.(7) as Percentage of Col.(8)
	7.	8.	9.	10.	11.
1970-71	5,947 -	40,263	66.9	9.8	14.8
1971-72	7,115 (19.7)	43,356	62.7	10.3	16.4
1972-73	8,598 (+20.1)	47,865	60.1	10.8	18.0
1973-74	10,170 (+18.3)	58,940	58.6	10.1	17.3
1974-75	11,921 (+17.2)	69,595	55.1	9.4	17.1
1975-76	14,325 (+20.2)	74,084	53.6	10.4	19.3
1976-77	18,045 (+26.0)	80,341	48.9	11.0	22.5
1977-78	22,211 (+23.1)	90,096	44.7	11.0	24.7
1978-79	27,256 (+22.7)	97,444	43.0	12.0	28.0
1979-80	32,237 (18.3)	106,151	43.3	13.1	30.4
1980-81	38,111(37,988) (+18.2)	125,675	43.1	13.1	30.3
1981-82	43,820 (+15.4)	142,987	43.4	13.3	30.6

++ Data as on March 31 except bracketed figures which are for last Friday.

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Table 3.5: A Summary Picture of Key Financial Assets

(Rs.crores)

1.	2. Co-operative Sector Deposits@	3. Aggregate Deposits with Non-Banking Corporate Sector@@	4. Small Savings +	5. Units of U.T.I. £	6. Total (2+3+4+5)
1970-71	626 -	1,033 -	2,227 -	92 -	3,978 -
1971-72	694 (+10.9)	1,197 (+15.9)	2,464 (+10.6)	105	4,460 (+12.1)
1972-73	906 (+30.5)	1,329 (+11.0)	2,808 (+14.0)	125	5,168 (+15.9)
1973-74	1,064 (+17.4)	1,462 (+10.0)	3,282 (+16.9)	151	5,959 (+15.3)
1974-75	1,189 (+11.7)	1,696 (+16.0)	3,540 (+ 7.9)	149	6,574 (+10.3)
1975-76	1,347 (+13.3)	1,917 (+13.0)	4,244 (+19.9)	167	7,675 (+16.7)
1976-77	1,720 (+27.7)	2,255 (+17.6)	4,664 (+ 9.9)	193	8,832 (+15.1)
1977-78	1,980 (+15.1)	2,475 (+ 9.8)	5,227 (+12.1)	255	9,937 (+12.5)
1978-79	2,449 (+23.7)	2,893 (+16.9)	6,018 (+17.0)	348	11,808 (+18.8)
1979-80	2,931 (+19.7)	3,370 (+16.5)	7,264 (+18.7)	391	13,956 (+18.2)
1980-81	3,581 (+22.2)	3,932 (+16.7)	8,486 (+16.8)	425	16,424 (+17.7)
1981-82	4,023 (+12.3)	4,586 (+16.6)	9,846 (+16.0)	556	19,011 (+15.8)

@ Includes deposits with State Co-operative Banks, Salary Earners' Societies, Urban Co-operative Banks & Central Co-operative banks.

@@ Based on the survey conducted by the Department of Non-Banking Companies.

\+ Small Savings consist of Post Office Saving Recurring & Time Deposits, 7 year National Saving Certificates II to V Issues, 6 year certificates and Public Provident Fund Scheme of 1968.

£ Data are at end-June each year.

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3.17 The annual flows of fresh accretions under all financial assets including those under private sector debentures[£] are summarised and presented in Table 3.6. The total incremental accruals under these assets as a proportion of incremental bank deposits fluctuated from year to year during 1970-71 to 1979-80 but between 1980-81 and 1981-82, the proportion increased from 42.5 per cent to 48.1 per cent. If the collection under the Special Bearer Bonds, and bonds and debentures floated by the public sector companies and corporations are also included, this proportion would go up further, indicating a possible shift in favour of these instruments. Among the financial assets which experienced more pronounced gains are the new Postal certificates, convertible debentures of companies and the UTI's new Unit Scheme of 1982. Availability of certain new savings instruments with highly attractive yield and with similar features of security and risklessness as associated with bank deposits attracted savers to

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£ In addition, the public sector bodies obtained about Rs.106 crores during 1981-82 and Rs.26 crores during 1982-83 (upto June 1982) as public deposits; the outstandings of such deposits by about 13 public sector companies or corporations stood at Rs.183 crores in June 1982.

Table 3.6: Annual Accretions under Key Financial Assets

(Rs.crores)

	Annual Accruals +							
	Co-operative sector Deposits	Non-Banking Company Deposits	Small Savings	Units of Unit Trust of India	Fresh Debenture Capital Raised	Total 2+3+4 +5+6	Scheduled Commercial Bank Deposits	Col.(7) as Proportion of Col. (8)
1.	2.	3.	4.	5.	6.	7.	8.	9.
1970-71	-	-	-	-	-	-	-	-
1971-72	68	164	237	13	18	500	1,169	42.8
1972-73	212	132	344	20	47	755	1,482	50.9
1973-74	158	133	474	26	17	808	1,572	51.4
1974-75	125	234	259	(-)2	27	643	1,751	36.7
1975-76	158	221	703	18	25	1,125	2,404	46.8
1976-77	373	338	420	26	43	1,200	3,720	32.3
1977-78	260	220	563	62	38	1,143	4,166	27.4
1978-79	469	418	891	93	42	1,913	5,045	37.9
1979-80	482	477	1,146	43	55	2,203	4,981	44.2
1980-81	650	562	1,222	34	31	2,499	5,874	42.5
1981-82	442	654	1,360	131	211	2,808	5,832@	48.1

+ Data are at the end of 31st March.

@ As on last Friday of March.

\- Means not worked out.

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invest in these instruments. It would be interesting to analyse the short and long run impact of these new instruments on the generation of additional aggregative savings and the extent of switching from other existing alternatives including bank deposits. The available data for 1981-82 indicates that atleast in the short run some of the instruments did adversely affect the growth of bank deposits.

3.18 It may also be noted that until recently yield differentials of the non-banking savings instruments had not affected commercial bank deposits. The proportion of savings in non-banking financial instruments to the total have consistently declined. This has merely been the result of two factors: first, despite the gradual improvement in the yields and incentives, certain special characteristics of bank deposits in India such as, security and risklessness, liquidity, convenience, and above all, 'social security' character, have sustained the attractiveness of bank deposits as compared with other financial assets; secondly the relative attractiveness of bank deposits rates vis-a-vis the rates of interest on non-bank financial assets was by and large maintained. The Group noted that banking system spread over the entire country is expected to play not only a catalytic role in the achievement of greater monetisation and inculcation of better banking habit, but also function as promotional and financing agencies in the achievement of nationally accepted socio-economic priorities. Targets have been set for the deployment of bank credit to priority areas including small production units, small business, village artisans, medium, small and marginal farmers. Special responsibilities have also been placed on the banking system under the Integrated Rural Development Programme (IRDP) during the Sixth Five Year Plan period. For achieving these responsibilities, there has to be a sustained growth in bank deposits which form the necessary resources for the continued increase in their diversified lendings. It is also recognised that other forms of savings have to be encouraged to raise the overall saving in the country. It is, therefore, necessary that taken together, all the instruments generate additional saving in which some degree of competition is unavoidable and may even be desirable. However, there should be a conscious attempt to minimise costly competition particularly if it is for the given amount of domestic savings. This will call for co-ordinated approach for maintaining a relative balance between yield rates on banks deposits and those on other fixed interest-bearing financial assets and an appropriate machinery should be set up to perform this task.

CHAPTER 4

A Review of the Interest Rate Structure Relating to Bank Deposits and Other Savings Instruments

4.1 It has been argued in the previous chapters that considering the role assigned to the commercial banks as pivotal institutions for mobilising savings from different sections of the community as well as for dispensing finance for varied developmental and socio-economic purposes, it is imperative that their capacity to sustain a high rate of deposit growth is not in any way impaired. The moderation in the rate of inflation, the slower pace of monetary expansion and particularly the slower growth of 'reserve money' in the past year have contributed to the deceleration in bank deposits growth. While a slower pace of deposit growth attributable to these factors is understandable, what is of severe concern is that with a sharp upward revision of interest rates on a few important non-bank financial saving instruments such as, company debentures, new series of National Saving Certificates, some units of UTI, the Capital Investment Bond, and the Social Security Certificate, the rates offered on bank deposits have been rendered out of alignment (for details, see Appendices V and VI).

4.2 It is recognised that deposits with scheduled commercial banks carry many advantageous features which are not available to other financial assets. Safety, security and liquidity are the hall-mark of bank deposits. But, many of those financial instruments cited above except debentures of private sector companies are offered by public sector financial institutions and hence enjoy the same quality of safety and security which bank deposits now enjoy. Some of the non-bank instruments such as, the Capital Investment Bonds, Social Security Certificate, and some Postal Saving Schemes, enjoy significantly better fiscal incentives than deposits with scheduled commercial banks.

4.3 Some debentures floated by private sector companies (such as, those of VOLTAS, TISCO, and Kirloskar Brothers) have been declared as 'public securities' under appropriate legislative provisions. Though this is primarily intended to enable trust funds to be invested in such debentures, there is no doubt that State backing does enhance public confidence in these instruments. Only company deposits have high risk premium attached to them. There are moreover quantitative limits on the acceptance of public deposits by companies. Hence, the competition to bank deposits comes essentially from some savings instruments floated by Government and from some company debentures. Thus, there is a strong case for making necessary adjustments in the rates of interest paid on bank deposits. This has to be done keeping in view the cost and profitability of the banking industry.

4.4 The Working Group is, however, conscious of the need for an integrated approach in this regard. The Group noted that there are several administered fixed interest-bearing saving instruments with varying degrees of security and liquidity and fiscal benefits. Variations in interest rates in one of them affects the attractiveness of other instruments. It is, therefore, necessary to take co-ordinated action while making changes in these rates of interest. However, in the context of the recent changes in the rates offered on some of these instruments, the Group feels that an appropriate upward adjustments in the deposit rates of banks is called for. Before designing an appropriate interest rate structure on bank deposits, it is, however, necessary to spell out the guiding principles relevant for determining the level and term structure of interest rates for financial savings in general.

Interest-Elasticity of Savings in India

4.5 There are certain strong analytical reasons (a) for not pitching the interest rates on financial savings very high and (b) for, at the same time, maintaining a relative balance between bank deposit rates and rates on other financial savings media. Empirical studies undertaken in India on the subject of responsiveness of savings to interest rate changes bring out the need for making a distinction between (i) the effect of interest rate changes on total savings of the community, and (ii) that on substitution between one type of saving and another. In regard to this substitution also, there is in turn the question of substitution (iii) between physical assets and financial assets and (iv) between one type of financial asset and another.

4.6 First, it is found that insofar as total domestic (or total household) saving is concerned, the income variable appears to be having the most dominant influence. Rates of interest, even when they are found to be statistically significant, are not quantitatively that important. This is in conformity with the experiences of any number of developing countries. In many cross-country and time-series analyses also, the impact of interest rates on savings is found to be much less significant.

4.7 That income and such other variables should be the major determinants of domestic saving (or household saving) rather than interest rate should be evident from the structure of the economy (a) with little scope for forgoing consumption for the vast segments of the population, and (b) for those who could forgo consumption, the major competitors to financial and productive savings being holdings of non-productive physical assets such as, gold and jewellery, real estate, and to some extent, commodities.

4.8 This, however, does not mean that the savers in India behave rather irrationally; far from it. Nor does it mean that there are no groups who weigh the trade-off between consuming now and saving for future. It only means that higher interest rates cannot generally make people forgo consumption and save more; nor would they make people forgo gold or real estate and save in the form of productive assets. As we would explain in a subsequent paragraph, the opportunity cost of making the latter happen would be prohibitive and also counter-productive.

4.9 More importantly, the savers do not behave irrationally in another sense, which is that those who do save in the form of financial assets (bank deposits, Postal savings, company deposits, and debentures) are sensitive to interest rate changes. Since the interest rate reforms in July 1974, the deposit holders have shown a definite preference for fixed deposits, and more importantly, within fixed deposits in favour of those maturing in longer term periods and earning higher interest rates (see Appendix III). The experience of the most recent period of 1981-82 and thereafter suggests that with the sharp upward revision of debenture rates, the rates on Postal certificates, and those on Units of UTI, there has been a sharp shift in favour of these instruments of savings.

4.10 There is perhaps some 'money illusion' operating in the behaviour of savers in financial assets. In the past in many years, the normal rate of interest on many financial assets had not exceeded the rate of inflation. Nevertheless, the savers in these assets look for a real rate of interest that is positive.

Policy Implications

4.11 The above results have important policy implications. First, any sharp increase in interest rates beyond a reasonable level would not augment total domestic savings; it would only have the effect of shifting from one form of saving to another. Secondly, more damaging effect would be to raise the cost of all forms of financial intermediation, that is, the cost of institutional credit in general for all categories of borrowers. Given their limited ability to pass it on to the consumers, the productive units, whether in agriculture or industry, or in public or private sector, would have to bear the increased interest burden and reduce their cash flow and savings. Thirdly, if the intention is even to offer stiff competition to savings in the form of gold and jewellery, and real estate, the nominal rates of interest would have to be as high as 20 to 25 per cent per annum which is the average annual rate at which their values appreciate; this is unthinkable. It would have serious welfare implications such as, the favouring of unearned (rentier) incomes as against incomes earned through enterprise and dexterity, the favouring of non-risky assets as against risk capital (say, equity), and the favouring of those categories of income earners who derive the maximum benefit from inflation. The opportunity cost of raising the interest burden on the economy as a whole beyond a reasonable point would be very high indeed - in the form of cutting down investment in the private sector and also cutting down developmental activities in the public sector.

4.12 With this perception, the Working Group was against any significant jacking up of interest rates on bank deposits. At the same time, the Group could not be oblivious of the fact that bank deposit rates have been rendered uncompetitive because of the significant levering up of the rates offered on other comparable financial instruments. While there was unanimity in the Working Group on the need to raise deposit rates atleast to some extent, there were divergent views on the nature and extent of the adjustments needed. In respect of the rates on <u>fixed deposits</u>, the question debated at some length by the Group, was whether in respect of the rates on <u>fixed deposits</u> it was the short-end or the long-end of the maturity scale that needed an upward revision and whether the rates of interest on <u>savings accounts</u> should also be raised.

4.13 Answers to these questions essentially depended on the nature of saver preferences. In this regard, the Working Group considered the following aspects. In the distribution of an overall financial savings by households, there has been a distinct shift in favour of long-term savings, which preference is found to be based on a desire for higher yields. In the distribution of commercial and co-operative bank deposits, the proportion of fixed deposits has registered an increase, particularly after the July 1974 interest rate changes. This has been essentially at the cost of current account deposits.* In the case of savings deposits of commercial banks, the interest-bearing portion (or time liability portion in monetary statistics) happens to be the highest (over 85 per cent). A notable aspect in this regard relates to the transformation in the maturity pattern of deposits. As shown in Statement III.11, over 55 per cent of fixed deposits were for periods above 5 years or 68 per cent were for above 3 years, as per data for March 1978. On the basis of the information collected by the Working Group for the more recent period, the pre-ponderance of long-term deposits continues (see Appendix VIII)**. Within the term deposits, the 'special category' deposits (on which the maximum

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*Though this is more a reflection of credit discipline being enforced, resulting better cash management by the borrowing parties.

**A set of Special Returns obtained by the Working Group are tabulated and their results are briefly described in Appendix VIII.

number of banks submitted the more recent data) constitute above 60 per cent; these are generally kept for long periods and have the advantage of compounding interest income. It is because of the pre-ponderance of these 'special category' deposits that the term deposits of longer maturities have acquired greater significance (see Table 4.1). This revealing feature of fixed deposits gives them, in addition to security, liquidity and yield, a 'social security' character, that is, the depositor classess preferring to insure the future income stream with as high a rate of interest as possible and considerations of 'liquidity' taking a secondary place. Because of these reasons, the competition for household savings emanates from the non-bank financial assets essentially at the longer-end of the maturity scale based on yield differentials.

Table 4.1 : Distribution of Deposits by type

(Rupees, crores)

A. Scheduled Commercial Banks
(Data for 20 sample banks)

Type of Deposit / Period	March 1980	March 1981	December 1981	March 1982	June 1982
1) Current	3303 (17.7)	3933 (17.4)	4250 (16.3)	4341 (18.0)	4763 (17.3)
2) Savings	4941 (26.4)	6252 (27.6)	7430 (28.5)	6499 (27.3)	7769 (28.2)
3) Fixed	10456 (55.9)	12401 (54.9)	14405 (55.2)	12963 (54.5)	15022 (54.5)
of which:					
i) Special Deposit Scheme	5434 [52.0]	6737 [54.3]	8701 [56.0]	7196 [55.5]	7837 [52.2]
Total (1+2+3)	18700 (100.0)	22586 (100.0)	26085 (100.0)	23803 (100.0)	27554 (100.0)

B. Co-operative Banks
(Data for 5 sample banks)

Type of Deposit / Period	March 1980	March 1981	December 1981	March 1982	June 1982
1) Current	41.46 (9.8)	52.64 (10.6)	49.10 (9.0)	49.47 (8.8)	69.09 (11.3)
2) Savings	61.75 (14.6)	74.41 (15.0)	87.86 (16.1)	88.86 (15.8)	92.92 (15.2)
3) Fixed	319.58 (75.7)	369.38 (74.4)	408.47 (74.9)	424.57 (75.4)	450.58 (73.6)
of which:					
i) Special Deposit Scheme	28.85 [9.0]	37.56 [10.2]	45.55 [11.2]	49.62 [11.7]	54.62 [12.1]
Total (1+2+3)	422.79 (100.0)	496.43 (100.0)	545.42 (100.0)	562.90 (100.0)	612.59 (100.0)

Figures in square brackets represent percentages to <u>fixed deposits</u> (i.e., item 3);

Other bracketed figures are percentages to total deposits.

4.14 The household preference for longer maturity savings based on higher yield rates is also evident from data on Postal savings as well as company deposits. As shown in Appendix VII, about 90 to 95 per cent of the public deposits accepted by the non-financial companies were mobilised at the two highest interest ranges of 13 per cent and over; there has also been a firming up of the interest rates on company deposits between 1980 and 1982. Likewise, in the case of non-banking financial companies, about 66 per cent of the total deposits belong to the same highest interest range. Again, according to the data available on maturity-wise classification of deposits accepted by financial companies, over 60 per cent of the deposits have been for longer maturity periods of over <u>two</u> years, or nearly 40 per cent for over <u>three</u> years. This is despite the fact that there are serious questions of safety and security of funds kept with non-banking financial companies.

4.15 As in the case of other financial assets described above, in Postal deposits, too, the saver preference is for recurring deposits and national saving certificates, all of which are forms of long-term savings. Also, as explained in Chapter 3, the desire for maximising interest income by the facility of compounding interest is evident in the saver preference in an overwhelming manner for the VI issue of 6-year National Saving Certificates which has, since its inception in May 1981, attracted as much as Rs.966 crores against Rs.159 crores obtained by the VII issue.

4.16 Based on the above considerations, the Working Group's judgement was that bank deposits face competition from other financial instruments essentially at the longer-end of the maturity scale based on high interest rate differentials; there is also a strong 'special security' premium implicit in household preferences for longer maturities. Therefore, the Working Group has preferred to recommend the reintroduction of the highest maturity slab at '5 years and above' with a higher rate of interest than 10.0 per cent paid at the present highest maturity of '3 years and above'.

4.17 As to the exact rate of interest, the Working Group considered two proposals:

(i) a rate of interest of 10.5 per cent per annum compounded at monthly rest instead of the quarterly rest as at present; and

(ii) a rate of 11.0 per cent per annum compounded at quarterly rest. As may be observed from the following chart, in the former case, a 10.5 per cent rate compounded monthly would have meant an effective rate

Effective Rates of Interest

At rates of interest per annum	Effective Rate for 60 or 63 months — At monthly rest	At Quarterly rest
10.0	10.47	10.38
10.5	11.02	10.92
11.0	11.58	11.46
11.5	12.12	12.05

of 11.02 per cent for 60 months, while in the latter case, the 11.0 per cent compounded quarterly meant an effective rate of 11.46 per cent for 63 months. The system of monthly rest had the advantage of obviating, in respect of depositors desiring monthly interest income, the present practice of discounting the amounts of interest payable at quarterly rests. The consensus was in favour of 11.0 per cent to be continued to be paid at quarterly rest.

4.18 The Working Group also gave considerable thought to the desirability of raising the rates of interest at the short-end of the maturity scale. One view was that it would not be desirable to raise the cost of funds to any significant extent at this stage and hence some realignment of shorter-term deposit rates could be undertaken without raising the maximum deposit rate of 10 per cent on the longest maturity range. While there would admittedly be some cost to the banks if deposit rates for the shorter maturity ranges were raised, it was felt that this burden would be neutralised if there was even a marginal shift in deposits from the longer maturity ranges to the shorter maturity ranges. In this connection, one specific suggestion was that the maximum deposit rate of 10 per cent could be made applicable to the maturity range of one year and over with corresponding increases in rates on other shorter maturity ranges. Apart from the major advantage of not raising the cost of funds to banks, it was felt that increasing deposit rates for the shorter maturity ranges would have certain added advantages. First, some institutional funds could be attracted to the shorter maturity ranges rather than the call money market and this would impart a better measure of stability to the resource base of banks. Secondly, the proposed changes could facilitate a reduction in the proportion of deposits at the longest maturity range. Such a shift to relatively shorter maturity ranges would not only reduce the cost of funds to the banks but also impart a degree of flexibility to the interest rate structure there by facilitating future movements in deposit and lending rates as may be required by the emerging situation. Such flexibility would be particularly pertinent if present low rates of inflation were to continue over a somewhat longer period. Thirdly, the increase in the rate for shorter maturity ranges would give banks improved competitiveness in non-resident deposits as the banks would be able to offer significantly higher rates for maturities of one year and over.

4.19 However, on a balance of considerations, the Group did not favour any upward adjustments at the short-end of the maturity scale. The Group felt that short-term rates were relevant essentially for institutional or corporate depositors and any sharp increase therein would disturb the alignment now existing between these rates and other short-term money market rates such as the Treasury Bill rate; it would also introduce a greater degree of volatility in the accruals of bank deposits. Selective increases in rates without jacking up the entire rate structure would merely shift funds as between different maturity periods. Since the Working Group's perception is that the banking industry is facing competition from longer-term financial instruments, any increase in the short-term rates would only add to the cost of funds for banks without any worthwhile increase in deposit accruals on that count.

4.20 In the case of savings deposits, it was generally agreed that the rate of interest offered on them by commercial and co-operative banks should remain unaltered because of a few important reasons: first, as in the case of short-term deposit rates, any increase in the savings deposit rates would impose an additional cost on the banking industry without, in the perception of the Group, any worthwhile impact on deposit growth; secondly, the increased rate would have to be paid by banks on the existing balances also; thirdly, the operational cost on savings deposits are fairly high because of the liberal withdrawal facilities and because of their operation almost as current account balances for households, particularly in urban and metropolitan areas; and finally, there are nc comparable savings media which offer competition for such household savings.

4.21 With rates of interest on other slabs remaining unchanged, the deposit rate structure for the major scheduled commercial banks would be as follows:

Deposit Category	Since September 1979	Since March 1981	Since March 1982	Recommended Rates
Current	Nil	Nil	Nil	Nil
Savings	5.0	5.0	5.0	5.0
Fixed				
15 days to 45 days	2.5	2.5	3.0	3.0
46 days to 90 days	3.0	3.0	4.0	4.0
91 days and above but less than 6 months	4.0	4.0	5.0	5.0
6 months and above but less than 9 months	4.5	4.5	6.0	6.0
9 months and above but less than 1 year	5.5	5.5	7.0	7.0
1 year and above but less than two years	7.0*	7.5	8.0	8.0
2 years and above but less than three years		8.5	9.0	9.0
3 years and above but less than five years	8.5@	10.0	10.0	10.0
5 years and above	10.0£			11.0££

* Deposits for one year and above and upto and inclusive of three years.
@ Deposits of over three years and upto and inclusive of five years.
£ For above 5 years.
££ Already introduced in October 1982 on the recommendation of the present Working Group.

4.22 While recommending an increase in the highest deposit rate, the Working Group was conscious of its implications for the cost structure of the commercial banking system. Estimates of the additional gross and net cost burden on the banking industry arising out of the proposed change were attempted on the basis of alternative assumptions regarding

(a) the normal deposit growth at the highest maturity of above 5 years,

(b) the possible shift from within the banking system from lower maturities to the highest maturity in response to increased interest rate, and

(c) the likely shift from outside the banking system.

On the promise that additional deposit resources attracted from outside the banking system would not impose any net burden as the funds so attracted would also roughly earn similar return, it was found that the bulk of the additional burden depended on the size and nature of shifts that would take place from within the banking system from lower maturities to the proposed highest maturity. It was also found that the additional burden would grow rather rapidly in the second and third years of its implementation by which time the bulk of the shifts would have occurred. Yet another aspect of the cost implications was the significant differences as between banks.

4.23 The Working Group then examined the extent to which the banking system could absorb the additional cost within its existing level of profitability. For, it was thought unlikely, considering the existing levels of lending rates and the current economic _milieu_, that banks could recover any part of the enhanced cost of funds by raising any of their lending rates. It was also found, based on a study of the profitability of the industry, that the absorptive capacity in regard to the additional cost differed rather widely as between the individual banks. Nevertheless, the Group found that recent attempts made to improve the earnings of the banking industry would generally provide the necessary leeway in absorbing the additional cost by all commercial banks. There have been (a) improvement in the yield rates on Government securities in the recent period; (b) increase in interest paid by RBI from 7.0 per cent to 8.0 per cent from January 1982 on cash reserves required to be maintained (over and above the 3.0 per cent statutory cash reserve ratio) including reserves of 10 per cent of incremental DTL now rescinded but the balances kept with the RBI; and (c) increases in service charges recently increased by the Indian Banks' Association (IBA).

Differential Treatment of Small Commercial Banks, RRBs, and Co-operative Banks

4.24 In regard to the existing differentials permitted for the very small commercial banks (0.25 percentage point), the Regional Rural Banks (0.50 percentage point), the Central and State Co-operative Banks (0.25 percentage point)*, and primary co-operative banks (1.00 percentage point), it is suggested that the same should be available to them at the enhanced deposit rates for the 'five years and above' category. However, it is known that some of the primary urban co-operative banks have grown to be sizeable units and that their

*Central and State Co-operative Banks in Manipur, Tripura, Nagaland, Meghalaya and Arunachal Pradesh are permitted to pay 0.50 percentage point more than the normal rates.

operations are comparable to those of scheduled commercial banks in some respects. Some of them have been even permitted to deal in foreign exchange. Such big primary co-operative banks also enjoy the preferential facility of being able to pay an additional interest upto <u>one</u> per cent on term and saving deposits accepted by them. The Working Group has felt the need for some discretion in permitting this preferential rate of additional one percentage point as between the co-operative banks based on size. It is, therefore, suggested that this differential of 1.0 per centage point be allowed only in respect of those primary co-operative banks which have demand and time liabilities (DTL) of less than Rs.15 crores (as against the additional 0.25 percentage point permitted for the scheduled commercial banks with DTL of less than Rs.25 crores). Those primary co-operative banks which attain the cut-off point DTL of Rs.15 crores or more may be allowed to pay an additional rate of interest of only upto 0.50 percentage point on term and saving deposits as in the case of the Regional Rural Banks (RRBs).

Deposits under Foreign Currency (Non-Resident) Accounts and Non-Resident (External) Rupee Accounts

4.25 At present, commercial and co-operative banks which are authorised to deal in foreign exchange and which accept term deposits having maturity periods of one year and above under the Foreign Currency (Non-Resident) Accounts and Non-Resident (External) Rupee Accounts (FCNR and NRE) are required to pay on such deposits, interest at 2.0 per cent per annum above the rate specified for local bank deposits of comparable maturities. In this scheme of incentive offered to attract remittances from abroad, there are two restrictive elements: first, the deposits should be for a maturity period of one year or over; and secondly, the rates on such non-resident deposits are linked to domestic rates of interest. The Working Group is of the view that the rates and maturity structure for these deposits should have some relationship with comparable rates and maturity pattern obtaining in the major international money market centres. The Working Group recommends that the rates of interest offered on these FCNR and NRE deposits be partially delinked from the domestic rates. For this purpose, the Reserve Bank of India (RBI) may evolve a method by which the rates so offered are fixed having regard to the corresponding rates prevailing in major markets and for deposits denominated in different currencies, <u>subject to a ceiling of two percentage points above the highest domestic deposit rate</u>. However, with a view to avoiding large volatility in the accumulations under these deposit accounts, the lowest maturity period to be permitted may be restricted to <u>six</u> months. In addition to this, the rates may be fixed for non-resident deposits with maturities of one year, two years, three years, and five years. The Reserve Bank of India (RBI) may decide the frequency of changes in the rates to be announced from time to time subject to the proviso (i) that the lowest maturity should not be less than <u>six</u> months, and (ii) that the rate of interest prescribed for non-resident deposits of any maturity should not go beyond <u>two</u> percentage points above the domestic deposit rate of the longest maturity.

Flexibility in the Determination of Deposit Rates

4.26 At present, interest rates for savings deposits and fixed deposits of all maturity periods accepted by scheduled commercial banks are prescribed by the Reserve Bank of India; the payment of interest on _current account deposits_ is prohibited. Till 1969, there was an admixture of Reserve Bank control of rates for certain categories combined with an Inter-Bank Agreement for others. The Reserve Bank prescribed _maximum_ rates of interest on short-term deposits and minimum rates on savings bank deposits and one to two year fixed deposits. As reported by the _Committee on Deposit Rates_ (June 1969), in actual practice, the Inter-Bank Agreement prescribed _maximum_ standard rates for _savings bank deposits_ as well as for one to two year deposits the rates which the RBI prescribed as _minima_ 'so that for these two categories they are the effective ruling rates'.* That Committee had examined the question of regulation of deposit rates and after weighing various alternatives came to the conclusion that "the interests of both the depositors and the banking system would be better served by

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* cf. RBI, Report of the Committee on Deposit Rates (June 1969), paragraph 1.1.

continuing the established practice of fixed rates for different classes of deposits".* The case for specific prescription of deposit rates was cogently argued by the Committee:

> "Banking, however, is an industry where competition cannot be expected to be perfect. Banks are of different sizes, of varying strength and operate in different geographical and functional areas. The credit market itself is fragmented and imperfect. In view of the difference in size and strength of banks, competition is likely to lead to distortions which might have repercussions on the structure of banking itself. In particular, we are impressed with the argument that such competition might result in the stronger (and larger) banks taking away deposit and credit business from weaker (and smaller) banks and that smaller banks might compete with each other in a manner which cannot but be detrimental to all of them .....

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* <u>ibid</u> paragraph 4.7.

> The impact on unregulated rate competition is not likely to lead to more deposits coming into the banking system but rather for deposits to move from one bank to another. The objective should rather be to bring more deposits from out side the banking field into the banking system and we do not think that this objective will be served by free competition among banks. "........ the Committee has come to the conclusion that competition amongst banks in deposit rates will not be in the interest of banking system and especially of its small and weaker units. The Committee at the same time would wish to stress that there is and should be ample scope for competition among banks in other respects and mainly in the form of providing better services to the community........."*

4.27 The present Working Group also deliberated at some length on the question of flexible deposit rates. A view was expressed that the time was apposite for a shift to a less rigid control over deposit rates. It was argued that given the rigid control on the return

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* Ibid., paragraphs 4.2 and 4.4

that banks can obtain on their funds, the deposit rates that banks could offer are already circumscribed and hence any further deposit rate control was otiose. It was contended that there was much to commend in a total abolition of deposit rate control as individual banks would be better able to manage their sources and uses of funds and that it is unlikely that there would be any swinging movements in deposit rates if the present deposit rate controls were abolished. Individual banks would differ in their offer of rates on deposits depending on their maturity preferences. Recognising the present *milieu* of administered deposit rates and the possible risk in experimenting with a freely determined deposit rate structure, it was suggested that a gradual introduction of flexibility could be considered. This could, it was opined, take the form of a reduction in the number of deposit maturity ranges and the prescription of a range of rates; in some cases, a single maximum deposit rate could be fixed and, within that maximum, banks could be kept free to determine their own maturity and rate structure of deposits. A concrete albeit illustrative structure of flexible ranges of rates was placed before the Group thus:

Term Deposit Maturity	Illustrative Range of Deposit Rates (Per cent per annum)
(a) Less than 6 months	4 - 5
(b) 6 months and above but less than one year	6 - 7
(c) 1 year and above but less than 3 years	8 - 9
(d) 3 years and above but less than 5 years	Not exceeding 10
(e) 5 years and above	Not exceeding 11

4.28 The structure of deposit rates illustrated above would reduce the prescription of rates from 9 maturity ranges to 5 maturity ranges. It was further contended that while the proposed structure would not be a major departure from the present system, it would inject an element of flexibility to the system and that as banks gather experience of handling flexible rates, it could serve as a first step towards a gradual relaxation of deposit rate control.

4.29 An overwhelming membership of the Group, however, was not persuaded by the above arguments. Considering the imperatives of economic planning in India, the Group could not conceive of the necessity for aiming at a gradual relaxation of deposit rate control. The majority view of the Group was that (i) as there is generally an acute competition among banks for procuring deposits, and (ii) as the rates of interest offered on various financial savings have to be kept under control due to a variety of capital cost and other considerations, any band of interest rates prescribed for different maturities would become inoperative as all banks would tend to offer the highest of the rate within an individual band. Hence, the Group found no justification for departing from the present policy of prescribing specific deposit rates through RBI directives.

CHAPTER 5

Regulatory Framework Relating to Commercial and Co-operative Bank Deposits

5.1 The Working Group was required, as per one of its terms of reference, to review the present regulatory framework regarding deposit mobilisation by banks and to suggest appropriate modifications which may help in improving their performance. The present regulations may be classified into three categories:

(i) RBI regulations;

(ii) Government regulations; and

(iii) Regulations of the Indian Banks' Association

The basic objective of these regulations is to prevent unhealthy practices by banks in competing for bank deposits and by depositors in taking undue advantage of certain normal facilities. An unintended result of any regulatory framework is its gradual degeneration into complexity. The Working Group, after studying the various regulations concerning bank deposits, suggests the following modifications primarily with a view to minimising the irritants, if any, to the depositors and thus increasing the attractiveness of bank deposits. In some of the cases, however, the suggested measure may amount to tightening of the existing regulations with a view to ensuring that the original objectives are not altered or diluted.

RBI Regulations

(i) Savings bank deposits - Institutional depositors and eligibility of interest

5.2 Interest on savings bank accounts cannot be paid to any trading or business concern, whether such concern is proprietory or partnership firm, a company or association. The Adarkar Committee on Bank Deposits, referred to earlier, had recommended that the Savings Bank Accounts should be restricted to individuals alone. However, over the years the RBI has been introducing certain relaxations in this respect. Interest is allowed to be paid on deposits maintained in savings bank account opened in the name of a primary co-operative credit society with its financing bank, savings bank accounts of societies registered under the Societies Registration Act, 1860, or the corresponding State enactments and companies licensed by the Central Government under Section 25 of the Companies Act, 1956. If, in addition to the above categories of agencies, banks desire to open savings bank accounts in the names of institutions which are specifically charged with the task of rendering social or economic assistance to, or welfare of, weaker and under-privileged sections of society, banks may do so with the prior approval of the Reserve Bank of India. This provision has given rise to varied interpretations of the regulations.

5.3 Secondly, payment of interest on savings bank accounts of organisations engaged in public utility services such as, Municipal Corporations, State Housing Boards, Co-operative Housing Societies, Water and Sewerage Boards, and Panchayat Samities has been prohibited under the present regulations on the ground that (a) their activities are of a general developmental nature, and (b) to a large extent, the funds received by them are not the funds mobilised by them but represented tax amount or Governments' grants. On the other hand, it has been argued before the Group that the Post Office Savings Bank Rules are more liberal and allow the above types of organisations to operate Savings Bank Accounts and that all those institutions which are allowed to earn interest on their Savings Bank Accounts with Post Offices may be allowed to earn interest on their Savings Bank Accounts with commercial banks also. While the Working Group saw some merit in this plea, it nevertheless thought that the character of savings deposit balances with commercial banks are somewhat qualitatively different from those with the Post Offices because of the liberal withdrawal facilities available in the former case. The Working Group also thought that the criterion to permit payment of interest on savings deposit with the commercial banks should be rather based on the primary intention behind this regulation, which is that trading or business concerns or any other profit making bodies should not open such accounts, operate them as current accounts and yet earn interest on them. Nor could we rigidly restrict the saving deposit facilities only to individuals, as the Adarkar Committee had visualised. With a view to adhering to the spirit behind the original regulation but at the same time making it simple, clear and straight forward, the present Working Group recommends that the payment of interest by banks on savings deposit accounts kept by any institutional depositors be permitted only if those institutions stand explicitly exempt from the payment of income-tax under the Indian Income Tax Act. If any of the institutions cited above - be they municipal corporations or housing bodies - satisfy this criterion, the banks should be permitted to pay interest on savings account balances.

(ii) Penalty for premature withdrawals

5.4 In matters of premature withdrawals, the existing penalty of 2.0 per cent per annum should be reduced to 1.0 per cent, that is, the rate of interest to be paid on such prematurely withdrawn deposits would be 1.0 per cent less than the rate applicable to the maturity period for which the deposit was actually kept with the bank.

(iii) Compound interest on premature renewal/withdrawal

5.5 In the event of premature renewal or withdrawal of a deposit under re-investment plan, compound interest should be paid for the period the deposit remains with the bank as against simple interest.

(iv) Conversion of Janata Deposit/Recurring Deposit Accounts

5.6 Balances lying in janata deposit (daily deposit) accounts and recurring deposit accounts should be allowed to be transferred to fixed deposit accounts before maturity without penalty.

(v) Accounts of deceased depositors

5.7 In the case of deceased depositors holding Current Account balances, the legal heirs are not entitled to any interest even though considerable time elapses before the actual disbursal of deposits to them. It is suggested that in such cases, the rate of interest applicable to Savings Bank Accounts be allowed.

Government Regulations

(i) Amendment of the Payment of Wages Act, 1936 and Shops and Establishments Acts of the States

5.8 The recurring deposit scheme is the most attractive and convenient savings plan offered by banks for people in the fixed income group. It enables the depositor to build up savings brick-by-brick and get a lump sum at the end of the stipulated period.

5.9 The scheme enjoys the following advantages from the depositors' view point:

(a) interest, compounded quarterly, is allowed at the rate applicable to the stipulated period notwithstanding that the instalments deposited in the later period remain with the Bank for a much shorter duration;

(b) it encourages savings habit as savings grow steadily without the strain of lump sum investment; and

(c) there is an element of compulsion in savings which is often welcome by most depositors.

Despite these attractive features, the Scheme has not achieved the desired breakthrough.

5.10 One of the main reasons for the present state of affairs is that no attempt has been made to promote group deposit accounts on large scale by providing an automatic mechanism for deduction of monthly instalments from the salary and direct deposit thereof in recurring deposit accounts as has been permitted under the captioned sets for the Post Offices and the Life Insurance Corporation of India (LIC). The recurring deposit scheme was primarily designed to attract savings from the lower and middle-income groups who usually get their monthly pay packets in cash and find it extremely difficult, cumbersome and time-consuming to call at a bank to deposit the instalment every month. Thus, while a large number of salary and wage-earners have the inclination to save, the banking system is not able to exploit it fully to its advantage. If the scheme has to be promoted on a mass scale, the only alternative is to link it with the salary payments so that the whole process of deduction and deposit of the instalments becomes automatic.

5.11 The main hurdle in promoting the scheme on the foregoing basis is the payment of Wages Act, 1936 which does not permit such deduction from salaries and wages of employees. The Working Group recommends that the Act should be amended so as to cover deduction of monthly instalments for deposits with a scheduled bank in any of its savings promotion plans as a permissible deduction.

(ii) Development of banking habit

5.12 At any given point of time, a sizeable amount of transaction balances remain outside the hold of the banking system, i.e., in the form of currency, even though the actual transactions involving them have the potential of being mediated through cheques and such other instruments and thus augmenting deposit resources for the banking system as a whole. Any popular use of this mediation in day-to-day transactions is conditional upon the fear of 'pain' issuing cheques without there being sufficient balances in the concerned deposit accounts. Legislation prescribing the issue of cheques without balance as a penal offence is in the offing. The Working Group strongly urges that once such a legal support becomes available, the banking industry should gear itself up and devise appropriate measures to facilitate the cultivation of cheque habits by the common man.

(iii) Drawing of cheque without sufficient funds

5.13 In the context of the above suggestions, the Group urges that the relevant legislation be enacted on a priority basis with a view to making drawing of cheques without adequate funds a penal offence.

CHAPTER 6

Customer Service in Banking Industry

6.1 Development of banking habit which can result in substantial deposit accretion to the banking system will be possible only when there is a perceptible improvement in the quality of customer services. There is a widespread feeling that there has of late been considerable deterioration in the quality of service rendered by the banking industry and the small man for whose benefit the banking has been nationalised and the branch network widened still does not feel comfortable in dealing with banks.

6.2 In an environment where the ratio of currency in money supply is very large and where substantial amount of transaction balances thus remain outside the hold of the banking system, an enormous potential exists for mobilising such transaction balances as bank deposits. Such balances being in the nature of transaction needs cannot generally be attracted into the banking fold by the lure of any higher interest rates. The necessary condition for their mobilisation is a system of efficient customer service. In this environment, the scope is very large for competition amongst banks for deposit resources on the basis of the quality and package of service rendered by them. Whenever major reforms are considered for inculcating banking habit amongst households, an important argument advanced against them is that the banking industry does not render efficient service and hence the public at large cannot be lured into mediating their transactions through cheques and such other banking instruments.

6.3 A study recently conducted by a leading bank has revealed that the major cause of customer dissatisfaction arises in the following areas:

A. Deposit Accounts

(a) difficulty in opening or operating accounts,

(b) delay in transfer of accounts particularly of the military personnel,

(c) delay in submission of statements of account/pass books and inaccuracies therein

(d) delay/difficulty in settlement of deceased accounts, and

(e) delay in payment of interest on term deposits.

B. <u>On the Counter Services</u>

Leaving aside the absence of customery politeness and salesmanship, there is discourteous and even rude behaviour of staff and general attitude of lack of concern and apathy. The reasonable quick service which the customers expect has almost disappeared.

C. <u>Collection of Instruments</u>

(a) delay in realisation of outstation cheques/bills, and

(b) non compliance of instructions, loss of interest, demurrage, etc.

The average time taken for collection has gradually widened from one week a decade ago to three weeks or even to six weeks in some cases of outstation instruments of payments. Collections within the same centres have also widened to over 7 days.

D. Remittances

(a) delay in issue/payment of bank drafts

(b) delay in crediting the amount of MTs, TTs and foreign remittances, and

(c) non issue of duplicate drafts.

E. Cash Department

(a) non acceptance of currency notes of lower denominations,

(b) shortage in currency packets,

(c) demand for new notes, and

(d) delay in receipts/payments.

F. Miscellaneous

Delay in correspondence, delayed/unhelpful decision making, and undue emphasis of staff on observance of rules and procedures.

6.4 The study also reveals that the relative importance of the above customer dissatisfactions places collection of instruments (39 per cent) as the most important one followed by servicing of deposit accounts.

		(Percentage)
A -	Collections	39.07
B -	Deposit accounts	23.89
C -	Remittances	12.07
D -	Cash Department	5.36
E -	Discourteous and rude behaviour	5.23
F -	Miscellaneous	14.38
		100.00

6.5 The major causes for the deterioration in the service have been adequately analysed by several study groups, notably the Talwar Committee on customer service, several measures have been suggested some of which have been implemented with varying degrees of success. The Government of India has also appointed a Small Group on Customer Service which meets at periodical intervals to consider the various aspects connected with customer service in banks. The Group also acts as the High Powered Permanant Steering Committee on Customer Service. The Group feels that it is needless to cover the same ground over again, but would only like to emphasise the need for quick and comprehensive implementation of the various recommendations already accepted by Government, the RBI and the banking industry.

6.6 The Group recognises that matters have developed to a point where managerial improvements in the quality of customer service is hardly likely to have any impact on the development of banking habit in the country. What is needed now is a radical transformation of the banking services, more particularly in the urban and metropolitan areas, where the volume of transactions has multiplied considerably over a period of time and where the potential for growth of banking habit continues to remain vast. Such transformation, in the Group's view, is possible only if the banking operations in these centres are computerised. The Group is conscious that in the present stage of development of our economy and the continued high rate of unemployment, switch over to labour saving devices and technology has to be highly selective and needs to be resorted to only on the grounds of inevitability. The Group considers that the stage of inevitability has been reached in the banking industry particularly at larger centres; failure to adopt the modern methods of operations now would result in further deterioration of customer services and there is every danger of the banking system losing credibility with the common man; and adding on to the existing devices would only prove counterproductive to the objectives of the bank nationalisation. The Group is also impressed with the argument that given the present rate of expansion in the banking industry, computerisation of banking operations is hardly likely to result in any redundancy of staff. This is already borne out by the results in some of the areas in the banking industry where mechanisation and computerisation of operations have been put into effect.

6.7 The study referred to in the earlier paragraphs has identified the major area of customer dissatisfaction viz. collection of outstation instruments. The time taken for this purpose has increased considerably. This can be attributed, apart from the delay arriving in the bank branches itself due to a genuine inefficiency of operations, to the poor communication network prevailing in the country. Given the present scale of operations, it is time that the banking industry acquires its own dedicated communication network linking the major trading and business centres in the country.

In fact the bulk users of communication, who can afford the cost, should be encouraged to have their own communication network so that the pressure on the public network is reduced. This will result in an improvement of quality of service to the public in general. With the advent of satellite communication and the enormous amount of reserve capacity that is bound to be created, work on a dedicated network for banking industry linked through the communication satellite should begin forthwith. The Group recommends that a technical group consisting of representatives from the Post and Telegraphs Department, ISRO, Electronics Commission and the banking industry should be set up without any further loss of time to work out the modalities in this regard.

6.8 The present licensing policy of the Reserve Bank of India is oriented towards extending banking facilities to hitherto unbanked and under-banked areas of the country. With a view to achieving the above objective, the Reserve Bank of India has been evolving a licensing policy for specific period.

The current policy is for the period April 1982 to March 1985 (coinciding with the termination of the Sixth Five Year Plan). Under this, banks are expected to open about 8,000 branches in unbanked/ under-banked rural and semi-urban areas. The Regional Rural Banks are given preference to open branches in such centres in the districts covered by them. The centres for opening offices are identified by the State Governments in consultation with the district level consultative committees. In allotting centres for opening branches in a district not covered by a Regional Rural Bank, priority is given to banks having a fair network of branches in the region as also those having regional character. As regards metropolitan and urban centres, the Reserve Bank of India is restrictive in branch expansion and generally chalks out an annual plan, the total number of office to be opened being around 200 - 250 in a year each in urban and metropolitan centres. The allocations are based on the indications given by individual banks. As regards banked rural and semi-urban centres, there is no specific programme drawn up but individual applications received from banks for opening offices in such centres are considered on merits. An analysis of the available data of average deposits per branch in the population-group centres indicates that there has been a general fall in the rate of growth of deposits in the branches in each of these groups, the fall being more pronounced in the case of metropolitan centres. The rate of the growth of deposits in semi-urban and urban branches seems to be better. There are several newly developing localities in and around metropolitan and urban centres and new economic activities are also coming up in these areas. Consistent with this, there is a case for the Reserve Bank of India to reconsider the present restrictive policy of expansion by banks in banked semi-urban, urban and metropolitan centres. A more liberal policy of allowing banks to open branches in such centres seems to be called for, even as while continuing the emphasis on making available banking facilities in unbanked and under-banked rural and semi-urban areas. It may be noted in this context that with the allotment of a large number of identified unbanked and under-banked rural and semi-urban areas to Regional Rural Banks, the burden on commercial banks is relatively less. But they are already organisationally geared up to a position to open a larger number of branches in semi-urban, urban and metropolitan areas. Similarly, the business of many of the branches of banks in metropolitan centres have reached a substantial level and on account of constraints of space, etc., are finding it increasingly difficult to absorb the overflowing business. This has also affected the quality of customer service. In such cases, banks may wish to bifurcate these branches either on a functional basis or on the basis of the segment of customers. The Reserve Bank of India may be liberal in allowing requests for splitting up of branches which will ensure better customer service and absorption of additional business. The banks may also be allowed to open Extension Counters attached to the main branches only to service depositors and savings and term deposit accounts along with allied services such as remittance facilities.

6.9 It should, however, be made distinctly clear that such flexibility in branch banking in metropolitan areas should not in any way hinder the programmed opening of bank branches in unbanked or under-banked rural and semi-urban areas.

CHAPTER 7

A Summary of Recommendations

7.1 This chapter is intended to briefly enumerate the recommendations of the Working Group contained in different chapters.

7.2 Interest Rates

(i) The highest maturity slab of '5 years and above' be re-introduced and paid a rate of interest of 11.0 per cent per annum at usual quarterly rest (Paragraphs 4.16 & 4.17).

(ii) The existing differentials permitted in payment of deposit rates in respect of small commercial banks, the Regional Rural Banks and the Central and State Co-operative Banks, be continued. However, in respect of primary co-operative banks, the existing differential of 1.0 percentage point be allowed only in respect of those primary banks which have demand and time liabilities of less than Rs.15 crores; those which attain or have attained the cut-off point DTL of Rs.15 crores or more may be allowed to pay an additional rate of interest of only upto 0.50 percentage point on term and saving deposits as in the case of the Regional Rural Banks (Paragraph 4.23).

(iii) The rate of interest offered on FCNR and NRE deposits from Indian expatriates be partially delinked from the domestic rates. For this purpose, the Reserve Bank of India may evolve a method by which the rates so offered are fixed having regard to the corresponding rates prevailing in major markets abroad and for deposits denominated in different currencies, subject to (a) a ceiling of 2.0 percentage points above the highest domestic deposit rate, (b) the lowest maturity period being restricted to six months (Paragraph 4.25).

7.3 RBI Regulations

(i) With a view to adhering to the spirit behind the original regulation regarding prohibition of payment of interest on saving deposits held by trading and business concerns, but at the same time making the regulation simple, clear and straightforward, the payment of interest by banks on savings deposit accounts kept by any institutional depositors be permitted only if those institutions stand explicitely exempt from the payment of income-tax under the Indian Income-tax Act.

If any of the institutions opening saving accounts - be they municipal corporations or housing bodies for weaker sections - satisfy this criterion, the banks should be permitted to pay interest on their savings account balances (Paragraphs 5.2 and 5.3)

(ii) In matters of premature withdrawals, the existing penalty of 2.0 per cent per annum should be reduced to 1.0 per cent, that is, the rate of interest to be paid on such prematurely withdrawn deposits would be 1.0 per cent less than the rate applicable to the maturity period for which the deposit was actually kept with the bank (Paragraph 5.4).

(iii) In the event of premature renewal or withdrawal of a deposit under re-investment plan, compound interest should be paid for the period the deposit remains with the bank as against simple interest (Paragraph 5.5).

(iv) Balances lying in janata deposit (daily deposit) and recurring deposit accounts should be allowed to be transferred to fixed deposit accounts before maturity without penalty (Paragraph 5.6).

(v) In the case of deceased depositors holding Current Account balances, the rate of interest applicable to Savings Bank Accounts be allowed for the legal heirs (Paragraph 5.7).

7.4 Government Regulations

(i) The Payment of Wages Act, 1936, be amended so as to cover deduction of monthly instalments for deposits with a scheduled bank in any of its savings promotion plans as a permissible deduction (Paragraphs 5.8 to 5.11).

(ii) Legislation prescribing the issue of cheques without balances in deposit account as a penal offence is in the offing. Once such a legal support becomes available, the banking industry should gear itself up and device appropriate measures to facilitate the cultivation of cheque habit amongst individuals so that the sizeable amount of transaction balances remaining outside the hold of the banking system, i.e., in the form of currency, get augmented as deposit resources for the banking system as a whole. The relevant legislation be enacted on a priority basis with a view to making drawing of cheques without adequate funds in deposit accounts a penal offence (Paragraphs 5.12 and 5.13).

7.5 Customer Service

(i) In regard to improvement in customer service, there is the urgent need for quick and comprehensive implementation of the various recommendations already accepted by Government, the RBI and the banking industry (Paragraph 6.4).

(ii) However, the stage of inevitability has reached for a radical transformation of the banking services, particularly in the urban and metropolitan areas, where the volume of transactions has multiplied and where the potential for the growth of banking habit continues to remain vast. Such transformation is possible only if the banking operations in these centres are computerised. Any failure to adopt the modern methods of operations now would result in further deterioration of customer service. With the present rate of expansion in the banking industry, computerisation of banking operations is hardly likely to result in any redundancy of staff (Paragraph 6.5).

(iii) Given the present scale of operations regarding the collection of outstation instruments, it is time that the banking industry acquires its own dedicated communication network linking the major trading and business centres in the country. With the advent of satellite communication and the enormous amount of reserve capacity that is bound to be created, work on a dedicated network for banking industry linked through the communication satellite should begin forthwith. In this regard, a technical group consisting of representatives from the Post and Telegraphs Department, the Indian Satellite Research Organisation (ISRO), the Electronics Commission and the banking industry, should be set up without any further loss of time to work out the modalities involved (Paragraph 6.6)

(iv) There are several newly developing localities in and around metropolitan and urban centres and new economic activities are also coming up in these areas. Consistent with this, there is a case for the Reserve Bank of India to reconsider the present restrictive policy of expansion by banks in banked semi-urban, urban and metropolitan centres. A more liberal policy of allowing banks to open branches in such centres seems to be called for, even as while continuing the emphasis on making available banking facilities in unbanked and under-banked rural and semi-urban areas (Paragraph 6.7)

(v) The business of many of the branches of banks in metropolitan centres have reached a substantial level and on account of constraints of space, etc., these branches are finding it increasingly difficult to absorb the overflowing business. This has also affected the quality of customer service. In such cases, banks may wish to bifurcate these branches either on a functional basis or on the basis of the segment of customers. The Reserve Bank of India may be liberal in allowing requests for splitting up of branches which will ensure better customer service and absorption of additional business (Paragraph 6.7)

(vi) The banks may also be allowed to open Extension Counters attached to the main branches only to service depositors with saving and term deposit accounts along with allied services such as remittance facilities (Paragraph 6.7).

7.6 General

The UTI was set up essentially as an institution for inculcating equity cult among the middle income and fixed income groups and thus to strengthen the capital market in the country. It is appropriate that a pre-dominant part of its investment should be in company shares and debentures, particularly, shares. The dividend it offers to the unit holders should be determined on the basis of its earnings from such investment outlets. Attracting funds from investing public at pre-determined rates of interest with adequate security and fiscal benefits, beyond the amounts capable of being deployed in the form of investment in shares, competes with commercial banking functions and also constrains the achievement of the objectives of monetary policy (Paragraphs 3.8 to 3.10).

(ii) The banking system spread over the entire country is expected to play not only a catalytic role in the achievement of greater monetisation and inculcation of better banking habit, but also function as financing and promotional agencies in the achievement of nationally accepted socio-economic priorities. For achieving these responsibilities, there has to be a sustained growth in bank deposits which form the necessary resources for the continued increase in their diversified lendings. It is also recognised that other forms of savings have to be encouraged to raise the overall saving in the country. It is, therefore, necessary that taken together, all the instruments generate additional saving in which some degree of competition is unavoidable and may even be desirable. However, there should be a conscious attempt to minimise costly competition, particularly if it is for the given amount of domestic savings. This will call for co-ordinated approach for maintaining a relative balance between yield rates on banks deposits and those on other fixed interest-bearing financial assets and an appropriate machinery must be set up to perform this task (Paragraph 3.18)

Appendix I

RECENT DECELERATION IN THE GROWTH OF BANK DEPOSITS - AN EXPLANATION

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Department of Economic Analysis & Policy
Reserve Bank of India
Bombay.

JUNE 1982

Recent Deceleration in the Growth of Bank Deposits An Explanation*

Part I : Factual Review

Trends in Aggregate Deposits:

There has been a very conspicuous deceleration in the growth of commercial bank deposits during the fiscal year 1981-82. In fact, the growth rate of 15.4 per cent for the year has been the lowest since the beginning of the 1970's, with the annual growth rates ranging from 17.0 per cent to 26.0 per cent for over a decade. The shrinkage of over 4.0 percentage points in the rate of expansion in 1981-82 over that in the preceding year (i.e., from 19.6 per cent to 15.4 per cent) has also been the sharpest. The fresh accrual of bank deposits with scheduled commercial banks during the year at Rs.5,832 crores has been about Rs.400 crores short of actual accretion in the previous year. Significantly, the available data for the first seven weeks (i.e., up to May 21) of 1982-83 show the persistence of the sluggish phenomenon.

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*Prepared in the Department of Economic Analysis and Policy, Reserve Bank of India, Bombay (June 1982).

Statement I. 1 : Quarterly Expansion in Aggregate Bank Deposits

(Rupees, crores)

Quarters	1980-81	1981-82
April - June	+1,618 (+5.1)	+2,564 (+6.7)
July - September	+1,107 (+3.3)	+1,033 (+2.5)
October - December	+2,416 (+7.0)	+2,558 (+6.2)
January - March	+1,088 (+2.9)	- 323 (-0.7)
Annual Increases	+6,229 (+19.6)	+5,832(+15.4)

(Figures in brackets represent percentage increases)

Note : Data upto May 1981 are final and also those from June 1981 to February 1982 have been updated based on final returns received from many banks. Data for March 1982 are partially Revised and those for April 1982 onwards are provisional (For details, see Statement I.11)

2. As is evident from month-wise data presented StatementI.11 and quarterly summary in Statement I.1 above, signs of deceleration in deposit growth began in the second quarter of 1981-82. There was a phenomenal increase in the first quarter, but thereafter the quarterly growth rates remained lower than in the previous year. Even so, the declines in the growth rate in the second and third quarters

were not significant. It is the plummeting of deposits after end-December 1981 and more importantly, the extent of erosion to the tune of Rs.323 crores in January-March 1982 in contrast to a rise of Rs.1,088 crores in the comparable period last year, that was unprecedented and very conspicuous. In fact, abstracting from differences in the monthly accruals, the cumulative percentage increases in each of the first nine months of 1980-81 and 1981-82 showed almost identical trends, as depicted in Statement I.2. A slump took place in the absolute amount and the percentage rate of expansion in January 1982 which hardly recovered thereafter, unlike in the past.

Statement I.2 : Cumulative Increases in Aggregate Bank Deposits (Over March)

(Rupees, crores)

Increase over End-March	1980-81	1981-82
April	+ 619(+ 1.9)	+ 628(+ 1.7)
May	+ 873(+ 2.7)	+1405(+ 3.7)
June	+1618(+ 5.1)	+2564(+ 6.8)
July	+1787(+ 5.6)	+2777(+ 7.3)
August	+2297(+ 7.2)	+3209(+ 8.5)
September	+2725(+ 8.6)	+3597(+ 9.5)
October	+3248(+10.2)	+4167(+11.0)
November	+3711(+11.7)	+4486(+11.8)
December	+5141(+16.2)	+6155(+16.2)
January	+5398(+17.0)	+5416(+14.3)
February	+5612(+17.7)	+5504(+14.5)
March	+6229(+19.6)	+5832(+15.4)

(Figures in brackets are percentage increases)

3. Figures available for the first seven weeks of 1982-83 (i.e., upto May 21) tell the same story: an increase of Rs.593 crores (or 1.4 per cent) against Rs.1,037 crores (or 2.7 per cent) in the corresponding period of 1981-82 (Statement I.3). It is true that the

Statement I.3: Latest Trends in Deposit Growth

Increase during	(Rupees, crores)	(Percentage Increase)
1981-82 (upto May 22)	+1,037	+2.7
1982-83 (upto May 21)	+ 593	+1.4

provisional figures generally get revised upwards when the final figures come in. However, if this year's experience upto March 1982 is any guide, the improved coverage in the provisional data leave no scope for any substantial revision, unlike last year.

The busy season period and thereafter:

4. With the sluggishness so persisting even after end-March 1982, the deposit growth during the conventional busy season period (end-October to end-April) of 1981-82 worked out in percentage terms to less than half the increase last year (4.9 per cent against 10.3 per cent) or in absolute terms just a little over half (Rs.2,055 crores against Rs.3,617 crores) (Statement I.4).

5. In addition, the subsequent three weeks ended May 21, 1982 experienced a net addition of Rs 203 crores to aggregate deposits as compared with an addition of Rs.400 crores in the corresponding period last year.

Alternatively, since the end of December 1981, aggregate bank deposits have just edged up by about Rs.270 crores to a level of about Rs.44,412 crores in contrast to an increase of as much as Rs.2,124 crores in the comparable period of end-December 1980 to May 22, 1981.

Statement I.4 : Busy Season Variations in Aggregate Deposits

(Rupees, crores)

	Busy Season 1980-81 (Oct.31 to May 1)	Busy Season 1981-82 (Oct.30 to April 30)
Aggregate Deposits	+3,617 (+10.3)	+2,055 (+ 4.9)
(a) Demand	+1,022 (+15.5)	+ 321 (+ 3.9)
(b) Time	+2,595 (+ 9.1)	+1,734 (+ 5.1)

Variations in Demand and Time Deposits:

6. While both the categories of bank deposits have suffered, demand deposits have suffered much more than time deposits (Statement I.4 & I.5). Though this is true of all the nine months since the second quarter of 1981-82, the decline in demand deposits in the last quarter of the year (January-March) was the sharpest - a loss of about Rs.600 crores against an increase of Rs.335 crores in the corresponding quarter last year. In the more recent period since end-March 1982, time

deposits have, however, begun to show a more conspicuous deceleration (Statement I.5); there has been during this period an increase of only Rs.568 crores (or 1.6 per cent) against Rs.1,102 crores (or 3.7 per cent) last year.

Statement I.5: Trends in Demand and Time Deposits

(Rupees, crores)

	1980-81		1981-82	
	Demand Deposits	Time Deposits	Demand Deposits	Time Deposits
April-June	- 46 (- 0.7)	+1,664(+6.6)	+ 492(+ 6.3)	+2,072(
July-September	- 24 (- 0.4)	+1,131(+4.2)	- 245(- 3.0)	+1,278(
October-December	+ 890 (+13.5)	+1,526(+5.5)	+1,064(+13.2)	+1,494(
January-March	+ 335 (+ 4.5)	+ 753(+2.6)	- 599(- 6.6)	+ 276(
Annual	+1,155 (+17.4)	+5,074(+20.2)	+ 712(+9.1)	+5,120(
May 22/21 over End- March	- 66 (- 0.8)	+1,102(+3.7)	+ 24(+0.3)	+ 569(

(Figures in brackets represent percentage variations)

7. When we focus on the deceleration in the growth of demand deposits relative to that in time deposits, we discern certain interesting phases in its behaviour since the beginning of 1981-82. In the initial four-month period (April-July) of 1981-82, demand deposits grew by 2.8 per cent in contrast to an absolute fall of 3.8 per cent in the comparable period of the previous year (Statement I.6)

phenomenon of window dressing by bank managers so as to brighten the picture of year-end deposits. However, this phenomenon seems to have received added impetus this year for two reasons. First, the deposit growth, which tended to be slower, had to be made up before the year was closed; and secondly, the measures of credit restraint initiated in October 1981 apparently induced pre-emptive drawals of credit limits by bigger parties and helped to bulge business deposits. In December 1981, the bank credit expanded by as much as Rs.1,325 crores against an increase of Rs.985 crores in December 1980. In the fourth phase, i.e., the last quarter of January-March 1982, demand deposits were sharply drawn down by as much as Rs.599 crores against an increase of Rs.335 crores in the corresponding quarter of the previous year. Incidentally, in this quarter, total bank credit increased by just Rs.155 crores against an increase of Rs.1,135 crores in the comparable period of the previous year (though to some extent the requirements of bigger companies were made good by larger debenture issues permitted even for a part of working capital finance). As already stated earlier, the final period since end-March 1982 has begun to show sharper deceleration in time deposits.

Statement I.6 : Variations During Certain Distinct Phases

(Rupees, crores)

Period	1980-81			1981-82		
	Demand	Time	Total	Demand	Time	Total
April → July	- 255 (-3.8)	+2,042 (+8.1)	+1,787 (+5.6)	+ 220 (+2.8)	+2,557 (+8.5)	+2,777 (+7.3)
August → November	+ 600 (+9.4)	+1,324 (+4.9)	+1,924 (+5.7)	+ 304 (+3.8)	+1,406 (+4.3)	+1,709 (+4.2)
December	+ 475 (+6.8)	+ 955 (+3.4)	+1,430 (+4.0)	+ 787 (+9.5)	+ 881 (+2.6)	+1,669 (+3.9)
January - March	+ 335 (+4.5)	+ 753 (+2.6)	+1,088 (+3.0)	- 599 (-6.6)	+ 276 (+0.8)	- 323 (-0.7)
May 22/21 over March	- 66 (-0.8)	+1,102 (+3.7)	+1,037 (+2.7)	+ 24 (+0.3)	+ 569 (+1.6)	+ 593 (+1.4)

(Figures in brackets represent percentage variations)

The next four-month period (August-November) of 1981-82 witnessed a perceptible slowing down in the growth of demand deposits as compared to the corresponding period of 1980-81, the increase being only 3.8 per cent as against 9.4 per cent in the previous year. In the month of December 1981, which is the third phase, the addition to demand deposits was noticeably higher (9.5 per cent) than in December 1980 (6.8 per cent). This is linked to the perennial

Metropolitan Deposits:

8. Our enquiry into bank deposit behaviour with the officials of a few individual banks has revealed that the erosion of deposits particularly in the last quarter of 1981-82 occurred essentially in the metropolitan centres of Bombay and Delhi and to some extent in Calcutta and Madras and some of the important urban centres. Based on quick but concrete evidences gathered from different regions, the bank officials have been unanimous in their assessment that the tendency for the bank deposits to decline is not seen in rural and semi-urban areas nor in agricultural or personal segments (except in cases where benami deposit holdings are suspected).

Deceleration in "Reserve Money" Growth

9. Before concluding this section on the factual review of recent behaviour of bank deposits, a reference deserves to be made to a phenomenon, which is of some relevance to the present as well as prospective trends in this respect. This refers to the sizeable decline in the rate of expansion in 'reserve money' during 1981-82 as compared with the substantial increases

during the past many years. 'Reserve money' rose by about 9.0 per cent during 1981-82 (April-March) as against increases ranging from 17.0 per cent to 29.0 per cent during the previous three years. Likewise, currency with the public increased by a little over 7.0 per cent in the year under review against 15.0 per cent to 18.0 per cent in the earlier three years. The implications of these are discussed in the subsequent two sections.

Part II : Causes for Sluggishness in Deposit Identified

Important Causes:

10. At the outset, we could enumerate in a summary form the principal causes identified by us. They are: (i) the issuance of Special Bearer Bonds by Government; (ii) sizeably reduced growth in the level of Government disbursements; (iii) the emergence of convertible and non-convertible debentures (at times declared as 'public securities' by State Governments) of private sector companies as a serious competitive medium for financial savings; (iv) recessionary conditions in Indian industry noticed in recent months giving rise to stock-piling of goods and consequential need for

larger funds concurrently with reduced cash flows; (v) shift of saving and fixed deposits by individual savers in favour of various other savings media including Postal savings and also lendings for business purposes; (vi) shift of deposits to non-banking avenues by private trusts consequent upon the liberalisation of their investment rules; (vii) a perceptible deceleration in the rate of growth of 'reserve base' and given the deposit 'multiplier', a consequential reduction in the rate of deposit growth; and (viii) changes effected in the accounting procedures regarding the interest accrued but not payable till the due date on recurring and such other bank deposits. Each one of this is amplified in the following paragraphs.

11. First, following representations from banks, the Reserve Bank issued instructions to them in December 1980 that interest accrued on deposits and not payable till the due date may not be treated as a liability for purposes of Section 42(2) return. Earlier, such

interest was to be shown as 'other demand and time liabilities'. Some of the banks which were showing accrued interest as part of deposits began deducting it from deposits. One bank began it in January 1981; another has said that it would deduct the amount in the current year. But, there was one bank which adopted the new method in January 1982 and reduced its time deposits by Rs.150 crores and thus affected the overall deposit growth by a like sum.

12. Secondly, there is evidence to the effect that the deposits mobilised by the Postal authorities have been somewhat higher in percentage terms during 1981-82 than in the previous year. Due to the introduction in May 1981 of a new 12 per cent 6-Year National Savings Certificate (VI and VII Issues), there apparently occurred a shift of households saving in favour of such media at the cost of bank deposits. Such shift in net terms is roughly estimated at about Rs.100 crores. Incidentally, evidence suggests that deposit growth with co-operative banks has been as sluggish as in the case of commercial banks.

13. *Thirdly*, a detailed scrutiny of a sample of fixed deposit accounts has revealed that a significant proportion of them has not been renewed when renewal has been due unlike in the past. Impressionistic judgement provided by bank managers has been that the amounts have been invested in company debentures. More importantly, in a large number of cases, premature withdrawals have been effected and concrete instances have been found to the effect that the amounts so withdrawn have been deployed (a) for lending to other business enterprises,(b) in one's own family business; and (c) for investment in 6-Year National Saving Certificate. Withdrawals of fixed deposits held by institutions have been very large. There is also evidence to suggest that withdrawals in short-term deposits upto six months have been the highest.

14. *Fourthly*, the religious and other trusts cannot invest in any private bonds unless they are declared as 'public securities' by the Central or State Governments. Interestingly, some of the recent debentures of private companies (such as those of Voltas, TISCO and Kirloskar Brothers) have been declared by the

Maharashtra State Government as "public securities" under the Bombay Public Trusts Act, 1950, which has in turn facilitated the investment of trust funds in such debentures. In addition, the latest Central Budget for 1982-83 has enabled the trust funds to be invested in "immovable property" (vide page 14 of Memorandum Explaining the provision of the Financial Bill, 1982). Some of the bankers have averred that a part of the trust fund withdrawals in March 1982 and thereafter may have something to do with this new facility. It is difficult to hazard any guess as to how much of such institutional deposits have been drawn down during the recent period. The estimated amount of these deposits in December 1981 was roughly of the order of Rs.1,300 crores. As these funds are held in a bulk form, the scope for introducing some degree of volatility in their deposits with banks would be very significant.

15. Fifthly, the direct mobilisation of capital by the private corporate sector during 1981-82 has been historically the highest - the amount of capital issues floated in the form of equity, preference shares and

debentures aggregating as much as Rs.555 crores against only Rs.173 crores in previous year (Statement I.7)

Statement I.7: New Capital Issues (Equity, Preference Shares and Debentures)

(Rupees, crores)

Year/ Quarter	April- June	July- September	October- December	January- March	Total
1980-81	18.83	25.68	78.41	50.47	173.39
1981-82	202.71	103.91	115.10	133.64	555.36

Note: Data are provisional. Figures of actual amount of capital raised are not yet available. These exclude bonus issues.

Sources: Prospectuses/circulars and replies to Questionnaire received from companies.

Though such capital raised by the private corporate sector (public sector figures being not very high) directly compete with bank deposits, there would have been in the normal course substantial return flow of funds to the banking industry, provided the tempo of production and sales activities had been kept up at a sufficiently high level. But reports suggest that both the consumer and investment demands have been in recent months at a low ebb in a large sugment of the manufacturing sector primarily because of poor disbursements by the Central and State Governments. This has of late tended to affect the cash-flow of the companies concurrently with the near-exhaustion of their credit limits with the banking industry. In such an economic and financial environment, the direct mobilisation of resources by the private sector would have had an adverse effect on bank deposits.

16. Sixthly, during the months of December 1981 and January 1982, the Government collected (after the Supreme Court Judgement) about Rs.580 crores through Special Bearer Bonds, the total collection during 1981-82 being Rs.876 crores. It is possible that subscriptions to the Bearer Bonds, particularly in the months of December 1981 and January 1982, were to some extent made by drawing down bank deposits. A question could be raised as to why unaccounted money-honders should use the bank deposits which are in an "accounted" form. An explanation offered for this phenomenon by some of the bank officials is that bank deposits are known to have been held in benami forms, and that many such holders have shown anxiety

to hold some Special Bearer Bonds. We have in the course of our enquiry also come across cases of such deposits held in the names of minors, some of which are fictitious ones, and where balances have been drawn down during the last quarter of 1981-82.

17. However, a more substantive question relates to the impact of Government disbursements made out of the Bearer Bonds collections on bank deposits. As in the case of the private sector mobilising funds directly from the market, if the overall level of Government disbursements had risen at a fairly high rate, there would have occurred better return flow of funds, and augmented the bank deposits as well. However, it is found that the aggregate combined expenditures of Central and State Governments together rose by only 12 per cent during 1981-82 (Revised Estimates) as compared with the increase of as much as 24 per cent in 1980-81 (Accounts). This lower order of increase is true in respect of the disbursements of Central and State Governments taken separately. This is also true of their combined development expenditure (Statement I.8)

Statement I.8: Aggregate Combined Expenditure of Central & State Governments (1980-81 - 1982-83 (B.E)

(Rupees, crores)

Items	1980-81 (Accounts)		1981-82 (R.E.)		1982-83 (B.E.)	
	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year
Total disbursements	39,241	+23.9	43,953	+12.0	47,151	+ 7.3
Of which: (a) Developmental Expenditure	25,338	+23.9	28,704	+13.3	29,499	+ 2.8

18. Another evidence in this respect relates to the quantum of increase in net bank credit to Government based on last Friday figures. It is observed that net bank credit to Government increased by only ₨.4,156 crores (or 16 per cent), as against as much as ₨.5,846 crores (or 29 per cent) during the year 1980-81. This decline in the quantum of Government dependence on bank credit has also to be read with about ₨.5,500 crores of foreign trade deficit, a substantial proportion of which would be on account of public sector transactions.

19. *Finally*, the reduced dependence of the Government on the RBI credit combined with a large current account deficit in the balance of payments, has brought about a perceptible deceleration in the rate of 'reserve money' expansion during 1981-82, particularly since its second quarter. As hypothesized earlier, this would have influenced the course of bank deposits since the second half of the year. Despite considerable restraint on monetary expansion (through increase in required reserves, containment of refinance accommodation and bank credit ceilings) accompanied by a decelaration in the inflation rate, the money and deposit multipliers have edged up somewhat during the last three quarters of 1981-82, as may be observed from Statement I.9. Even so, the possible restraint on deposit expansion through reduced growth of 'reserve base' appears axiomatic.

Statement I.9 : M_1 , M_3 and Deposit Multipliers

Year/Quarter (Average of months)	Multiplier for M_1	Multiplier for M_3	Multiplier for Aggregate Deposits
1979-80 :			
I	1.225	2.832	2.078
II	1.238	2.928	2.172
III	1.194	2.884	2.163
IV	1.212	2.892	2.145
1980-81 :			
I	1.210	2.880	2.146
II	1.212	3.009	2.142
III	1.197	2.945	2.233
IV	1.220	2.957	2.231
1981-82 :			
I	1.226	2.959	2.228
II	1.204	3.022	2.315
III	1.229	3.088	2.375
IV	1.227	3.008	2.368

Part III: Assessment and Implications

20. From the factual review and causes identified above, it is clear that the deceleration in the growth of bank deposits, which is persisting even now, is the obvious reaction to the new policy initiatives taken by the Government (i) to obtain direct mobilisation of resources from the public for itself (through Special Bearer Bonds, more attractive Postal certificates, and now Capital Investment Bond) and (ii) to permit the private corporate sector also to do so through attractive yields on almost riskless forms of convertible and non-convertible debentures. These initiatives have just begun and hence in this transitional period, the disruption in financial intermediation could be considered as the most obvious reaction. The new forms of investment avenues have been permitted to offer substantially high yield rates which include no high risk premium. Earlier, the company deposits were also offering high interest rates but they never became a serious threat to bank deposits because those rates contained a high proportion of risk premium.

21. The above transition to new policy initiatives has been made somewhat more painful due to two reasons. First, the overall disbursement of the Government, which is the pace setter, has not been sustained at a high level and hence, the earlier increases in output are getting transformed into higher stock levels for want of investment demand in particular. Secondly, the relative price stability is also tending to eliminate the element of 'money illusion' that was contained in the earlier increases in commercial bank deposits.

22. An important aspect relevant in this regard is that during 1981-82 the overall rate of inflation even on an average basis (at about 9 per cent) has been half the rate in the year 1980-81. GNP growth in <u>real</u> terms was also admittedly only about 4.5 per cent as compared with the estimated 7.5 per cent in the previous year. As a result, our estimate suggests that despite such a sharp fall in the growth of aggregate bank deposits during 1981-82, the outstandings of such deposits

nevertheless improved as a proportion of GDP at market prices from about 30.0 per cent in 1980-81 to over 31.0 per cent in 1981-82; the proportion based on annual averages of such aggregate deposits also increased from about 28 per cent to 30 per cent.

23. In viewing the prospects for bank deposits in the current year, it is necessary to take cognizance of the factors highlighted below.

24. First, the attractiveness of competitive media of financial savings has been further strengthened with the introduction in the Central Budget for 1982-83 two new schemes of savings, namely, the Social Security Certificate and the Capital Investment Bond (a part of which may be a diversion from the Life insurance business of LIC and also from Postal certificates). Secondly, planned issue of debentures by the private sector appears to be phenomenally large, as may be seen from the following data on capital consents granted during 1981-82 (Statement I.10)

Statement I.10 : Capital Consents Granted to Non-Government Public Limited Companies

(Rupees, crores)

Security	1980-81 (April-March)	1981-82* (April-March)
Equity Shares	278.79	206.47
Preference shares	5.67	3.00
Debentures	83.00	418.81
Total	367.46	628.28

Data are based on copies of consents/acknowledgements received from the Controller of Capital Issues (CCI)

* Provisional

Thirdly, the lag effects of reduced growth in 'base money' during 1981-82 may also be seen in slower deposit growth during the next year. Fourthly, as shown in Statement I.9 earlier, the planned disbursements of the Central and State Governments during 1982-83 including those for developmental purposes would hardly show any impetus; the rate of increase in total disbursement has been budgeted at 7.3 per cent and that in developmental expenditure at only 3.0 per cent (a part of this being made good by the owned resources of public sector undertakings). <u>Fifthly</u>, the current account deficit is unlikely to be any the lower in 1982-83 as compared with 1981-82.

<u>Part IV</u> : <u>Summary and Conclusions</u>

25. Broadly the conclusions of the Paper could be summarised thus:

(i) Deceleration in deposit growth began in the second quarter of 1981-82, but the absolute fall in the last quarter and the subsequent poor pick-up upto May 21, 1982 has been very conspicuous and unprecedented. While both the categories of bank deposits have suffered, <u>demand</u> deposits have suffered much more than <u>time</u> deposits. The erosion of bank deposits in the last quarter of 1981-82 occurred essentially in metropolitan and urban centres.

(ii) The causes for the deceleration identified by us are : (a) the issuance of Special Bearer Bonds by Government; (b) reduced growth of Government disbursements; (c) the emergence of more attractive alternative media of savings including private sector debentures and Postal certificates; (d) recessionary conditions in sections of industry in recent months giving rise to stock-piling of goods; (e) withdrawal of trust funds and other institutional deposits for investment elsewhere; and (f) changes effected in the accounting procedures regarding interest on recurring and other bank deposits accrued but not payable. With lower inflation rate, the "money illusion" contained in deposit accruals in nominal terms has also been reduced somewhat.

(iii) The deceleration in bank deposit growth is the obvious 'transitional' reaction to the new policy initiatives taken by Government to mobilise financial resources directly from the market and also to permit such mobilisation by the Corporate Sector.

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STATEMENT I.11

MONTHLY DATA ON DEMAND AND TIME DEPOSITS OF SCHEDULED COMMERCIAL BANKS, 1979-80, 1980-81 AND 1981-82

(Rupees, Crores)

Last Friday of	Demand Deposit Out-standing	Demand Deposit Variation	Time Deposits Out-standing	Time Deposits Varia-tion	Total Deposits Out-standing	Total Deposits Varia-tion.
	1979-80					
1	2	3	4	5	6	7
April	5,585	-241	21,550	+360	27,135	+119
May	5,630	+45	21,812	+622	27,142	+7
June	6,190	+560	22,481	+669	28,671	+1529
April - June		+364 (+6.2)		291 (+6.1)		+1655 (+6.1)
July	5,821	-369	22,876	+395	28,697	+26
August	5,988	+167	23,379	+503	29,366	+669
September	6,164	+176	23,622	+243	29,786	+420
July - September		-26 -(0.4)		+1,141 (+5.1)		+1115 (+3.9)

cont..

STATEMENT I.11(Contd.)

1	2	3	4	5	6	7
October	6,132	-32	23,823	+201	29,955	+169
November	6,150	+18	24,153	+330	30,303	+348
December	6,285	+135	25,178	+1,025	31,463	+1160
October-December		+121 (+2.0)		+1,556 (+6.6)		+1677 (+5.6)
January	6,214	-71	24,893	-285	31,107	-356
February	6,317	+103	25,062	+169	31,379	+272
March	6,643	+326	25,116	+54	31,759	+380
January-March		+358 (+5.7)		-62 (-0.2)		+296 (+0.9)
Over the year		+817 (+14.0)		+3,926 (+18.5)		+4743 (+17.6)

STATEMENT I.11(Contd.)

1980-81

1	2	3	4	5	6	7
April	6,606	(-)37	25,772	656	32,378	619
May	6,478	(-)128	26,154	382	32,632	254
June	6,597	119	26,780	626	33,377	745
April - June		(-) 46 (-0.7)		1,664 (+6.6)		1,618 (+5.1)
July	6,388	(-)209	27,158	378	33,546	169
August	6,512	124	27,544	386	34,056	510
September	6,575	61	27,911	367	34,484	428
July - September		(-) 24 (-0.4)		1,131 (+4.2)		1,107 (+3.3)

cont...

STATEMENT I.11(Contd..)

1	2	3	4	5	6	7
October	6,608	35	28,399	488	35,007	525
November	6,988	380	28,482	83	35,470	463
December	7,463	475	29,437	955	36,900	1,430
October-December		890 (+13.5)		1,526 (+5.5)		2,416 (+7.0)
January	7,365	(-)98	29,792	355	37,157	257
February	7,343	(-)22	30,028	236	37,371	214
March	7,798	455	30,190	162	37,988	617
January-March		335 (+4.5)		753 (+2.6)		1,088 (+2.9)
Over the year		1,155 (+17.4)		5,074 (20.2)		6,229 (+19.6)

cont..

STATEMENT I.1 (Contd.)

1981-82

1	2	3	4	5	6	7
April	7,757	(-) 41	30,859	669	38,616	628
May	7,906	149	31,487	628	39,393	777
June	8,290	384	32,259	772	40,549	1,156
April - June		492 (+6.3)		2,069 (+6.9)		2,561 (+6.7)
July	8,013	(-)277	32,752	493	40,765	216
August	8,043	30	33,154	402	41,197	432
September	8,038	(-) 5	33,547	393	41,585	388
July - September		(-)252 (-3.0)		1,288 (+4.0)		1,036 (+2.6)

STATEMENT I.11(Contd..)

1	2	3	4	5	6	7
October	8,224	186	33,920	373	42,144	559
November	8,184	-40	34,228	308	42,412	268
December	8,981	797	35,142	914	44,123	1,711
October-December		943 (+11.7)		1,595 (+4.8)		2,538 (+6.1)
January	8,436	545	34,992	150	43,828	295
February	8,442	(+) 6	35,154	162	43,595	-233
March	8,510	(+)68	35,310	156	43,820	328
January-March		(-)471 (-5.2)		168 (+0.5)		(-)200 (-0.5)
Over the year		712 (+9.1)		5,120 (+17.0)		5,832 (+15.4)

Note: Data from April 1980 to February 1982 are final. Data for March 1982 is based on final returns received upto December 25, 1982 and would therefore very from the partially Revised data published in the RBI Bulletin.

Source: Weekly Returns submitted by banks under Section 42(2) of R.B.I. Act.

Appendix II

EVOLUTION OF INTEREST RATES ON BANK DEPOSITS IN INDIA

Prior to 1969, the fixation of rates was left to the Banks. The SBI fixed its own rates. The other major banks were signatories to an inter-bank agreement. Some very short-term deposit rates in particular the rate on deposit repayable on notice or of such short maturity as less than three weeks, were out of alignment with the general structure of interest rates. Therefore in October 1960 the RBI directed the scheduled banks not to pay interest at a higher rate than 2 per cent below the Bank rate (then 4 per cent) on deposits repayable on notice or on expiry of a period not exceeding 21 days. This restriction was withdrawn on February 21, 1961.

In March 1961, the all India Inter-Bank Agreement on maximum rates of interest was revised. The rates were as under :

	Current A/c	Notice Money	S.B. A/c.	Term Deposits: 3 days to 30 days	Term Deposits: 31 to 60 days	Term Deposits: 61 days to 90 days
Rates Effective Prior to March 1961	0.25	2.0 (At a notice period of more than 21 days - 3.0)	2.5	2.0 (3.0-22 to 30 days)	3.25	3.5
As Revised in March 1961.	0.25	3.0	3.0	3.0	3.25	3.5

Term Deposits

91 days to less than 12 months	12 months to less than 24 months	24 months to less than 48 months	48 months to less than 60 months	60 months and over
3.5	3.75	4.0	4.25	4.50
3.75	4.00	4.25	4.50	5.00

The Inter-Bank Agreement was further revised effective from June 1, 1962 with standard rates of March 1961 remaining unchanged. Banks were, however, classified into four categories and different rates prescribed. The revised rates bound the signatories till March 31, 1964.

Effective January 1963, payment of interest on Current A/c by banks was abolished as per the inter-bank agreement.

Appendix II (Contd.)

II.5 ____________ In September 1964, the banks were advised by the RBI to adopt a rational structure of interest rates paid on deposits. They were recommended to pay minimum rate of 4 per cent per annum on deposits of 91 days with adequate spreads for deposits of longer periods. Simultaneously the RBI issued a directive and imposed ceiling on rates for 15 to 45 days and 46 days to 90 days.

II.6 The revisions in the rates offered under the inter-bank agreement and offered by the SBI since October 1, 1964, are given below :

(Per cent per Annum

	State Bank of India		
	Prior to October 1, 1964.	October 1, to February 17, 1965	Since February 18, 1965
	1.	2.	3.
i. Saving Bank Deposits	3	$3\frac{1}{2}$	4
ii. Notice Money - At a withdrawal notice of 3 days or more	3	- N I L -	
iii. Term Deposits.			
1. Upto 14 days	-	NIL (Effective September 25, 1964)	NIL
2. 15 days to 45 days	3	$1\frac{1}{4}$ (Effective September 25, 1964)	$1\frac{1}{2}$
3. 31days to 60 days	$3\frac{1}{4}$	-	-
4. 46 days to 90 days	-	$2\frac{1}{2}$ (Effective September 25, 1964)	3
5. 61 days to 90 days	$3\frac{1}{2}$	-	-
6. 91 days to less than 6 months	-	4	5
7. 91 days to less than 7 months	-	-	-
8. 6 months to less than 1 year	$3\frac{3}{4}$	$4\frac{1}{2}$	$5\frac{1}{2}$
9. 7 months to less than 1 year	-	-	-
10. 1 year to less than 2 years	4	5	6
11. 2 years to less than 3 years	$4\frac{1}{4}$	$5\frac{1}{4}$	$6\frac{1}{4}$
12. 3 years to less than 4 years	$4\frac{1}{4}$	$5\frac{1}{2}$	$6\frac{1}{2}$
13. 4 years to less than 5 years	..	$5\frac{1}{2}$	$6\frac{1}{2}$
14. 5 years to less than 6 years	-	6	7
15. 6 years to less than 7 years	-	6	7
16. 7 years to less than 9 years	-	6	7
17. 9 years and over	-	6	7
iv. Current A/c.	-	-	-

Appendix II (Contd.)

(Per cent per annum)

	Agreement covering Banks with Rs.50 crores and above		
	Prior to October 1, 1964	October 1, to February 17, 1965	Since February 18, 1965.
	4.	5.	6.
i. Savings Bank Deposits	3	$3\frac{1}{2}$	4
ii. Notice Money – At a withdrawal notice of 3 days or more	3	– N I L –	
iii. Term Deposits			
1. Upto 14 days	3	NIL (Effective September 25, 1964)	NIL
2. 15 days to 45 days	–	$1\frac{1}{4}$ (Effective September 25, 1964)	$1\frac{1}{2}$
3. 31 days to 60 days	$3\frac{1}{4}$	–	–
4. 46 days to 90 days	–	$2\frac{1}{2}$ (Effective September 25, 1964)	3
5. 61 days to 90 days	$3\frac{1}{2}$	–	–
6. 91 days to less than 6 months	–	4	5
7. 91 days to less than 7 months	$3\frac{3}{4}$	–	–
8. 6 months to less than 1 year	–	$4\frac{1}{2}$	$5\frac{1}{2}$
9. 7 months to less than 1 year	4	–	–
10. 1 year to less than 2 years	$4\frac{1}{4}$	5	6
11. 2 years to less than 3 years	$4\frac{1}{2}$	$5\frac{1}{4}$	$6\frac{1}{4}$
12. 3 years to less than 4 years	$4\frac{3}{4}$	$5\frac{1}{2}$	$6\frac{1}{2}$
13. 4 years to less than 5 years	5	$5\frac{1}{2}$	$6\frac{1}{2}$
14. 5 years to less than 6 years	$5\frac{1}{2}$	6 6	7
15. 6 years to less than 7 years	$5\frac{3}{4}$	6	7
16. 7 years to less than 9 years	6	$6\frac{1}{4}$	$7\frac{1}{4}$
17. 9 years and over	6	$6\frac{1}{2}$	$7\frac{1}{2}$
iv. Current A/c.	–	– –	–

II.7 In March 1968 the Bank issued a directive prescribing the rates payable in respect of savings bank deposit and time deposits of a few specified maturity periods.

II.8 On September 1, 1969 the RBI issued a directive regulating the rates on all types deposits for the first time. The practice of paying interest on current a/c and brokerage on deposits was also prohibited by the RBI. The rates of interest revised in March 1968 and thereafter are given below.

	Savings Deposit	Fixed Deposits 15 to 45 days	46 to 90 days	91 days to less than 6 months	6 months to less than 9 months
	1.	2.	3.	4.	5.
					(Per cent Per Annum)
March 4, 1968	3.50@	1.25	2.50	The rates were as per Inter-bank agreement	
September 1, 1969	3.50	1.25	2.50	4.00	4.50
April 1, 1970	3.50	1.25	2.50	4.00	4.50
January 11, 1971	4.00	2.00	3.00	4.25	4.75
April 1, 1973*	4.00	2.75	3.25	4.75	5.25
April 1, 1974	5.00	3.00	3.50	5.00	5.50
July 23, 1974	5.00	3.00	3.50	5.50	6.00
June 1, 1977**	5.00 (Without cheque facility) 3.00 (With cheque facility)	3.00	3.50	4.00	4.50
March 1, 1978	4.50	2.50	3.00	4.00	4.50
September 13, 1979	5.00	2.50	3.00	4.00	4.50
March 2, 1981	5.00	2.50	3.00	4.00	4.50
March 1, 1982	5.00	3.00	4.00	5.00	6.00
October 26, 1982	5.00	3.00	4.00	5.00	6.00

@ Effective from April 1, 1968.

* Rates of interest on deposits with Indian Scheduled Banks having demand and time liabilities of Rs.50 crores or above and foreign banks.

** Except on savings deposits which were effective from July 1, 1977.

(1) Above 5 years but upto and inclusive of 6 years

(2) Above 6 years.

£ Three years to less than five years.

££ Five years and above.

ssp

Appendix II (Contd.)

	Fixed Deposits				
	9 months to less than 1 year	1 year to to less than 2 years	2 years to less than 3 years	3 years & upto & inclusive of 5 years	Above 5 years
	6.	7.	8.	9.	10.
				(Per cent Per Annum)	
March 4, 1968	The rates were as per inter-bank agreement	5.50	The rates were as per inter-bank agreement		
September 1, 1969	5.00	5.50	5.75	6.00	6.50
April 1, 1970	5.00	5.50	6.00	6.50	6.75 (1) 7.00 (2)
January 11, 1971	5.25	6.00	6.50	7.00	7.25
April 1, 1973*	5.25	6.00	7.00	7.00	7.25
April 1, 1974	6.25	6.75	7.50	7.75	8.00
July 23, 1974	7.00	8.00		9.00	10.00
June 1, 1977**	5.00	6.00		8.00	10.00
March 1, 1978	5.00	6.00		7.50	9.00
September 13, 1979	5.50	7.00		8.50	10.00
March 2, 1981	5.50	7.50	8.50	10.00 3 years & above	
March 1, 1982	7.00	8.00	9.00	10.00 3 years & above	
October 26, 1982	7.00	8.00	9.00	10.00 £	11.00 ££

Appendix III

Structural Aspects of Commercial Bank Deposits

During the 1970's, there have occurred radical changes in many qualitative or structural aspects of scheduled commercial bank deposits. The purpose of this note is to highlight these changes on the basis of available data. In many respects, the data available are fairly up-to-date, but there are certain aspects on which the existing data are too dated to capture some of the recent policy initiatives. There are also a few aspects of bank deposits on which the existing information system does not contain any data, or contains it rather inadequately. We have attempted to collect them through a special set of returns from banks. All of these constitute the data base for many of the conclusions and premises used in the main body of the Report.

1. Distribution by Population Groups

Deposits of 'rural' branches today constitute about 13.4 per cent of aggregate deposits in contrast to just about 3.1 per cent in June 1969. While the percentage shares of 'semi-urban' and 'urban' branches have almost stubbornly remained unchanged, that of 'metropolitan' branches receded from 49.0 per cent in June 1969 to 38.7 per cent in December 1981 (Statement III.1).

Despite the changes noticed above, the dominance of a few key centres in regard to bank deposits still persists. The fifty top centres in the country accounted for Rs.24,488 crores or 55.3 per cent of the all India deposits of Rs.44,260 crores in December 1981 (Statement III.2). This share of the first fifty had formed 61.6 per cent in December 1975. Likewise, the top ten centres accounted for 40.8 per cent of the total deposits in December 1981 as against 46.3 per cent in December 1975.

2. Contribution of New Branches Opened After Bank Nationalisation

The age group-wise composition of bank deposits, presented in Statement III.3, reveals that at the end of December 1981, Rs.18,923 crores (or 42.8 per cent) out of a total of Rs.44,259 crores were contributed by the bank branches opened after June 1969. A more significant revelation is that branches opened during the years 1973 to 1976 had generally fetched more deposits by the end of December 1981 as contrasted with those opened during the years 1970 to 1972. Another set of data presented (Statement III.4) on 'distribution of deposits according to age group and population group of bank branches' broadly reveals that the new branches opened during the years 1973 to 1976 in 'urban' and 'metropolitan' centres fetched 63 per cent of the additional aggregate deposits mobilised by all new branches opened in these years as against the comparable proportion of 53 per cent for the years 1970 to 1972. One probable explanation for this lies in a perceptibly higher pace of branch expansion in the 'metropolitan' areas during the years 1973 to 1976 than in the earlier or the latter years (Statement III.5).

More significantly, as at the end of December 1981, about 24.2 per cent of the deposits of new bank branches opened after nationalisation have emanated from 'rural' branches and only 32.3 per cent from 'metropolitan' branches (Statement III.6); these contrast with their respective shares of 12.5 per cent and 39.3 per cent in the deposits of all bank offices including those from the older offices. The new branches opened after June 1969 have contributed almost similar amounts of contributions in different population groups except the 'metropolitan' centres: 'rural' Rs.4,557 crores, 'semi-urban' Rs.3,869 crores; and 'urban' Rs.4,380 crores. In proportionate terms, these range from 20 to 24 per cent. The 'metropolitan' branches contributed as much as Rs.6,118 crores or over 32.3 per cent.

3. Deposits by Type

The composition of deposits has undergone a gradual but steady change in favour of term deposits; the share of savings deposits also improved from 25.6 per cent in December 1972 to 28.7 per cent in December 1980 but much less as compared with term deposits (from 51.2 per cent to 55.8 per cent).

Correspondingly, the share of current deposits has slipped from 21.4 per cent to 15.5 per cent (Statement III.7).

4. Two-Way Classification By Type and Population Groups

In the case of the 'rural' branches, savings deposits constituted 43.1 per cent in December 1980 and term deposits 48.7 per cent. Savings deposits have been growing the fastest in 'rural' areas, their share having increased from 38.9 per cent in December 1972 to 43.1 per cent in December 1980. In 'semi-urban' areas, both savings and fixed deposits have grown at an equal pace, their shares having risen from 30.8 per cent to 33.8 per cent and from 51.7 per cent to 55.1 per cent, respectively. In the 'urban' areas and to some extent, even in the 'metropolitan' areas, it is the growth of term deposits that has been the fastest, in these centres, term deposits constituted about 57 to 58 per cent each of their total deposits in December 1980 as against 51 to 52 per cent each in December 1972 (Statement III.8).

Looking at this cross-classification in a different way, of the total savings deposits, 'rural' branches had accounted for 10.4 per cent in December 1972; by December 1980, this proportion had increased to 18.9 per cent. The share of 'rural' branches in term deposits also went up *albeit* slowly from 6.5 per cent to 10.9 per cent. In the total term deposits, the share of the 'metropolitan' branches fell from 46.4 per cent in December 1972 to 40.9 per cent in December 1980. Interestingly, the percentage contributions of 'semi-urban' and 'urban' areas to term deposits remained almost static during the period under review; so are their contributions to savings deposits (Statement III.8).

5. Ownership Pattern

Data on ownership pattern of total and different types of deposits, available only upto March 1978 show that the proportion of institutional deposits in total deposits declined in the 1970's, with a corresponding increase in the part attributable to "individuals and professionals". This latter part rose from 47.8 per cent

6. Maturity Pattern of Fixed Deposits

The change of a very conspicuous nature relates to the shift in the maturity pattern of fixed deposits in favour of the highest maturity period of above 5 years; what was 7.0 per cent of the total fixed deposits in March 1970 and 13.4 per cent in March 1972 as the share of this maturity period, became 38.4 per cent in March 1976 and 54.7 per cent in March 1978 (Statement III.11). Evidence clearly suggests that this radical shift occurred *inter alia* because of the higher interest rates offered and also because of the series of 'special deposit schemes' initiated by the scheduled commercial banks during the latter half of the 1970's with the benefits of compounding interest income. This is an aspect on which no systematic data exists at present.

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in 1961 to 58.7 per cent in 1971 and further to 64.9 per cent in 1978 (Statement III. 9). Even this rise occurred in fixed deposits, while in current deposits, the share of 'individuals and professionals', as expected, fell over the years.

A further disaggregation of the category of 'individuals and professionals' into different occupational groups is available only for two periods, namely, March 1976 and March 1978 (Statement III.10). These data show that the farmers' share in aggregate deposits formed 5.4 per cent in March 1976 and 7.3 per cent in March 1978, that of wage and salary earners 15.0 per cent and 17.3 per cent, and that of 'professionals and self-employed persons' 5.9 per cent and 8.2 per cent, respectively. It is the residual category of "others (including unclassified)" held the bulk: 41.1 per cent in March 1976 and 32.1 per cent in March 1978. A more recent information on this aspect of bank deposits should be of immense use for getting an insight into the sources of deposit growth.

LIST OF STATEMENTS

STATEMENT-III.1

DISTRIBUTION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS ACCORDING TO POPULATION GROUPS

(Rupees, Crores)

Population Group Period		Rural	Semi-urban	Urban	Metropolitan	Total
1		2	3	4	5	6
June	1969	145 (3.1)	1,024 (22.0)	1,209 (25.9)	2,287 (49.0)	4,665 (100.0)
December	1969	306 (6.4)	1,054 (21.9)	1,279 (26.5)	2,183 (45.2)	4,822 (100.0)
December	1970	400 (7.3)	1,254 (22.8)	1,405 (25.6)	2,443 (44.4)	5,502 (100.0)
December	1971	378 (5.2)	1,605 (22.2)	1,855 (25.8)	3,405 (47.0)	7,243 (100.0)
June	1972	459 (6.2)	1,585 (21.3	1,798 (24.1)	3,606 (48.6)	7,448 (100.0)
December	1972	540 (6.5)	1,869 (22.4)	2,087 (24.9)	3,864 (46.2)	8,360 (100.0)
June	1973	654 (7.1)	2,130 (23.3)	2,322 (25.4)	4,053 (44.2)	9,159 (100.0)
December	1973	741 (7.3)	2,317 (23.0)	2,496 (24.8)	4,530 (44.9)	10,084 (100.0)
June	1974	842 (7.9)	2,437 (22.7)	2,644 (24.7)	4,791 (44.7)	10,714 (100.0)

STATEMENT III.1 (Contd.)

1	2	3	4	5	6
December 1974	923	2,624	2,857	5,206	11,610
	(8.0)	(22.6)	(24.6)	(44.8)	(100.0)
June 1975	1,026	2,814	3,106	5,690	12,637
	(8.1)	(22.3)	(24.6)	(45.0)	(100.0)
December 1975	1,171	3,100	3,394	6,046	13,711
	(8.5)	(22.6)	(24.8)	(44.1)	(100.0)
June 1976	1,328	3,452	3,785	6,690	15,255
	(8.7)	(22.6)	(24.8)	(43.9)	(100.0)
December 1976	1,577	3,913	4,338	7,767	17,595
	(9.0)	(22.2)	(24.6)	(44.2)	(100.0)
June 1977	1,763	4,259	4,685	8,329	19,036
	(9.3)	(22.4)	(24.6)	(43.7)	(100.0)
December 1977	2,049	4,668	5,238	9,259	21,214
	(9.7)	(22.0)	(24.7)	(43.6)	(100.0)
June 1978	2,316	5,200	5,882	9,948	23,346
	(9.9)	(22.3)	(25.2)	(42.6)	(100.0)
December 1978	2,670	5,828	6,672	11,334	26,503
	(10.1)	(22.0)	(25.2)	(42.8)	(100.0)
June 1979	3,053	6,443	7,134	12,054	28,684
	(10.6)	(22.5)	(24.9)	(42.0)	(100.0)
December 1979	3,584	7,006	7,836	12,800	31.225
	(11.5)	(22.4)	(25.1)	(41.0)	(100.0)
June 1980	3,966	7,712	8,368	13,275	33,321
	(11.9)	(23.1)	(25.2)	(39.8)	(100.0)
December 1980	4,644	8,540	9,273	14,540	36,997
	(12.5)	(23.1)	(25.1)	(39.3)	(100.0)
June 1981	5,254	9,485	9,963	15,981	40,683
	(12.9)	(23.3)	(24.5)	(39.3)	(100.0)
December 1981	5,939	10,234	10,949	17,137	44,259
	(13.4)	(23.1)	(24.7)	(38.7)	(100.0)
March 1982	6,097	10,328	10,917	16,799	44,141

Note: 1. Classification of centres is as per RBI's Basic Statistical Returns
2. Figures in brackets represent percentages to total.

STATEMENT III.2

SHARE OF TOP 10 AND TOP 50 CENTRES IN AGGREGATE BANK DEPOSITS

Rank	Name of the Centre	December 1981		December 1975	
		No.of Reporting Offices	Deposits (Rs.Crores)	No.of Reporting Offices	Deposits (Rs.Crores)
	1	2	3	4	5
1.	Bombay	957	5,726	729	2,171
2.	Delhi	826	4,257	594	1,280
3.	Calcutta	711	3,331	490	1,346
4.	Madras	487	1,240	351	436
5.	Bangalore	431	895	291	245
6.	Ahmedabad	332	653	233	214
7.	Hyderabad	311	647	202	210
8.	Pune	187	467	138	158
9.	Lucknow	128	439	74	141
10.	Kanpur	190	389	113	143
11.	Vadodara	111	383	79	108
12.	Chandigarh	75	347	54	89
13.	Patna	102	322	62	99
14.	Ludhiana	94	260	71	79

STATEMENT III.2(Contd ...)

1	2	3	4	5
15. Jullundur	87	253	59	79
16. Amritsar	98	231	74	77
17. Nagpur	102	211	73	64
18. Jaipur	111	209	67	64
19. Cochin	142	205	93	66
20. Surat	90	190	66	62
21. Trivandrum	92	178	58	49
22. Varanasi	92	175	55	55
23. Allahabad	81	172	46	61
24. Indore	96	171	66	54
25. Dhanbad	25	157	16	162
26. Srinagar	73	155	41	43
27. Coimbatore*	91	153	68	54
28. Bhopal	81	148	43	42
29. Agra	76	147	49	46
30. Visakhapatnam	55	144	37	37
31. Dehra Dun	41	141	26	35
32. Gauhati	56	141	33	36

STATEMENT III.2 (Contd..)

1	2	3	4	5
33. Meerut	64	132	42	52
34. Mangalore	79	132	55	39
35. Ranchi	43	125	21	32
36. Rajkot	58	124	45	42
37. Howrah	51	122	30	46
38. Bhubaneshwar	40	119	19	27
39. Jamshedpur	42	117	28	39
40. Patiala	49	114	27	34
41. Jabalpur	61	111	39	47
42. Madurai	87	107	65	38
43. Mysore	72	99	49	33
44. Jammu	47	99	34	29

STATEMENT III.2 (Ctond.)

1	2	3	4	5
45. Gwalior	47	98	32	36
46. Thane*	39	97	28	27
47. Gorakhpur	32	94	24	29
48. Vijayawada*	67	92	46	24
49. Jamnagar	38	86	30	32
50. Dharwar*	55	85	46	30
Total for top 50 Centres	7,402	24,488	5,111	8,440
All-India Total	37,873	44,259	20,050	13,711
Share of Top 50 in All-India (Per cent)	19.5	55.3	25.5	61.6
Total for Top 10 Centres.	5,271	18,043	3,215	6,344
Share of Top 10 in All-India (Per cent)	13.9	40.8	16.0	46.3
Share of Top 10 in Top 50 (Per cent)	71.2	73.7	62.9	75.2

*These four centres, namely, Coimbatore, Thane, Vijayawada and Dharwar did not figure in the Top 50 centres of December 1975; the replaced the following: Hubli (Rs.30 crores in December 1975), Navasari (Rs.29crores), Tiruchirappalli (Rs.28crores), and Bhavnagar (Rs.27 crores). With these centres, the share of top 50 in December 1975 worked out to Rs.8,420 crores or 61.4 per cent of the aggregate deposits.

STATEMENT III.3

AGE GROUP-WISE DISTRIBUTION OF TOTAL DEPOSITS OF SCHEDULED COMMERCIAL BANKS

(Rupees, Crores)

Age Groups	June 1973	June 1975	December 1980	December 1981
1	2	3	4	5
Upto June 1969	8050	10225	22236	25336
July 1969 - June 1970	421	625	1,938	2,304
July 1970 - December 1970	170	256	847	1,009
January 1971 - June 1971	151	236	741	884
July 1971 - December 1971	168	292	927	1,089
January 1972 - June 1972	186	136	513	621
July 1972 - December 1972	114	295	1,094	1,347
January 1973 - June 1973	34	164	723	887
July 1973 - December 1973		210	1,082	1,326
January 1974 - June 1974		73	402	486
July 1974 - December 1974		113	964	1,195

STATEMENT III.3 (Contd.)

1	2	3	4	5
January 1975 - June 1975		31	417	513
July 1975 - December 1975			1,065	1,356
January 1976 - June 1976			446	560
July 1976 - December 1976			1,425	1,875
January 1977 - June 1977			427	557
July 1977 - December 1977			631	862
January 1978 - June 1978			259	360
July 1978 - December 1978			349	502
January 1979 - June 1979			186	289
July 1979 - December 1979			136	244
January 1980 - June 1980			99	162
July 1980 - December 1980			86	276
January 1981 - June 1981				148
July 1981 - December 1981				69
TOTAL:	9,159	12,637	36,997	44,259

(Blank means not relevant)

STATEMENT III.4.

DISTRIBUTION OF OUTSTANDING AGGREGATE DEPOSITS ACCORDING TO AGE GROUP AND POPULATION GROUP OF BANK BRANCHES

(Rupees, Crores)

Population Group / Age Group of branches	Rural	Semi-urban	Urban/ Metropolitan	Total
1.	2.	3.	4.	5.
Upto June 1969	1,382	6,366	17,588	25,336
July 1969-June 1970	789	478	1,037	2,304
July 1970-December 1970	362	218	428	1,009
January 1971-June 1971	251	175	459	884
July 1971-December 1971	318	250	521	1,089
January 1972-June 1972	157	147	317	621
July 1972-December 1972	229	213	905	1,347
January 1973-June 1973	104	126	656	887
July 1973-December 1973	216	271	839	1,326
January 1974-June 1974	73	95	318	486
July 1974-December 1974	190	301	703	1,195
January 1975-June 1975	63	111	339	513

STATEMENT III.4 (Contd..)

1.			2,	3,	4,	5,
July	1975-December	1975	231	385	740	1,356
January	1976-June	1976	109	153	299	560
July	1976-December	1976	323	420	1,133	1,875
January	1977-June	1977	157	97	303	557
July	1977-December	1977	320	136	406	862
January	1978-June	1978	109	50	201	360
July	1978-December	1978	147	88	268	502
January	1979-June	1979	63	29	198	289
July	1979-December	1979	108	37	100	244
January	1980-June	1980	54	21	87	162
July	1980-December	1980	111	41	124	276
January	1981-June	1981	45	15	88	148
July	1981-December	1981	28	14	28	69
Total	(All India)		5,939	10,234	28,086	44,259

STATEMENT III.5

CENTRE-WISE DISTRIBUTION OF COMMERCIAL BANK OFFICES IN INDIA
(YEAR AND FIGURES AND ANNUAL INCREASES)

(In Numbers)

End-June	Number of Bank offices at the end of the period				
	Rural	Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5	6
1969	1,832 (22.2)	3,322 (40.2)	1,447 (17.5)	1,661 (20.1)	8,262 (100.0)
1970	3,062 (30.2)	3,695 (36.5)	1,583 (15.6)	1,791 (17.7)	10,131 (100.0)
1971	4,279 (35.6)	4,016 (33.4)	1,778 (14.8)	1,940 (16.2)	12,013 (100.0)
1972	4,814 (35.3)	4,385 (32.2)	2,323 (17.1)	2,100 (15.4)	13,622 (100.0)
1973	5,561 (36.2)	4,723 (30.8)	2,573 (16.7)	2,505 (16.3)	15,362 (100.0)
1974	6,165 (36.4)	5,089 (30.0)	2,899 (17.1)	2,783 (16.5)	16,936 (100.0)

cont...

STATEMENT III.5 (Contd..)

1	2	3	4	5	6
1975	6,806 (36.3)	5,569 (29.7)	3,267 (17.5)	3,088 (16.5)	18,730 (100.0)
1976	7,687 (36.2)	6,387 (30.1)	3,739 (17.6)	3,407 (16.1)	21,220 (100.0)
1977	9,532 (38.4)	7,211 (29.1)	4,263 (17.2)	3,796 (15.3)	24,802 (100.0)
1978	11,802 (42.1)	7,586 (27.1)	4,542 (16.2)	4,086 (14.6)	28,016 (100.0)
1979	13,333 (44.1)	7,845 (26.0)	4,717 (15.6)	4,307 (14.3)	30,202 (100.0)
1980	15,101 (46.6)	8,078 (24.9)	4,856 (15.0)	4,384 (13.5)	32,419 (100.0)
1981	17,652 (49.4)	8,423 (23.6)	5,126 (14.4)	4,505 (12.6)	35,706 (100.0)
1982	20,398 (52.0)	8,763 (22.4)	5,360 (13.7)	4,659 (11.9)	39,180 (100.0)

Figures in brackets represent percentage to total.

Statement III.5 (Contd.)

Centre-wise Distribution of Commercial Bank Offices in India

(Year and figures and Annual increases)

(In Numbers)

End-June	Increase over the previous year				
	Rural (7)	Semi-urban (8)	Urban (9)	Metropolitan (10)	Total (11)
1969	-	-	-	-	-
1970	1,230	375	136	130	1,869
1971	1,217	321	195	149	1,882
1972	535	369	545	160	1,609
1973	747	338	250	405	1,740
1974	604	366	326	278	1,574
1975	641	480	368	305	1,794
1976	881	818	472	319	2,490
1977	1,845	824	524	389	3,582
1978	2,270	375	279	290	3,214
1979	1,531	259	175	221	2,186
1980	1,768	233	139	77	2,217
1981	2,551	345	270	121	3,287
1982	2,746	340	234	154	3,474

STATEMENT III.6

DISTRIBUTION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS BY POPULATION GROUP

(Rupees, Crores)

Population Group As at end of	Rural	Semi-urban	Urban	Metro-politan	T o t a l
1.	2.	3.	4.	5.	6.
	A: TOTAL DEPOSITS OF BRANCHES OPENED AFTER NATIONALISATION				
December 1972	220 (27.5)	179 (22.4)	180 (22.5)	221 (27.6)	799 (100.0)
December 1973	367 (26.1)	272 (19.4)	293 (20.9)	473 (33.7)	1,404 (100.0)
December 1974	493 (24.8)	378 (19.0)	453 (22.8)	663 (33.4)	1,988 (100.0)
December 1975	666 (22.8)	556 (19.1)	692 (23.7)	1,002 (34.4)	2,915 (100.0)
December 1976	975 (21.1)	896 (19.4)	1,124 (24.3)	1,632 (35.3)	4,627 (100.0)
December 1977	1,328 (20.8)	1,271 (19.9)	1,574 (24.7)	2,208 (34.6)	6,381 (100.0)
December 1978	1,854 (20.9)	1,769 (19.9)	2,144 (24.1)	3,114 (35.1)	8,880 (100.0)
December 1979	2,591 (21.9)	2,317 (19.6)	2,764 (23.4)	4,144 (35.1)	11,816 (100.0)
December 1980	3,481 (23.6)	3,015 (20.4)	3,455 (23.4)	4,810 (32.6)	14,761 (100.0)
December 1981	4,557 (24.2)	3,869 (20.4)	4,380 (23.1)	6,118 (32.3)	18,924 (100.0)

STATEMENT III.6(Contd..)

1.	2.	3.	4.	5.	6.
	B: TOTAL DEPOSITS OF ALL BRANCHES				
December 1972	540	1,869	2,087	3,864	8,360
	(6.5)	(22.4)	(24.9)	(46.2)	(100.0)
December 1973	741	2,317	2,496	4,530	10,084
	(7.3)	(23.0)	(24.8)	(44.9)	(100.0)
December 1974	923	2,624	2,857	5,206	11,610
	(8.0)	(22.6)	(24.6)	(44.8)	(100.0)
December 1975	1,171	3,100	3,394	6,046	13,711
	(8.5)	(22.6)	(24.8)	(44.1)	(100.0)
December 1976	1,577	3,913	4,338	7,767	17,595
	(9.0)	(22.2)	(24.6)	(44.2)	(100.0)
December 1977	2,049	4,668	5,238	9,259	21,214
	(9.7)	(22.0)	(24.7)	(43.6)	(100.0)
December 1978	2,670	5,828	6,672	11,331	26,503
	(10.1)	(22.0)	(25.2)	(42.8)	(100.0)
December 1979	3,584	7,006	7,836	12,800	31,225
	(11.5)	(22.4)	(25.1)	(41.0)	(100.0)
December 1980	4,644	8,540	9,273	14,540	36,997
	(12.5)	(23.1)	(25.1)	(39.3)	(100.0)
December 1981	5,939	10,234	10,949	17,137	44,259
	(13.4)	(23.1)	(24.7)	(38.7)	(100.0)

Figures in brackets represent percentage to total.

SVB*

STATEMENT III.7

DISTRIBUTION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS ACCORDING TO TYPE

(Rupees, Crores)

Type of Deposits	Current	Savings	Term	Others	Total
1	2	3	4	5	6
December 1972	1,771 (21.4)	2,120 (25.6)	4,239 (51.2)	142 (1.7)	8,272 (100.0)
June 1973	2,001 (21.9)	2,340 (26.2)	4,623 (50.6)	115 (1.3)	9,130 (100.0)
December 1973	2,073 (20.6)	2,596 (25.8)	5,276 (52.5)	113 (1.1)	10,057 (100.0)
June 1974	2,202 (20.5)	2,843 (26.5)	5,576 (51.9)	126 (1.2)	10,747 (100.0)
December 1974	2,238 (19.3)	3,044 (26.2)	6,156 (53.1)	160 (1.4)	11,598 (100.0)
June 1975	2,405 (19.0)	3,271 (25.9)	6,823 (54.0)	138 (1.1)	12,637 (100.0)
December 1975	2,450 (17.9)	3,611 (26.)	7,538 (55.0)	111 (0.8)	13,711 (100.0)

STATEMENT III.7 (Contd.)

1		2	3	4	5	6
June	1976	2,664 (17.5)	3,918 (25.7)	8,611 (56.5)	62 (0.4)	15,255 (100.0)
December	1976	3,169 (18.0)	4,3[illegible]5 (25.0)	9,994 (56.7)	50 (0.3)	17,607 (100.0)
June	1977	3,061 (16.1)	4,713 (24.8)	11,037 (58.4)	122 (0.7)	18,983 (100.0)
December	1977	3,580 (16.8)	5,489 (25.7)	12,288 (57.5)	-	21,357 (100.0)
June	1978	3,848 (16.5)	6,273 (26.9)	13,225 (56.6)	-	23,346 (100.0)
December	1978	4,551 (17.2)	7,108 (26.8)	11,844 (56.0)	-	26,503 (100.0)
June	1979	4,828 (16.8)	7,840 (27.3)	16,015 (55.9)	-	28,684 (100.0)
December	1979	5,048 (16.2)	8,697 (27.9)	17,449 (55.9)		31,225 (100.0)
June	1980	5,119 (15.4)	9,462 (28.4)	18,740 (56.2)	-	33,321 (100.0)
December	1980	5,726 (15.5)	10,606 (28.7)	20,666 (55.8)	-	36,997 (100.0)

Source : R.B.I. :Basic Statistical Returns(BSR)
Figures within brackets represent percentage to total

STATEMENT III.8

TWO WAY CLASSIFICATION OF BANK DEPOSITS BY POPULATION GROUP AND TYPE OF DEPOSITS

(Rupees, Crores)

Type of Deposits / Population Group	December 1972 Current	Savings	Fixed	Others	Total
1	2	3	4	5	6
Rural	67 (11.9) (3.8)	219 (38.9) (10.4)	275 (48.8) (6.5)	2 (0.4) (1.4)	563 (100.0) (6.8)
Semi-Urban	316 (16.8) (17.9)	578 (30.8) (27.3)	971 (51.7) (22.9)	12 (0.7) (8.5)	1,877 (100.0) (22.7)
Urban	406 (20.6) (22.9)	518 (26.3) (24.5)	1,027 (52.0) (24.2)	21 (1.1) (14.8)	1,973 (100.0) (23.8)
Metropolitan	982 (25.4) (54.4)	804 (20.8) (37.8)	1,967 (51.0) (46.4)	107 (2.8) (75.3)	3,859 (100.0) (46.7)
Total	1,771 (21.4) (100.0)	2,120 (25.6) (100.0)	4,239 (51.3) (100.0)	142 (1.7) (100.0)	8,272 (100.0) (100.0)

Cont..

STATEMENT III.8 (Contd.)

Type of Deposits / Population Group.	December 1975				
	Current	Savings	Fixed	Others	Total
	7	8	9	10	11
Rural	108(9.3) (4.4)	461(39.5) (12.8)	592(50.7) (7.9)	6(0.5) (5.4)	1,167(100.0) (8.5)
Semi-Urban	434(14.0) (17.7)	961(30.0) (26.4)	1,701(54.7) (22.6)	12(0.4) (11.0)	3,108(100.0) (22.7)
Urban	588(17.3) (24.0)	917(27.1) (25.4)	1,857(54.8) (24.6)	28(0.8) (24.8)	3,390(100.0) (24.7)
Metropolitan	1,319(21.8) (53.9)	1,272(21.0) (35.2)	3,389(56.0) (44.9)	65(1.1) (58.8)	6,046(100.0) (44.1)
Total :	2,450(17.9) (100.0)	3,611(26.3) (100.0)	7,538(55.0) (100.0)	111(0.8) (100.0)	13,711(100.0) (100.0)

Cont..

STATEMENT III.8 (Contd..)

Type of Deposits / Population Group.	December 1980 Current	Savings	Fixed	Total
	12	13	14	15
Rural	383 (8.2) (6.7)	2,000(43.1) (18.9)	2,261(48.7) (10.9)	4,644(100.0) (12.6)
Semi-Urban	950(11.1) (16.6)	2,890(33.8) (27.2)	4,700(55.1) (22.7)	8,540(100.0) (23.1)
Urban	1,447(15.6) (25.3)	2,568(27.7) (24.2)	5,258(56.7) (25.4)	9,273(100.0) (25.1)
Metropolitan	2,946(20.3) (51.4)	3,148(21.6) (29.7)	8,447(58.1) (40.9)	14,540(100.0) (39.3)
Total	5,726(15.5) (100.0)	10,606(28.7) (100.0)	20,666(55.9) (100.0)	36,997(100.0) (100.0)

Figures in brackets represent percentage to total.

STATEMENT III.9

OWNERSHIP OF BANK DEPOSITS BY TYPE AND ECONOMIC SECTORS: 1971 TO 1978

(Rupees, Crores)

Sector Type of Deposits	Government Sector	Corporate Sector (Including Co-operatives	Household Sector Total	Household Sector Individuals & professionals	Household Sector Non-corporate business Partnerships, Temples, Charitable foundations and Educational Institutions.	Total (2+3+4)
(1)	(2)	(3)	(4)	(4a)	(4b)	(5)
CURRENT						
1961	76	178	361	146	215	615
	(12.4)	(28.9)	(58.7)	(23.7)	(35.0)	(100.0)
1971	366	284	857	362	495	1,508
	(24.3)	(18.8)	(56.8)	(24.0)	(32.8)	(100.0)
1976	771	451	1,560	771	790	2,782
	(27.7)	(16.2)	(56.1)	(27.7)	(28.4)	(100.0)
1978	1,409	499	2,017	679	1,388	3,926
	(35.9)	(12.7)	(51.4)	(17.3)	(34.1)	(100.0)

STATEMENT III.9 (Contd..)

(1)	(2)	(3)	(4)	(4a)	(4b)	(5)
SAVINGS						
1961	-	-	284 (100.0)	276 (97.2)	8 (2.8)	284 (100.0)
1971	-	-	1,541 (100.0)	1,498 (97.2)	43 (2.8)	1,541 (100.0)
1976	-	-	3,605 (100.0)	3,567 (99.0)	38 (1.1)	3,605 (100.0)
1978	290 (5.2)	12 (0.2)	5,293 (94.6)	4,999 (85.3)	294 (5.3)	5,595 (100.0)
FIXED						
1961	115 (14.4)	159 (20.0)	522 (65.6)	388 (48.7)	134 (16.9)	796 (100.0)
1971	511 (16.6)	193 (6.2)	2,371 (77.1)	1,734 (56.4)	637 (20.7)	3,076 (100.0)
1976	1,314 (16.5)	668 (8.4)	5,988 (75.1)	5,270 (66.1)	718 (9.0)	7,969 (100.0)
1978	2,085 (17.4)	474 (4.0)	9,407 (73.6)	8,261 (69.0)	1,146 (9.6)	11,966 (100.0)

STATEMENT III.9 (Contd..)

1	2	3	4	4a	4b	5
TOTAL						
1961	191 (11.3)	377 (19.9)	1,167 (68.8)	810 (47.8)	357 (21.1)	1,695 (100.0)
1971	877 (14.3)	477 (7.8)	4,769 (77.9)	3,594 (58.7)	1,175 (19.2)	6,125 (100.0)
1976	2,085 (14.5)	1,118 (7.8)	11,154 (77.7)	9,608 (66.9)	1,545 (10.8)	14,357 (100.0)
1978	3,784 (17.6)	985 (4.6)	16,717 (77.8)	13,939 (64.9)	2,778 (12.9)	21,487 (100.0)

Figures in brackets represent percentages to total

STATEMENT III-10

PATTERN OF OWNERSHIP OF COMMERCIAL BANK DEPOSITS: DISAGGREGATED (1976 AND 1978)

(Rupees, Crores)

Item	March 1976	March 1978 (Provisional)
1.	2.	3.
I. Government Sector	2,085 (14.6)	3,784 (14.6)
II. Corporate Sector	1,118 (7.9)	985 (4.6)
III. Other Institutions	1,437 (10.1)	2,778 (12.9)
(1) Non-credit co-operative institutions	32 (0.2)	98 (0.4)
(2) Unincorporated Concerns	636 (4.5)	1,168 (5.1)
(3) Trusts, Associations etc.	242 (1.7)	475 (2.2)
(4) Others	526 (3.7)	1,037 (4.8)

STATEMENT III.10 (Contd.)

1.	2.	3.
IV. Individuals including HUFs	9,608 (67.[illegible])	13,939 (64.9)
(1) Farmers	770 (5.4)	1,556 (7.3)
(2) Wage & Salary earners	2,142 (15.0)	3,725 (17.3)
(3) Professionals & Self employed persons	348 (5.9)	1,757 (8.2)
(4) Others (including unclassified)	5,848 (41.1)	6,901 (32.1)
V. Total	1 ,248 (100.0)	21,487 (100.0)

Figures in Brackets are percentages to total.

STATEMENT III.11

MATURITY CLASSIFICATION OF FIXED DEPOSITS WITH SCHEDULED COMMERCIAL BANKS

(No. of Accounts in thousands)
(Amount in crores of rupees)

Maturity Pattern of Deposits.	1970 No. of Accounts	1970 Amount	1972 No. of Accounts	1972 Amount	1975 No. of Accounts	1975 Amount
1. 6 months or less	309	441.5 (16.9)	288	463.5 (12.5)	N.A.	500.7 (8.2)
2. Above 6 months but upto 1year	1,678	987.1 (37.8)	2,032	1,183.1 (32.0)	N.A.	370.5 (6.0)
3. Above 1 year but upto 2 years	565	304.6 (11.7)	982	545.7 (14.8)	N.A.	1,607.0 (26.3)
4. Above 2 years but upto 3 years	438	155.5 (6.0)	635	272.0 (7.4)	N.A.	1,092.6 (17.9)
5. Above 3 years but upto 5years	1,024	537.9 (20.6)	1,560	733.1 (19.9)	N.A.	870.0 (14.2)
6. Above 5 years	492	182.7 (7.0)	1,010	493.8 (13.4)	N.A.	1,675.4 (27.4)
TOTAL;	4,506	2,609.3 (100.0)	6,507	3,691.2 (100.0)	N.A.	6,116.2 (100.0)
TOTAL DEPOSITS:	21,664	5,231.1	30,404	7,275.9	N.A.	11,827.2+

Cont...

STATEMENT III.11 (Contd..)

(No.of Accounts in thousands)
(Amount in crores of rupees)

Maturity Pattern of Deposits.	1976 No.of Accounts	1976 Amount	1977@ No. of Accounts	1977@ Amount	1978@ No. of Accounts	1978@ Amount
1. 6 months or less	274	675.9 (8 .8)	204	826.8 (8.7)	N.A.	708.0 (6.0)
2. Above 6 months but upto 1 year	421	383.1 (5.0)	389	422.2 (4.4)	N.A.	426.1 (3.6)
3. Above 1 year but upto 2 years.	3,823	1,978.3 (25.9)	4,012	2,315.7 (24.3)	N.A.	2,181.5 (18.6)
4. Above 2 years but upto 3 years.	1,632	596.0 (7.8)	1,388	485.4 (5.1)	N.A.	443.7 (3.8)
5. Above 3 years but upto 5 years.	3,500	1,076.4 (14.1)	4,235	1,206.1 (12.7)	N.A.	1,568.3 (13.3)
6. Above 5 years	5,708	2,943.9 (38.4)	8,889	4,259.7 (44.8)	N.A.	6,426.6 (54.7)
TOTAL	15,358	7,653.6 (100.0)	19,117	9,515.9 (100.0)	N.A.	11,754.7 (100.0)
TOTAL DEPOSITS	60,037	13,885.2	N.A.	17,566.0+	N.A.	22,211.0*

cont...

NOTES: i) The period of maturity classification for 1975, 1976 and 1977 are slightly different in respect of first 3 categories as follows: (1) less than 6 months (2) 6 months and above less than 1 year (3) 1 year and above but less than 2 years. The period of maturity in respect of the fourth category for 1975 is 2 years and above but upto and inclusive of 3 years, for 1976 and 1977 it is 2 years and above but less than 3 years and in respect of the fifth category for 1976 and 1977 it is 3 years and above but upto and inclusive of 5 years.

ii) Data for 1975, 1976 and 1977 exclude inter-bank deposits

iii) Data are based on the returns received from the branches of the banks. In terms of amount of deposits, coverages for 1975, 1976 and 1977 were 97, 98 and 95 per cent respectively.

iv) Figures in brackets indicate percentage to total

v) Data relate to last Friday of March for 1975, 1976 and 1977.

vi) Data for the years 1973, 1974 and for number of accounts for 1975 are not available.

@ Provisional.

+ As per section 42(2) returns.

dmv/-

APPENDIX IV

Trends in Non-Resident Deposit Accounts, Foreign Inward Remittances and Bank Deposits

IV.1 It is widely recognized that (a) foreign inward remittances and (b) accruals under non-resident deposit accounts, have been contributing in recent years rather significantly to the growth of bank deposits. The purpose of this note is to present a factual review in this regard.

Foreign Inward Remittances

IV.2 It is obvious that foreign inward remittances, or what are called private transfer receipts booked in the balance of payments statistics, ought to get reflected, at first remove, in some form of financial saving effected by the household sector; this would in turn be primarily in the form of currency and bank deposits. On this assumption, it is estimated that such foreign inward remittances had constituted approximately 6.0 per cent of household saving in the form of currency and bank deposits together in 1973-74

Statement IV.1 Data on Foreign Private Inward Remittances

(Rupees, crores)

Fiscal Year	Foreign Inward Remitt-ances @	Savings in Gross Financial Assets of Household sector	Household Sector's Savings in the form of Currency and Bank Deposits			2 as % of (6)	2 as % of (3)
			Curr-ency	Bank Depo-sits ≠	Total (4+5)		
1	2	3	4	5	6	7	8
1970-71	81	2,085	355	790	1,145	7.1	3.9
1971-72	112	2,348	404	1,020	1,424	7.9	4.8
1972-73	104	3,004	637	1,210	1,847	5.6	3.5
1973-74	143	3,632	769	1,507	2,276	6.3	3.9
1974-75	220	3,402	18	1,512	1,530	14.4	6.5
1975-76	424	4,994	342	2,129	2,471	17.2	8.5
1976-77	624	6,905	1,140	3,307	4,447	14.0	9.0
1977-78	917	7,113	703	3,521	4,424	20.7	12.9
1978-79	944	9,286	1,525	4,620	6,145	15.4	10.2
1979-80	1,472	10,259	1,332	4,659	991	24.6	14.3
1980-81	2,150	11,720	1,685	5,383	7,068	30.4	18.3

@ These do not include increase in the balances of two non-resident external accounts.

≠ Bank Deposits include co-operative credit and non-credit society deposits.

but the same shop up to 30 per cent in 1980-81 (Statement IV.1). It must be admitted that it is difficult to apportion the foreign inward remittances as between the currency and bank deposits.

<u>Share of Inward Remittances in Invisible Receipts</u>

IV.3 As shown in Statement IV.2, the foreign inward remittances had formed about 24 to 30 per cent of the total invisible receipts during the first half of the 1970's; this proportion rose to about 37 per cent towards the final years of the 1970's.

Statement IV.2 : <u>Trends in Invisible Receipts</u>

(Rupees, crores)

Fiscal year	Total Invisibles: Total Receipts	Total Invisibles: Total Payments	Total Invisibles: Net (2)-(3)	Private transfer payments (Inward remittances)	5 as % of 2
1	2	3	4	5	6
1970-71	334	503	- 169	81	24.2
1971-72	366	504	138	112	30.6
1972-73	389	527	- 138	104	26.7
1973-74	485	561	- 76	143	29.5
1974-75	776	559	+ 217	220	28.3
1975-76	1,254	744	+ 510	424	33.8
1976-77	1,764	940	+ 824	624	35.4
1977-78	2,383	961	+1422	917	33.5
1978-79	2,701	1,130	+1571	944	34.9
1979-80	4,016	1,412	+2,604	1,472	36.7
1980-81	5,890	1,580	+4,310	2,150	36.5

Source : BOP Statistics

Trends in Non-Export Receipts

IV.4 Data on foreign inward remittances are not available beyond 1980-81. However, provisional information available with RBI on non-export receipts put through the Authorised Dealers in India suggest that such receipts have grown at a faster rate during April-October 1982 as compared with the corresponding period of 1981. This is probably one of the factors responsible for an improvement in deposit growth during 1982-83 so far.

Statement IV.3 : Trends in Non-Export Receipts and Non-Import Payments

(Rupees, crores)

Fiscal Year	Non-Export Receipts	Non-Import Payments	Net 2-3
1	2	3	4
1974-75	654	522	132
1975-76	1,198 (+83.2)	790 (+51.3)	408 (+209.1)
1976-77	1,586 (+32.4)	883 (+11.8)	703 (+72.3)
1977-78	2,117 (+33.5)	879 (-0.5)	1,238 (+76.1)
1978-79	2,404 (+13.6)	1,135 (+29.1)	1,269 (+2.5)
1979-80	3,746 (+55.8)	1,168 (+2.9)	2,578 (+103.2)
1980-81	3,969 (+5.6)	1,398 (+19.6)	2,572 (-0.2)
1981-82	4,567 (+15.1)	1,960 (+40.3)	2,607 (+1.4)

April-October			
1980-81	2,330	719	1,611
1981-82	2,536 (+8.8)	1,011 (+40.6)	1,525 (-5.3)
1982-83	2,972 (+17.2)	1,350 (+33.5)	1,622 (+6.4)

(Figures in brackets represent the percentage increase/ decrease over the previous year)

External Rupee and Foreign Currency Accounts

IV.5 In addition to the unilateral transfer indicated above, remittances by Indian expatriates take place under two external accounts permitted to be maintained with banks in India. As early as in 1970, non-resident Indians and foreign nationals of Indian origin were permitted to open with banks in India external accounts designated in rupees. In November 1975, the facility of maintaining by such expatriates foreign currency (non-resident) accounts designated in pound sterling and US dollar was introduced. The annual accruals as well as outstandings under the two schemes are presented in Statement IV.4. It may be observed therefrom that the FCNR accounts have ceased to grow; in fact, there has been net outgo under them almost continuously from 1978-79. On the other hand,

Statement IV.4

Annual Variations and Outstanding Balances in Non-Resident(External) Rupees Accounts and Foreign Currency (Non-Resident) Accounts

Fiscal Year	Rupee Accounts (Rupees Crores) Annual Variations (Net)	Balance Outstanding	
1970-71 *	..	(6.1)	
1971-72 *	(+ 6.4)	(12.5)	
1972-73 *	(+ 8.8)	(21.3)	
1973-74 *	(+ 6.9)	(29.2)	
1974-75 *	(+29.4)	(57.6)	30.9
1975-76	(+) 33.0		63.9
1976-77	(+)125.5		189.4
1977-78	(+)135.3		324.7
1978-79	(+)167.2		491.9
1979-80	(+)209.0		700.9
1980-81	(+)231.8		937.7
1981-82	(+)248.5		1186.2
April-October			
1981-82	+ 141.5		1079.2
1982-83	+ 195.2		1381.4

* Data for 1970-71 to 1974-75 presented within bracket relate to December each year.

.. Means not relevant.

Statement IV.4 (Contd.)

Fiscal Year	Under FCNR Sale(-)of Sterling & US Dollar(Rupee Equivalent in Crores). Pound Sterling: Annual Variations	Pound Sterling: Outstanding	U.S. Dollar: Annual Variations	U.S. Dollar: Outstanding
1970-71 *	..	..	..	..
1971-72 *	..	..	..	..
1972-73 *	..	..	..	..
1973-74 *	..	..	..	..
1974-75 *	..	..	..	..
1975-76	(+) 0.9	0.9	(+) 6.6	6.6
1976-77	(+) 3.0	3.9	(+)47.3	53.9
1977-78	(+)15.1	19.0	(+)73.4	127.3
1978-79	(+) 6.4	25.4	(+)11.3	138.6
1979-80	(+) 2.9	28.3	(-) 7.9	130.7
1980-81	(+) 3.7	32.0	(-) 7.4	123.3
1981-82	(+)13.4	45.4	(-)29.7	93.6
April - October				
1981-82	(+) 6.9	38.3	(-)17.1	106.2
1982-83	(+)13.6	58.9	(-)21.2	72.4

* Data for 1970-71 to 1974-75 presented within bracket relate to December each year.

.. Means not relevant.

Statement IV.4 (Contd.)

Fiscal Year	Reserve Bank's Net purchase (+)	
	Variation	Outstanding
1970-71 *	..	..
[illegible]	..	..
1972-73 *	..	..
1973-74 *	..	..
1974-75 *	..	..
1975-76	(+) 7.5	7.5
1976-77	(+)50.3	57.8
1977-78	(+)89.5	146.3
1978-79	(+)17.7	164.0
1979-80	(-) 5.0	159.0
1980-81	(-) 3.7	155.3
1981-82	(-)16.3	139.0
April-October		
1981-82	(-)10.2	145.0
1982-83	(-) 7.6	131.4

* Data for 1970-71 to 1974-75 presented within bracket relate to December each year.

.. Means not relevant.

external rupee accounts continue to show sizeable accruals. Available provisional data for April-October 1982 suggest that the accretions under such rupee accounts have improved as compared with those in the comparable period of 1981-82.

<u>Characteristics of FCNR Accounts</u>

IV.6 As shown in Statement IV.5, the share of fresh remittances under the FCNR accounts, particularly those denominated in US dollars, has gradually fallen over the years, In 1981, such fresh remittances constituted only about 33.6 per cent of the fresh deposits denominated in US dollars and 60.5 per cent in Pound Sterling.

IV.7 Sizewise, less than 10 per cent of the accounts and over 50 per cent of the amounts of deposits have been in the highest size group of 5,000 and above of Pound Sterling and 10,000 and above of US dollars (Statement IV.6). Maturity-wise,there have been a significant firming up of the maturity pattern in 1981 in both dollar and sterling deposits (Statement IV.7).

STATEMENT IV.5

FCNR DEPOSITS CLASSIFIED ACCORDING TO SOURCES OF FUNDS

(Rupees, Thousands)

Period		Pound Sterling				
		Total Deposits		Percentage of Deposits made by		
		No.of Accounts	Amount	Fresh Remit-tance.	Transfer from non-resident External Accounts	Renewals
1		2	3	4	5	6
Upto December	1976	2269	2129 (349,76)	91.92	4.88	3.20
January-December	1977	3333	6663 (1025,73)	86.81	1.57	11.62
January-December	1978	4211	7497 (1181,25)	88.14	1.51	10.35
January-December	1979	3482	3930 (676,64)	66.08	1.32	32.60
January-December	1980	3229	5326 (972,03)	64.61	1.14	34.25
January-December	1981	2389	5143 (907,88)	60.49	1.57	37.91
Total:		18913	30688 (5113,29)	76.57	1.68	21.75

Cont..

STATEMENT I V. 5 (**Contd..**)

Period		U.S. DOLLARS				
		Total Deposits		Percentage of Deposits made by		
		No. of Accounts	Amount	Fresh Remit-tance	Transfer from non-resident External Accounts	Renewals
		7	8	9	10	11
Upto December	1976	10041	46813 (4210,80)	92.89	3.92	3.19
January-December	1977	18399	97684 (8508,72)	84.44	2.16	12.40
January-December	1978	13718	49219 (4036,53)	69.43	2.01	28.56
January-December	1979	10417	33577 (2733,85)	50.32	1.81	47.87
January-December	1980	8323	29517 (2325,71)	49.17	1.90	48.93
January-December	1981	3608	13031 (1111,67)	33.58	3.52	62.90
Total :-		64506	269841 (22927,28)	72.97	2.43	24.60

Note: i) Figures in brackets are rupee equivalents arrived at by using the average of daily conversion rates for each month.
ii) Data relate to accounts opened during the period November, 1975 to December 1981.

STATEMENT IV.6

PERCENTAGE DISTRIBUTION OF FCNR DEPOSITS ACCORDING TO SIZE

Size / Period	Pound Sterling: Upto 499 No.of Accounts	Amount	500-999 No. of Accounts	Amount
Upto December 1976	55.75	11.88	19.35	13.67
January-December 1977	48.18	4.97	17.95	6.23
January-December 1978	43.22	5.24	21.25	8.03
January-December 1979	46.38	9.08	21.71	13.13
January-December 1980	41.10	5.48	21.65	8.62
January-December 1981	35.87	3.58	18.41	5.62
TOTAL:-	44.89	5.90	20.23	8.38
	U.S. Dollars			
Upto to December 1976	34.97	3.14	20.05	5.36
January-December 1977	33.32	2.64	20.94	4.92
January-December 1978	37.26	4.63	21.98	7.83
January-December 1979	38.94	4.96	22.16	8.92
January-December 1980	37.49	4.32	21.99	7.95
January-December 1981	38.72	4.34	21.62	7.95
TOTAL:-	36.17	3.64	21.39	6.51

STATEMENT IV.6 (Contd.)
PERCENTAGE DISTRIBUTION OF FCNR DEPOSITS ACCORDING TO SIZE

Period / Size		1000-2999 No. of Accounts	1000-2999 Amount	3000-4999 No. of Accounts	3000-4999 Amount
		Pound Sterling			
Upto December	1976	18.86	28.84	2.12	7.80
January-December	1977	20.64	15.53	5.22	9.50
January-December	1978	24.72	21.81	4.32	8.94
January-December	1979	23.09	31.20	4.51	15.06
January-December	1980	25.02	23.43	5.18	12.11
January-December	1981	27.67	20.92	7.35	11.90
Total:		23.42	22.27	4.83	10.81
		U.S.Dollars			
Upto December	1976	21.20	13.36	11.82	15.62
January-December	1977	22.31	12.19	12.10	13.68
January-December	1978	21.99	18.15	10.75	18.44
January-December	1979	21.73	20.02	9.58	18.75
January-December	1980	21.55	18.05	10.49	19.11
January-December	1981	20.59	17.43	10.64	19.40
Total:		21.78	15.35	11.07	16.38

STATEMENT IV.6 (Concld.)
PERCENTAGE DISTRIBUTION OF FCNR DEPOSITS ACCORDING TO SIZE

Period / Size		Pound Sterling			
		Upto 5000 & above		Total	
		No. of Accounts	Amount	No. of Accounts	Amount
Upto December	1976	3.92	37.81	100.00	100.00
January-December	1977	8.01	63.77	100.00	100.00
January-December	1978	6.49	55.98	100.00	100.00
January-December	1979	4.31	31.53	100.00	100.00
January-December	1980	6.75	50.36	100.00	100.00
January-December	1981	10.70	57.98	100.00	100.00
Total:		6.63	52.64	100.00	100.00
			U.S. Dollars		
Upto December	1976	11.96	62.52	100.00	100.00
January-December	1977	11.33	66.57	100.00	100.00
January-December	1978	8.02	50.95	100.00	100.00
January-December	1979	7.59	47.35	100.00	100.00
January-December	1980	8.48	50.57	100.00	100.00
January-December	1981	8.43	50.88	100.00	100.00
TOTAL:-		9.59	58.12	100.00	100.00

dmv/-

STATEMENT IV.7

PERCENTAGE DISTRIBUTION OF FCNR DEPOSITS ACCOURDING TO PERIOD OF MATURITY

POUND STERLING

Maturity Pattern / Month & Year.		Upto December 1976	January 1977 to December 1977	January 1978 to December 1978	January 1979 to December 1979	January 1980 to December 1980	January 1981 to December 1981
1		2	3	4	5	6	7
15 days to 45 days @	No.of A/cs	-	-	-	0.03	1.05	2.18
	Amount.	-	-	-	0.13	14.42	17.07
46 days to 90 days @	No.of A/cs	-	-	-	0.12	0.19	0.38
	Amount	-	-	-	0.13	0.43	0.31
91 days to less than 6 months %	No.of A/cs	7.45	7.41	1.33	0.32	1.61	1.76
	Amount	8.22	6.26	1.52	0.43	5.61	1.96
6 months to less than 9 months %	No.of A/cs	4.05	2.97	0.45	0.29	0.99	1.51
	Amount	2.49	3.03	0.25	0.38	0.92	0.78
9 months to less than 12 months %	No.of A/cs	1.54	0.78	0.12	0.06	0.12	1.00
	Amount	1.22	0.20	0.23	0.03	0.08	0.82
12months & above but less than 36 months	No.of A/cs	33.05	32.05	7.93	-	-	-
	Amount	34.85	21.39	6.51	-	-	-

STATEMENT IV.7 (Contd.)

(1)		(2)	(3)	(4)	(5)	(6)	(7)
36 months & above but upto and including 60 months	No.of A/cs	15.73	11.73	3.35	-	-	-
	Amount	15.31	10.67	3.81	-	-	-
61 months +	No.of A/cs	38.18	4 .06	16.67	15.97	46.61	9.58
	Amount	37.91	58.45	32.64	24.13	48.03	7.70
12 months to 36 months(both inclusive)	No.of A/cs	-	-	34.51	46.07	38.84	6.65
	Amount	-	-	24.73	41.25	23.71	5.15
37months to 60 months (both inclusive)	No.of A/cs	-	-	35.64	37.14	10.56	1.21
	Amount	-	-	30.31	33.52	6.80	1.28
12 months to 23months (both inclusive)	No.of A/cs	-	-	-	-	-	20.64
	Amount	-	-	-	-	-	12.43
24months to 35months (both inclusive)	No.of A/cs	-	-	-	-	-	1.93
	Amount	-	-	-	-	-	1.54
36 months & above.	No.of A/cs	-	-	-	-	-	53.16
	Amount	-	-	-	-	-	50.96
Total:	No.of A/cs	100.00	100.00	100.00	100.00	100.00	100.00
	Amount.	100.00	100.00	100.00	100.00	100.00	100.00

STATEMENT IV.7 (Contd..)

PERCENTAGE DISTRIBUTION OF FCNR DEPOSITS ACCORDING TO PERIOD OF MATURITY

Month and year / Maturity Period		U.S. DOLLAR Upto December 1976	January 1977 to December 1977	January 1978 to December 1978	January 1979 to December 1979	January 1980 to December 1980	January 1981 to December 1981.
1		2	3	4	5	6	7
15 days to 45 days @	No.of A/cs	-	-	-	0.14	0.90	0.86
	Amount	-	-	-	0.66	2.39	2.39
46 days to 90 days @	No.of A/cs	-	-	-	0.13	0.23	0.39
	Amount	-	-	-	0.30	0.26	0.30
91days to less than 6 months %	No.of A/cs	7.39	5.95	1.46	0.84	1.84	2.66
	Amount	7.05	4.37	2.31	2.30	4.06	3.61
6 months to less than 9 months %	No.of A/cs	3.73	3.49	0.82	0.70	1.59	1.41
	Amount	1.68	1.53	0.60	1.14	2.16	1.34
9 months to less than 12 months %	No.of A/cs	1.30	0.92	0.26	0.09	0.24	1.19
	Amount	0.64	0.35	0.11	0.05	0.19	1.68
12 months & above but less than 36 months	No.of A/cs	37.47	38.32	9.80	-	-	-
	Amount	29.10	26.85	9.08	-	-	-
36months & above but upto and including 60 months	No.of A/cs.	14.09	11.71	2.94	-	-	-
	Amount	12.18	7.86	2.63	-	-	-

STATEMENT IV.7 (Contd..)

(1)		(2)	(3)	(4)	(5)	(6)	(7)
61months +	No.of A/cs	36.02	39.61	11.70	11.67	29.96	7.51
	Amount	49.35	59.04	18.48	17.85	38.42	8.29
12 months to 36 months (both inclu-sive)	No.of A/cs	-	-	43.34	59.32	53.84	11.42
	Amount	-	-	37.07	52.00	43.28	12.27
37 months to 60 months (both inclusive)	No.of A/cs	-	-	29.69	27.11	11.35	2.61
	Amount	-	-	29.72	25.70	9.24	1.64
12months to 23months (both inclusive)	No.of A/cs	-	-	-	-	-	30.24
	Amount	-	-	-	-	-	25.70
24months to 35months (both inclusive)	No.of A/cs	-	-	-	-	-	2.66
	Amount	-	-	-	-	-	1.42
36 months & above	No.of A/cs	-	-	-	-	-	39.05
	Amount	-	-	-	-	-	41.36
Total :-	No.of A/cs	100.00	100.00	100.00	100.00	100.00	100.00
	Amount	100.00	100.00	100.00	100.00	100.00	100.00

Note: Data relate to accounts opened during the period November 1975 to December 1981 and are provisional

@ These terms were not permissible upto 4th June 1979.

% These terms were not permissible from March 1978 to May 1979

\+ The maximum permissible period was 61 months upto February 1978 from March 1978 to May 1979.
The maximum permissible period was 60 months from June 1979 there is no limit on the period for which the account can be opened under this scheme.

Different Types of Financial Assets available to Households in India and the Nature of their Yields and Incentives *

Category	Current Interest Rate (Per cent per annum)	Outstandings (Rs. Crores)		Limits, if any, on Holdings	Other Descriptions
1.	2.	3.		4.	5.
I. Commercial Banks a) Savings Deposits	5.0 (September 13, 1979)	5293 (March 1978)	Approx. 12,500 (March '82)	No limits	i) Withdrawals are permitted with limited restrictions. ii) Earlier, between April 1, 1974 to March 1, 1978 also, the rate was 5.0 per cent per annum.
b) Fixed Deposits	March 1, 1982			No limits	i) Interest on bank deposits along with interest on investments in other specific categories upto Rs. 3,000 was tax-free upto 1981-82. This limit has been raised to Rs.4,000 in the Finance Bill for 1982-83. Also an additional exemption upto Rs.2,000 on income from deposits in banks of a maturity of one year or more has been given.
1) 15 days to 45 days	3.0	56			
2) 46 days to 90 days	4.0				
3) 91 days to less than 6 months	5.0	84			
4) 6 months to less than 9 months	6.0	202	Approx. 18,800 (March '82)		
5) 9 months to less than 1 year	7.0				
6) 1 year to less than 2 years	8.0	1362			
7) Two years to less than 3 years	9.0	344			
8) Three years and to 5 years	10.0	6212			
9) Above Five years (Since Oct. 1982)	11.0	Total 8261 (March, 1978 data relating to individuals only)			

1.	2.	3.	4.	5.
(Deposits with co-operative banks and RRBs and those with very small commercial banks earn 0.5 to 1.0 percentage point more than commercial banks' general rates. For tax concessions, they are bracketed with commercial banks.)				ii) Outstanding amount relates to household sector only. Total saving deposits of scheduled commercial banks aggregated approximately to Rs. 12,500 crores and total fixed deposits approximately to around Rs. 24,000 crores in March 1982. iii) Maximum rate of 10.0 per cent for three years and above deposits was fixed effective from March 2, 1981. iv) Above 5 years deposit rate of interest of 11% was fixed effective from Oct. 1982.
II. National Savings Schemes				
a) Schemes on which interest is completely tax-free		Sept. 1982	Minimum Rs 5 and maximum Rs 25,000 for an individual, Rs 50,000 for two or three adults jointly in one or more accounts.	i) Over 11,000 prizes worth Rs 20.5 lakhs distributed every 6 months through public draws to account holders maintaining a minimum balance of Rs 200 for prescribed period.
1) Post Office Savings Bank Account	5.5 Annually interest compounded (Effective from April 1, 1982.)	2293		

				ii) Interest is free from income-tax and deposit(aggregated with other specified investment) is free from Wealth Tax upto Rs. 1,65,000.
2) 7 Year National Savings Certificates (II Issue) (Issued on March 16, 1970)	6.5 Compound payable on Maturity	196 .. (March 1982)	Maximum Rs.75,000 for individuals Rs.1,50,000 for two adults jointly) inclusive of holdings in earlier tax-free certificates.	i) Can be encashed after 3 years; Rs.100 grows to Rs.165.50 after seven years. ii) Interest is free from income-tax and investment(aggregated with other specified investments) is free from Wealth tax upto Rs.1,65,000.
3) 10 Year Cumulative Time Deposits (Issued on January 2, 1959)	6.75 Compound	381	Minimum Rs.10 per month and maximum Rs.1,000 per month (in one or more accounts). Upper limit doubles in Joint accounts.	i) Withdrawals permitted once after one year and again after 5 years upto 50 per cent of the balance. If no withdrawal is availed of, a bonus of Rs.50 paid at maturity for Rs.10 account. Rs.10 fetches Rs. 1693 on maturity. ii) Besides tax free interest, amounts invested-inclusive of those in the names of dependents, wife and children qualify for rebate in income-tax (as in of provident fund contribution,

Appendix V (Contd.)

1.	2.	3.	4.	5.
				insurance premia, etc) as well as complete wealth tax exemption.
4) Fifteen-year public Provident Fund Account. (Introduced on July 1, 1968)	8.75 Compound	232 (March 1982 and relate to State Bank of India transactions only)	Minimum Rs.100 and maximum Rs. 30,000 in a financial year	i) Facilities for loans and withdrawals are available. ii) Interest credited to PPF account is totally exempt from income-tax. Total amount of deposits is totally exempt from Wealth Tax. Total deposit in a year also qualify for tax rebates along with provident funds, insurance premia, etc. iii) Introduced on July 1, 1968 at a rate of interest of 8.0 per cent compound; the rate was raised to 8.50 per cent in April, 1981 and further to 8.75 per cent in April, 1982.

b) <u>Schemes on which interest alongwith interest on investments in other specified categories is tax-free upto Rs.6,000 a year now proposed in Finance Bill 1982-83.</u>

<u>Appendix V</u> (Contd)

1.		2.	3.	4.	5.
1) 6 Year National Savings Certificates (Issued from May 1, 1981)					
i) VI Issue		12% compounded six monthly or about 17% simple per annum payable on maturity	Sept.1982 966	Minimum Rs.10 and no maximum limit	i) Interest (aggregated with other interest income on specified investment) is free from income-tax up to Rs.6,000 and investments (aggregated with other specified investments) upto Rs. 1,65,000 exampt from Wealth Tax. ii) Can be encashed after three years. Encashment value of Rs. 100 certificate after six years is Rs.201.50
ii) VII Issue		12% payable half-yearly	159	Minimum Rs.100 and no maximum limit	Can be encashed after three years.
2) Post Office Time Deposits		Effective rate	443B		
1 Year Account	9.00	9.28 Interest payable annually but calculated at half-yearly rest.	39	Minimum Rs.50 and no maximum	i) Two, three, and Five-year accounts can be encashed after one year at a discount. ii) Rate of 9.75 per cent for two-years deposit was effective from August 1, 1973; others from March 16, 1970. iii) Interest upto Rs.6,000 (along with other approved taxable securities and deposits)
2 Year Account	9.75	9.19	29 (March 1982)		
3 year Account	10.5	10.78	72		
5 year Account	10.5	10.78			

1.	2.	3.	4.	5.
				is exempt from income-tax. Deposits qualify for exemption from Wealth Tax upto Rs.1,65,000 with other approved securities and deposits.
3) Five-Year Post Office Recurring Deposit Account (Introduced on January 1, 1955)	10.5 Compound payable at maturity (Rupees 10 matures to Rs.786.80)	429	Minimum Rs.5 per month and no maximum limit	i) One withdrawal upto 50 per cent of the balance allowed after one year. Free life insurance cover provided in any one of Rs. 5, 10, 15, or 20 accounts after 24 months deposit. ii) Interest income and deposits exempt from income-tax and Wealth Tax along with other specified investments.
III. Company Deposits and Shares				
i) Company deposits				
1 Year	9 - 13.50	About Rs.4,600 at end-March 1982.	No maximum limit	Acceptance of deposits for periods more than three years is prohibited from April 1978, but companies are permitted to retain such deposits already accepted till period of maturity. From April 1, 1981, maximum rate of 15per cent interest has been
2 Years	10 - 14.50			
3 Years	13 - 15.50			

Appendix V (Contd.)

1.	2.	3.	4.	5.
Unit Trust of India (UTI) (i) Unit Scheme, 1964	12.5 (1981-82)	433 (June 1982)	-	Income from units of UTI alongwith income on specified financial assets were exempt from tax upto Rs.3,000. The Finance Bill for 1982-83 raised it to Rs.4,000. In addition, income upto Rs.2,000 from units exempted from tax. The Finance Bill raises the additional exemption limit upto Rs.3,000. The ceiling of the value of investments in specified financial assets exempt from wealth tax is proposed to be raised from Rs.1,50,000to 1,65,000 in Finance Bill, 1982-83. In addition, separate exption of Rs.25,000 provided in respect of units of UTI is propsed to be raised to Rs 35,000.
(ii) Unit-Linked Insurance Plan, 1971	9.5 (1981-82)	46(June 1982)	Minimum Rs.3,000 & maximum Rs.12,000 (persons participating for target amount of Rs.12,000for a period of at least 3 years will be able to join the plan for an additional amount of Rs.12,000)	Contributions qualify for income-tax deduction alongwith contributions made to recognised provident fund, life insurance premia, public provident fund, etc.

Appendix V (Contd.)

1.	2.	3.	4.	5.
				stipulated for company deposits.
ii) Corporate Debentures, Equity, Preference Shares				
Non-Convertible Debentures	15.00	Paid-up Value of listed debentures 760 (December 1980)		i) Non-convertible debentures fetch premium upto 5 per cent of the face value at the time of redemption.
Convertible Debentures	13.50			
Ordinary Shares	5.88 (Gross yield for 1980-81)	Paid-up capital of listed shares 2995 (December 1980)	No maximum limit	ii) Data given represent shares of companies listed in the 9 stock exchanges in India. The total paid-up capital of these companies numbering around 2,200 account for 95 per cent of the total paid-up capital of all non-Government public limited companies; shares of companies not listed in the stock exchanges including private limited companies are also held by the public; data relating to the latter are not available.
Preference Shares	13.50	Paid-up capital of listed shares 217 (December 1980)		

IV. Unit Trust of India (UTI)

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Appendix V (Contd.)

1.	2.	3.	4.	5.
(iii) Income Unit Scheme, 1982(Introduced from May 1982 and remained open for only two months)	1981-82 12.0 1982-83 12.0 1983-84 12.5 1984-85 13.0 1985-86 13.0	68 (June 1982)	Minimum Rs.2,000 and maximum Rs.10,000	Closed End Unit Five-Year Scheme. Sales under this Scheme were kept open only for two months, May-June 1982. Tax exemption is as in the case of Unit Scheme, 1964.
V. Employees' Provident Fund	8.75	12,306(March 1982) (Central and State Provident Fund)		Deduction of 100 per cent is proposed in Finance Bill in respect of first Rs.6,000 (Rs.5,000 earlier) of qualifying savings plus 50 per cent of next Rs.6,000(Rs.5,000 earlier)of such savings plus 40 per cent of the balance.
VI. Life Insurance Fund	-	7,665(March 1982)		
VII. Compulsory Deposit Scheme, 1974(Income-Tax payers)	12.50	724(July 1982)		
VIII. Currency	-	15,000(August 1982)	.	-
IX. <u>Proposed New Saving Schemes</u>				
(1) Social Security Certificates (From June, 1982)	11.3 (Effective rate of return)	6.94	Maximum Rs.5,000 (to triple in 10 years)	Maturity period is 10 years. Holder should be in the age group of 18 to 45 years. Certificates will be in denominations of Rs.500 and Rs.1,000 and amounts payable on maturity will be Rs.1,500 and Rs.3,000, respectively.

Appendix V (Contd.)

1.	2.	3.	4.	5.
				If a holder dies after two years from date of purchase of certificate, his nominee or legal heir will get full maturity value.
(2) Capital Investment Bonds (June 28, 1982)	7.00 (Free of income-tax)	60(upto July 1982)	No ceiling	Maturity period is 10 years. Interest is free of income-tax and Bonds are exempt from Wealth Tax. Bonds are also exempt from gift tax upto Rs.10 lakhs in the case of their first holder.

APPENDIX VI

DEDUCTIBILITY OF INTEREST INCOME AT SOURCE*

The enclosed statement presents the provisions regarding tax deductibility at source in respect of dividend or interest income earned from major financial assets. As may be seen there from, interest paid on commercial bank and co-operative bank deposits is completely exempt from the provisions relating to deduction of income-tax at source (vide sub-section 2(vii) of section 194A of the Income-Tax Act, 1961). In respect of company debentures as well as public deposits accepted by them, the rate of income-tax to be deducted at source is only 10 per cent and that too, if the amount of interest exceeds Rs.1,000. On the other hand, in the case of dividends on company shares, the rate of income-tax to be deducted is 22 per cent for dividend amounts exceeding Rs.250.

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* Dr. Tapas Chakrabarty of the Division of Fiscal Analysis (DEAP) helped in the preparation of this note.

STATEMENT VI.I

RATES FOR DEDUCTION OF TAX AT SOURCE IN CERTAIN CASES
(INCOME-TAX)

Deductible at Source	1980-81		1981-82		1982-83*		Remarks
	Rate of In-come-tax	Rate of Sur-charge	Rate of In-come-tax	Rate of Sur-charge.	Rate of In-come tax.	Rate of Sur-charge	
1	2	3	4	5	6	7	8
In the case of a person other than a company, where the person is resident in India,							
(i) On income by way of interest other than "Interest on Securities"	10%	Nil	10%	Nil	10%	Nil	This is applicable *inter alia* to interest paid on company deposits only if the interest amount exceeds Rs.1,000.Under the same provision, interest paid on deposits with commercial & co-operative banks are completely exempt from deduction at source.

cont...

1	2	3	4	5	6	7	8
(ii) on income by way of interest payable on:							
(a) any security, other than a tax-free security, of the Central or a State Government,	10%	Nil	10%	Nil	10%	Nil	
(b) any debentures issued by a company (listed in a recognised stock exchange)	10%	Nil	10%	Nil	10%	Nil	Interest on debentures is also exempt if the amount does not exceed Rs.1,000.
(c) any other income (excluding interest payable on a tax-free security)	21%	2%	20%	2%	20%	2%	This is applicable to dividends on ordinary & preference shares if the dividend amount exceeds Rs.250.

*Note: Persons with income below the taxable limit can receive these categories of income without deduction of tax at source, furnishing a declaration in writing (in duplicate) in prescribed form and verified in the prescribed manner, to the person responsible for making the payment. The declaration will have to be to the effect that the estimated total income of the declarant of the previous year will be less than the minimum liable to income tax. This concession is not available to non-resident investors.

Source: The Finance Bill, 1982 (p.40)

Appendix VII

Some Characteristics of Deposits Accepted by Non-banking Financial and Non-Financial Companies*

Three statements appended to this note present data on maturity-wise and interest range-wise distribution of public deposits accepted by non-banking financial and non-financial companies for three reference periods, March 1980, March 1981, and March 1982. These data are based on a quick survey of a sample of representative companies drawn up separately from four regions in respect of financial

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* This note is solely based on the data specially tabulated for the Working Group by the Central Office and the four Regional Offices of the Department of Non-Banking Companies (DNBC), Reserve Bank of India. In this regard, the Working Group gratefully acknowledges the prompt supply of data organised by Shri A.S. Jaspal, Chief Officer, DNBC, Shri Govindarajan (Deputy Chief Officer, Bangalore), Shri B.A. Rao (Deputy Chief Officer, Calcutta), Shri M.S. Pai (Deputy Chief Officer, New Delhi), and Shri B. Subramanian (Deputy Chief Officer, Bombay).

companies accepting public deposits and that drawn up at the all-India level for non-financial companies similarly accepting public deposits. As these represent sample data and as no attempt has been made to present any global estimates, the figures presented in the statements do not represent the total size of public deposits accepted by companies. Details of their coverage are contained in the respective statements attached to this note.

I. Concentration at High Rates of Interest

Non-financial Companies

2. Statement VII .1 presents data on distribution of public deposits by interest rates in respect of non-financial companies. Two important features are discernible from these data. First, a preponderant part of public deposits as at the end of March 1981 and March 1982 was concentrated in the two highest interest ranges of '13 per cent or more but less than 15 per cent' and '15 per cent or more'. These two interest ranges together accounted for about 90 per cent and 95 per cent of the total deposits at the

above two reference periods, respectively. Within the two highest interest ranges, the bulk (69 per cent of the total in March 1981 and 64 per cent in March 1982) was mobilised at the rates of '13 per cent or more but less than 15 per cent'. Even in the previous year ending March 1980, the two highest ranges accounted for 55 per cent of the total deposits, but the '13 per cent to 15 per cent' range was the most important with 47 per cent of the deposits mobilised at the rates of interest falling in that range.

3. Secondly, the rates of interest offered on public deposits have firmed up rather conspicuously over the years, which is evident from two features: the shares of the highest interest range of '15 per cent or more' steadily rose from 9 per cent in March 1980 to 20 per cent in 1981 and further to 31 per cent in March 1982; and the estimated weighted average of the rate of interest for all deposits likewise improved from 13.1 per cent to 13.9 per cent and to 14.2 per cent over the three years, respectively.

Financial Companies

4. The distribution of deposits accepted by non-banking financial companies is also oriented towards the high interest rate brackets, but there is a major difference as compared with the non-financial companies. That is, the middle brackets of interest rate, namely, '9 per cent or more but less than 11 per cent' and '11 per cent or more but less than 13 per cent' attracted sizeable proportions of deposits for financial companies - nearly one-third - at the end of March 1981 as well as March 1982 in contrast to about 11 per cent and 2 per cent respectively, for the non-financial companies (Statement VII.2).

5. The highest two brackets of '13 per cent to 15 per cent' and ' 15 per cent and above' together fetched 50 per cent of the deposits of financial companies as at March 1981 and 66 per cent in March 1982; the corresponding proportion for March 1980 was 24 per cent.

6. Thus, as in the case of non-financial companies, the rates of interest offered by financial companies have undoubtedly firmed up over the years, with larger

proportions of deposits having been funnelled at higher and higher interest rate brackets. This is more accurately manifested in an upward movement in the weighted average of the rates of interest estimated also for the deposits of financial companies from 10.6 per cent in March 1980 to 11.6 per cent in March 1981 and 13.3 per cent in March 1982.

II. Maturity-wise Distribution of Deposits

7. Data on maturity-wise classification of public deposits is available only in respect of financial companies, which is depicted in Statement VII.3. Over 60 per cent of the deposits accepted by financial companies have been for longer maturity periods of above two years. The short-term deposits of less than 6 months' duration have drastically come down from about 12 per cent of the total in March 1980 to about 3 per cent in March 1982. On the other hand, the proportion of deposits accepted for periods between 6 months and 1 year and between 1 year and 2 years has shown an increase from about 25 per cent to nearly 30 per cent. But a conspicuous shift in the

maturity pattern of deposits is seen in the category of 'over 2 years and upto 3 years', its share in total deposits galloping from 24 per cent to 44 per cent.

8. The maturity and interest range-wise distributions of public deposits, presented above, have obviously been influenced by the imposition of 15 per cent ceiling on interest on deposits accepted by non-financial as well as financial companies except the mutual benefit companies (Nidhis) and housing finance companies effective from April 1981. Earlier, effective from July 1, 1977 the finance companies other than mutual benefit (Nidhis) and housing finance companies were prohibited from accepting deposits for periods beyond 3 years ; in the case of the housing companies, the maximum period prescribed was 5 years. Similarly, in the case of non-financial companies the Government prescribed the maximum period for acceptance of deposits at 3 years effective from April 1, 1978.

STATEMENT - VII.1

Distribution of Deposits Accepted by Non-Financial Companies According to Rates of Interest (exclusive of Brokerage)

(Rupees, Thousands)

Rate of Interest	Deposits from public covered under 3(2) (ii)*			Total Deposits under 3(2)(i) and 3(2)(ii)		
	31.3.80	31.3.81	31.3.82	31.3.80	31.3.81	31.3.82
1) Below 6%	1,09,63 (0.3)	1,57,72 (0.3)	1,80,92 (0.3)	1,64,50 (0.3)	2,03,60 (0.3)	2,36,87 (0.3)
2) 6% or more but less than 9%	62,24 (0.2)	55,73 (0.1)	20,11 (-)	69,79 (0.1)	63,28 (0.1)	24,61 (-)
3) 9% or more but less than 11%	24,01,80 (5.8)	5,97,76 (1.2)	2,77,15 (0.4)	28,06,16 (5.2)	6,41,77 (0.9)	2,97,01 (0.4)
4) 11% or more but less than 13%	1,55,77,68 (37.9)	52,48,82 (10.1)	29,23,18 (1.5)	1,98,53,53 (27.1)	65,00,89 (9.6)	34,67,91 (4.3)
5) 13% or more but less than 15%	1,92,55,89 (46.8)	3,55,65,92 (68.6)	4,00,07,58 (64.0)	2,54,04,05 (47.5)	4,54,22,53 (66.8)	4,62,72,74 (57.7)
6) 15% or more	37,07,19 (9.0)	1,01,78,49 (19.6)	1,91,21,01 (30.6)	51,56,15 (9.6)	1,51,12,46 (22.2)	2,99,53,06 (37.3)
TOTAL	4,11,14,43 (100.0)	5,18,04,44 (100.0)	6,25,29,95 (100.0)	5,34,54,18 (100.0)	6,79,44,53 (100.0)	8,02,52,20 (100.0)
Weighted average rate of interest	13.1	13.9	14.2	13.1	14.0	14.3

Figures in brackets represent percentage to total.

* Rule 3(2)(ii) covers deposits from public with a ceiling of 25 per cent of net worth. Rule 3(2)(ii) covers deposits against unsecured debentures/or deposits from the share-holders or deposits guaranteed by a director of the company concerned. This has a ceiling of 10% of net worth in respect of non financial companies and 15% of net worth in respect of financial companies.

- means negligible or nil.

STATEMENT VII.2

DISTRIBUTION OF DEPOSITS ACCEPTED BY FINANCIAL COMPANIES ACCORDING TO INTEREST RANGE

(Rupees, thousands)

Range of Interest Rate	Centres	March 31, 1980	March 31 1981	March 31, 1982
1.	2.	3.	4.	5.
1. Free of Interest	Calcutta	4,84	4,73	21,59
	Delhi	12,87	18,33	17,85
	Bangalore	11,31,99	9,69,38	33,51
	Bombay	4,12,94	37,19	4.84
	Sub-total	11,92,64	10,79,63	77,79
		(6.8)	(5.5)	(0.5)
2. Below 6%	Calcutta	3,70,51	3,77,50	8,73
	Delhi	1,63	64	1,58
	Bangalore	46,39	60,81	99
	Bombay	63	66	4
	Sub-total	4,19,16	4,39,61	11,34
		(2.4)	(2.2)	(0.1)
3. 6% or more but less than 9%	Calcutta	1,53,85	88,72	27,70
	Delhi	50	96	2,29
	Bangalore	11,53,73	1,44,35	31,15
	Bombay	15,19,09	16,47,02	25,77
	Sub-total	28,27,17	18,81,05	86,91
		(16.0)	(9.6)	(0.6)

STATEMENT VII.2 (Contd..)

(1)	(2)	(3)	(4)	(5)
7. 15% or more	Calcutta	3,34,56	3,13,92	1,96,86
	Delhi	4,97,29	9,76,94	10,83,06
	Bangalore	7,25,20	13,89,55	16,99,29
	Bombay	3,32,04	5,08,41	7,23,25
	Sub-total	18,89,09	31,88,82	37,02,46
		(10.7)	(16.2)	(24.6)
	Grand-Total	1,76,19,57	1,96,43,95	1,50,58,90
		(100.0)	(100.0)	(100.0)
Weighted average rate of interest		10.6	11.6	13.3

Figures in brackets represent percentages to grand total.

STATEMENT VII.2 (Contd.)

1.	2.	3.	4.	5.
4. 9% or more but less than 11%	Calcutta	81,31	25,48	35,32
	Delhi	35,75	47,03	39,08
	Bangalore	6,65,47	3,08,28	1,56,97
	Bombay	20,73,56	28,25,50	11,17,10
	Sub-total	28,56,09 (16.2)	32,06,29 (16.3)	13,48,47 (9.0)
5. 11% or more but less than 13%	Calcutta	2,05,08	1,95,22	75,58
	Delhi	9,88,66	8,19,95	4,88,76
	Bangalore	45,49,08	18,27,58	9,99,97
	Bombay	3,61,79	3,47,36	19,63,35
	Sub-total	61,04,61 (34.7)	31,90,11 (16.2)	35,27,66 (23.4)
6. 13% or more but less than 15%	Calcutta	1,52,81	54,40	47,92
	Delhi	12,48,53	14,71,26	5,99,39
	Bangalore	6,02,38	45,48,35	47,52,16
	Bombay	3,27,09	5,84,43	9,04,80
	Sub-total	23,30,81 (13.2)	66,58,44 (33.9)	63,04,27 (41.9)

STATEMENT VII.3

DISTRIBUTION OF DEPOSITS ACCEPTED BY FINANCIAL COMPANIES ACCORDING TO MATURITY PERIODS

(Rupees, thousands)

Maturity Periods	Centres	March 31, 1980	March 31, 1981	March 31, 1982
(1)	(2)	(3)	(4)	(5)
1. On demand or on notice or otherwise in less than 6 months	Calcutta	2,26,91	2,14,13	65,16
	Delhi	22,85	28,65	34,31
	Bangalore	15,78,56	13,99,58	1,78,25
	Bombay	3,21,12	3,81,14	1,31,27
	Sub-total	21,49,44	20,23,50	4,08,99
		(12.2)	(10.3)	(2.7)
2. After a period of 6 months or more but upto 1 year	Calcutta	2,23,04	1,27,16	1,04,48
	Delhi	6,63,78	6,56,89	7,65,37
	Bangalore	11,76,92	11,22,66	13,85,94
	Bombay	4,80,85	6,57,50	6,02,53
	Sub-total	25,44,59	25,64,21	28,58,32
		(14.4)	(13.0)	(19.0)
3. After a period of 1 year or more but upto 2 years	Calcutta	60,10	51,83	73,04
	Delhi	5,38,69	7,75,10	4,44,84
	Bangalore	10,32,36	11,96,02	10,33,67
	Bombay	1,89,08	3,76,52	5,99,01
	Sub-total	18,20,23	23,99,47	21,50,56
		(10.3)	(12.2)	(14.3)

STATEMENT VII.3 (Contd.)

(1)	(2)	(3)	(4)	(5)
4. After a period of 2 years or more but upto 3 years.	Calcutta	1,99,32	1,03,72	1,14,51
	Delhi	8,45,35	16,28,85	8,78,48
	Bangalore	26,49,74	26,71,60	46,26,56
	Bombay	5,52,54	6,73,82	10,60,94
	Sub-total	42,46,95	50,77,99	66,80,49
		(24.1)	(25.8)	(44.4)
5. After a period of 3 years or more but upto 4 years	Calcutta	59,74	66,70	39,02
	Delhi	6,47,26	1,47,24	68,94
	Bangalore	10,78,03	26,07,80	2,77,42
	Bombay	1,93,47	8,74,96	4,83,50
	Sub-total	19,78,50	36,96,70	8,68,88
		(11.2)	(18.8)	(5.8)
6. After a period of 4 years or more but upto 5 years	Calcutta	2,38,	-	-
	Delhi	12,87	2,37	28,21
	Bangalore	1,25,32	55,47	15,13
	Bombay	75,69	2,57,39	18,39,43
	Sub-total	2,16,26	3,15,23	18,82,77
		(1.2)	(1.6)	(12.5)

STATEMENT VII.3 (Contd.,)

(1)	(2)	(3)	(4)	(5)
7. After a period of 5 years or more	Calcutta	5,31,47	4,96,43	17,49
	Delhi	54,44	96,01	11,86
	Bangalore	12,33,31	1,95,17	1,57,07
	Bombay	28,43,75	27,78,91	21,82
	Sub-total	46,62,97 (26.5)	35,66,52 (18.2)	2,08,24 (1.4)
8. Unspecified	Bombay	64 (-)	33 (-)	65 (-)
	Grand Total	1,76,19,57 (100.0)	1,96,43,95 (100.0)	1,50,58,90 (100.0)

Figures in brackets represent percentage to grand total.
(-) means negligible or nil

Appendix VIII

Supplementary Data on the Structure of Bank Deposits

VIII.1 A set of ten accompanying statements present more recent data on different characteristics of bank deposits as obtained by the Working Group from banks through a special return. The responses of banks to different blocks in the special return seeking various aspects of bank deposits have not been uniform and hence there has been some difficulty in consolidating the data received. The consolidation has therefore been attempted separately for different blocks of the return depending upon the coverage and comparability of data furnished by banks. Hence, the number of banks covered would differ in respect of each type of information. Also, because of the limited coverage of the number of banks in respect of some of the characteristics, the absolute magnitudes presented in the accompanying tables are not of any direct relevance; what are relevant are the broad proportions and structural characteristics of bank deposits emerging from these data and changes, if any, descernible from them. These data based on the special return are intended to supplement the more comprehensive data presented in earlier appendices particularly in Appendix III, which are based on regular RBI returns.

VIII.2 Statement VIII.1 brings out that the deposits of metropolitan branches remained almost static between December 1981 and June 1982. As a proportion of total deposits the share of metropolitan branches declined from 38.9 per cent to 37.7 per cent. Statement VIII.2 shows that the share of fixed deposits in total deposits, and within fixed deposits, the share of special category deposits, had suffered slight erosion during 1981-82 and thereafter. Statement VIII.3 relating to co-operative banks brings out how the bulk of their deposits are in the form of fixed deposits but the special category deposits constitute a very small proportion. The maturity pattern of commercial bank deposit presented in Statement VIII.4(A) and VIII.4(B) highlights the fact that between March 1981 and June 1982, the share of the longest maturity category of 'above five years' in total fixed deposit slightly declined. However, in the case of co-operative banks, certain aberrations are seen (Statement VIII.5). The bulk of the special deposit schemes with scheduled commercial banks within their fixed deposits category are for the long maturity periods of above 3 years (Statement VIII.6). However, there has been a slight shift in the maturity pattern of special category deposits away from the longest maturity of 'above five years' between March 1981 and June 1982. This is also reflected in Statement VII.7 which presents maturity wise data on fresh 'special category deposit' accounts opened or renewed during the recent period.

VIII.3 Data on size wise distribution of deposits with scheduled commercial banks, presented in Statement VIII.8 shows that, as expected the bulk of savings deposit accounts are of small size unlike in fixed deposits. Interestingly, the size-wise distribution of co-operative bank deposits is much more skewed than that of commercial bank deposits (Statement VIII.9). Finally, the share of 'personal and individuals' category in fixed deposits improved towards the end of March 1982/June 1982 (Statement VIII.10).

STATEMENT VIII.1

TWO-WAY CLASSIFICATION OF DEPOSITS BY
POPULATION GROUP AND BY TYPE OF DEPOSITS

(Rupees, Crores)

Population Group	Type of Deposit /Data for 23 Scheduled Commercial Banks/ End - December 1981 Current		Savings		Fixed		Total	
Rural	334.83 (6.2)	(8.6)	1565.07 (17.2)	(40.4)	1972.09 (11.6)	(50.9)	3871.99 (12.3)	(100.0)
Semi-urban	977.99 (18.2)	(3.2)	2492.66 (27.3)	(33.6)	3937.59 (23.1)	(53.2)	7408.24 (23.5)	(100.0)
Urban	1399.63 (26.1)	(17.5)	2179.56 (23.9)	(27.3)	4398.73 (25.8)	(55.1)	7977.92 (25.3)	(100.0)
Metro-politan	2646.43 (49.4)	(21.5)	2883.85 (31.6)	(23.5)	6756.21 (32.6)	(55.0)	12287.49 (38.9)	(100.0)
Total	5359.33 (100.0)	(17.0)	9121.14 (100.0)	(28.9)	17064.62 (100.0)	(54.1)	31545.64 (100.0)	(100.0)

STATEMENT VIII.1 (Contd)

(Rupees, Crores)

/Data for 23 Scheduled Commercial Banks/

Population Group	End - June - 1982 Current		Savings		Fixed		Total	
Rural	355.53 (6.6)	(8.5)	1687.66 (17.7)	(40.3)	2141.38 (12.0)	(51.2)	4181.57 (12.8)	(100.0)
Semi-urban	998.45 (18.6)	(12.6)	2647.43 (27.8)	(33.4)	4282.41 (23.9)	(54.0)	7928.29 (24.2)	(100.0)
Urban	1405.30 (26.2)	(16.9)	2243.16 (23.5)	(27.0)	4668.80 (26.1)	(56.1)	8317.27 (25.4)	(100.0)
Metro-politan	2612.12 (48.6)	(21.1)	2947.59 (30.9)	(23.8)	6808.79 (38.0)	(55.0)	12368.49 (37.7)	(100.0)
Total	5381.40 (100.0)	(16.4)	9525.84 (100.0)	(29.0)	17901.38 (100.0)	(54.6)	32798.62 (100.0)	(100.0)

Figures in brackets represent percentages to total

STATEMENT VIII.2

DEPOSIT ACCOUNTS BY TYPE

(Rupees, Crores)

Data for 20 Scheduled Commercial Banks

Type of Period Deposit	March 1979	March 1980	March 1981	June 1981
Current	2916 (18.2)	3303 (17.7)	3933 (17.4)	4051 (16.0)
Savings	4179 (26.0)	4941 (26.4)	6252 (27.7)	8676 (24.5)
Fixed	8952 (55.6)	10456 (55.9)	12401 (54.9)	21058 (59.5)
a)of which Special Deposit Scheme	4762 [53.2]	5434 [52.0]	6737 [54.3]	9998 [47.5]
Total:	16047 (100.0)	18700 (100.0)	22586 (100.0)	35409 (100.0)

Figures in square brackets relate to % of special deposits to fixed deposits.
Other bracketed figures represent percentage to total.

STATEMENT VIII.2 (Contd..)

DEPOSIT ACCOUNTS BY TYPE (Rupees, Crores)

Data for 20 Scheduled Commercial Banks

Type of Deposit / Period	December 1981	March 1982	June 1982
Current	4250 (16.3)	4341 (18.2)	4763 (17.3)
Savings	7430 (28.5)	6499 (27.3)	7769 (28.2)
Fixed	14405 (55.2)	12963 (54.5)	15022 (54.5)
a) of which Special Deposit Scheme	8071 [56.0]	7196 [55.5]	7837 [52.2]
Total	26085 (100.0)	23803 (100.0)	27554 (100.0)

Figures in square brackets relate to % of Special Deposits to fixed Deposits.

Other bracketed figures represent percentage to total.

STATEMENT VIII.3

DEPOSIT ACCOUNTS BY TYPE

(Rupees, Crores)

Data for 5 Co-operative Banks			
Type of Deposit / Period	March 1979	March 1980	March 1981
Current	56.71 (15.4)	41.46 (9.8)	52.64 (10.6)
Savings	50.50 (13.7)	61.75 (14.6)	74.41 (15.0)
Fixed	260.48 (70.8)	319.58 (75.7)	369.38 (74.4)
of which a) Special Deposit Scheme	20.68 [7.9]	28.85 [9.0]	37.56 [10.2]
Total	367.69 (100.0)	422.79 (100.0)	496.43 (100.0)

Figures is square brackets relate to % of special deposits to fixed deposits.

Other bracketed figures represent percentage to total.

STATEMENT VIII.3

DEPOSIT ACCOUNTS BY TYPE

Data for 5 co-operative Banks (Rupees, Crores)

Type of Deposit / Period	June 1981	December 1981	March 1982	June 1982
Current	57.08 (10.8)	49.10 (9.0)	49.47 (8.8)	69.09 (11.3)
Savings	78.16 (14.7)	87.86 (16.1)	88.86 (15.8)	92.92 (15.2)
Fixed	395.05 (75.5)	408.47 (74.9)	424.57 (75.4)	450.58 (73.6)
a) of which Special Deposit Scheme.	40.83 [10.3]	45.55 [11.2]	49.62 [11.7]	54.62 [12.1]
Total	530.29 (100.0)	545.42 (100.0)	562.90 (100.0)	612.59 (100.0)

Figures in square brackets relate to % of Special Deposits to Fixed Deposits.
Other bracketed figures represent percentage to total.

Statement VIII.4 (A)

Maturity Pattern of Fixed Deposits

(Rupees, lakhs)

Maturity Pattern of Deposits	Data for 6 Scheduled Commercial Banks			
	March 80	March 81	March 82	June 82
Upto 6 months	7240.21 (7.5)	6838.26 (6.6)	7216.27 (5.7)	5820.31 (5.4)
Above 6 months and upto one year	4828.06 (5.0)	5581.20 (5.4)	6464.82 (5.1)	1119.20 (1.0)
Above one year and upto 2 years	17014.00 (17.7)	21318.50 (20.4)	20732.09 (21.1)	27564.46 (25.5)
Above 2 years and upto 3 years	6526.00 (6.8)	7956.60 (7.6)	9016.87 (7.1)	1608.79 (11.5)
Above 3 years and upto 5 years	18920.42 (19.7)	13831.77 (13.3)	20827.73 (16.5)	21361.94 (19.7)
Above 5 years	41490.44 (43.2)	48718.27 (46.7)	56175.62 (44.4)	50806.88 (46.9)
Total	96019.13 (100.0)	104244.62 (100.0)	126433.40 (100.0)	108281.58 (100.0)

Figures in brackets represent percentage to total.

STATEMENT VIII.4 (1)

MATURITY PATTERN OF FIXED DEPOSITS

(Rupees, Lakhs)

Maturity Pattern of Deposit	Data for 7 Scheduled Commercial Banks		
	March 1980	March 1981	March 1982
Upto 6 months	39161.21 (8.4)	58001.28 (10.8)	64498.27 (10.3)
Above 6 months & upto one year	16389.06 (3.5)	14937.20 (2.8)	12677.82 (2.0)
Above one year & upto 2 years	@68199.00 (14.7)	79243.10 (14.7)	97462.96 (15.5)
Above 2 years & upto 3 years		-	
Above 3 years & upto 5 years	48957.42 (10.5)	43674.77 (8.1)	106135.73 (16.9)
Above 5 years	291371.44 (62.8)	341898.27 (63.6)	346681.62 (55.3)
Total	464078.13 (100.0)	537754.62 (100.0)	627456.40 (100.0)

Figures in brackets represent percentage to total

@ Data relates to above one year & upto three years period.

STATEMENT VIII.4 (B)

MATURITY PATTERN OF FIXED DEPOSITS

(Rupees, Lakhs)

Maturity Pattern of Deposit	Data for 8 Scheduled Commercial Banks*			
	March 1980	March 1981	March 1982	June 1982
upto 6 Months.	12537.21 (6.5)	13373.28 (6.1)	14500.27 (5.6)	13721.31 (5.5)
Above 6 months and upto one year	7130.06 (3.7)	8233.20 (3.8)	9591.82 (3.7)	4441.20 (1.8)
Above one year and upto 2years	32236.00 (16.7)	39491.50 (18.0)	47475.09 (18.4)	49453.46 (20.0)
Above two years and upto 3years	16889.00 (8.7)	20071.60 (9.2)	23014.87 (8.9)	16406.79 (6.6)
Three years and above	124677.86 (64.4)	137947.04 (62.9)	164071.35 (63.4)	163844.82 (66.1)
Total	193470.13 (100.0)	219116.62 (100.0)	253653.40 (100.0)	247867.50 (100.0)

*Two of these eight did not furnish the break up for 'above five years' category.

Figures in brackets represent percentage to total.

STATEMENT VIII.4(B)

MATURITY PATTERN OF FIXED DEPOSIT

(Rupees, Lakhs)

Maturity Pattern of Deposit	Data for 9 Scheduled Commercial Banks*		
	March 1980	March 1981	March 1982
Upto 6 months	44458.21 (7.9)	64536.28 (9.9)	71782.27 (9.5)
Above 6 months and upto one year	18691.06 (3.3)	17589.20 (2.7)	15804.82 (2.1)
Above one year & upto 2 years	@93784.00 (16.7)	109531.10 (16.8)	132203.96 (17.4)
Above two years and upto 3 years			
Three years and above	401595.86 (72.0)	460970.04 (70.6)	539885.35 (71.1)
Total	561529.13 (100.0)	652626.62 (100.0)	759676.40 (100.0)

*Two of these nine did not furnish the break up for 'above five years' category.

Figures in brackets represent percentage to total.

@ Data relates to above one year & upto three years period.

STATEMENT VIII.5

MATURITY PATTERN OF FIXED DEPOSITS

(Rupees, Lakhs)

Maturity Pattern of Deposits	Data for two Co-operative Banks March 1980	March 1981	March 1982	June 1982
Upto 6 months	10,51 (3.8)	11,49 (3.6)	8,97 (2.5)	9,34 (2.6)
Above 6 months and upto one year	20,34 (7.4)	9,31 (2.9)	24,41 (6.7)	17,12 (4.7)
Above 1 year & upto 2 years	4,53 (1.7)	3,22 (1.0)	84,90 (23.4)	3,46 (0.9)
Above 2 years & upto 3 years	3,62 (1.3)	5,35 (1.7)	1,62 (0.4)	84,69 (23.2)
3 years & above	234,57 (85.7)	290,66 (90.8)	243,27 (67.0)	250,19 (68.6)
Total	273,57 (100.0)	320,03 (100.0)	363,17 (100.0)	364,80 (100.0)

Figures in brackets represent percentage to total.

STATEMENT VIII.6
MATURITY PATTERN OF DEPOSITS
ACCUMULATED UNDER 'SPECIAL DEPOSIT' SCHEME

(Rupees, Lakhs)

Maturity Pattern of Deposits.	Data for 5 Scheduled Commercial Banks March 1980	March 1981	March 1982	June 1982
Upto one year	28367.89 (13.2)	33213.44 (12.7)	42710.41 (13.7)	35859.66 (10.9)
Above one year & upto 2 years	17399.08 (8.1)	22557.67 (8.6)	25777.55 (8.3)	29795.26 (9.0)
Above 2 years & upto 3 years.	19506.54 (9.1)	23594.49 (9.0)	40220.55 (12.9)	46998.35 (14.2)
Above 3 years & upto 5 years.	41023.27 (19.1)	55854.00 (21.4)	60399.08 (19.4)	76077.49 (23.0)
Above 5 years.	108423.23 (50.5)	126038.79 (48.2)	141710.21 (45.6)	141477.73 (42.8)
Total	214720.01 (100.0)	261258.39 (100.0)	310817.80 (100.0)	330208.49 (100.0)

Figures in brackets represent percentage to total

STATEMENT VIII.7

MATURITY PATTERN OF NEW SPECIAL DEPOSITS SCHEME ACCOUNTS OPENED OR RENEWED DURING THE FOUR YEARS

(Rupees, Lakhs)

Maturity Pattern of Deposits	Data for 6 Scheduled Commercial Banks			
	March 1980	March 1981	March 1982	June 1982
Upto one Year	11211.61 (13.0)	12183.58 (12.6)	13512.33 (13.4)	5693.11 (13.2)
Above one year and upto2 Years	8055.03 (9.3)	9271.02 (9.6)	11533.49 (11.5)	4954.02 (11.5)
Above 2 years & up-to 3 years	11364.01 (13.1)	12937.01 (13.4)	19183.22 (19.1)	7069.77 (16.4)
Above 3 years & up-to 5 years	19709.90 (22.8)	22389.33 (23.1)	21805.06 (21.7)	11440.17 (26.5)
Above 5 years.	36241.08 (41.9)	40035.07 (41.4)	34579.32 (34.4)	14042.10 (32.5)
Total	86581.63 (100.0)	96816.01 (100.0)	100613.42 (100.0)	43199.17 (100.0)

Figures in brackets represent percentage to total

STATEMENT VIII.8

DISTRIBUTION OF DEPOSITS BY SIZE OF DEPOSIT ACCOUNTS

(Rupees, Crores)

Size of Deposits	Data for 8 Scheduled Commercial Banks			
	Savings Deposits		All Term Deposits	
	June 81	June 82	June 81	June 82
Upto 10000	115958.89 (42.5)	113592.05 (34.9)	160556.75 (28.7)	187817.24 (29.5)
10000-25000	51920.55 (19.1)	69382.82 (21.4)	88648.33 (15.8)	106582.80 (16.8)
25000-50000	33590.84 (12.3)	41251.88 (12.7)	54768.81 (9.8)	61532.49 (9.7)
50000-100000	23906.85 (8.8)	30424.18 (9.4)	48005.75 (8.6)	69326.14 (10.9)
100000 & above	47178.67 (17.3)	70370.43 (21.6)	207751.26 (37.1)	210399.09 (33.1)
Total	272555.80 (100.0)	325021.36 (100.0)	559730.90 (100.0)	635657.76 (100.0)

Figures in brackets represent percentage to total

STATEMENT VIII.9

DISTRIBUTION OF DEPOSITS BY SIZE OF DEPOSIT ACCOUNTS

(Rupees, Lakhs)

Type of Size of Deposit Deposit	DATA FOR 3 CO-OPERATIVE BANKS Savings Deposits June 1981	Savings Deposits June 1982	All term Deposits June 1981	All term Deposits June 1982
Upto 10,000	14,48 (40.7)	16,61 (41.4)	4,07 (1.1)	4,42 (1.1)
10,000-25,000	7,37 (20.7)	8,10 (20.2)	2,38 (0.7)	2,17 (0.5)
25,000-50,000	3,85 (10.8)	4,41 (11.0)	1,91 (0.5)	7,63 (1.9)
50,000-1,00,000	6,27 (17.6)	4,75 (11.8)	3,04 (0.9)	3,29 (0.8)
1,00,000 & above	3,63 (10.2)	6,24 (15.6)	347,06 (96.8)	385,53 (95.7)
Total	35,60 (100.0)	40,11 (100.0)	358,46 (100.0)	403,04 (100.0)

Figures in brackets represent percentage to total

STATEMENT VIII.10

OWNERSHIP PATTERN OF DEPOSITS

(Rupees, Lakhs)

	Data for 5 Scheduled Commercial Banks					
	March 1980			March 1982		
	Current	Savings	Fixed	Current	Savings	Fixed
Institutional & Business Sectors						
a) Public Sector	901,65 (45.5)	308,03 (12.9)	1376,82 (28.1)	897,18 (38.7)	403,19 (11.9)	1611,49 (24.1)
b) Private corporate sector	389,61 (19.7)	35,05 (1.5)	301,63 (6.2)	643,64 (26.4)	565,09 (1.6)	418,99 (6.3)
c) Other institutions	467,92 (23.6)	167,24 (7.0)	437,37 (8.9)	609,72 (25.0)	236,96 (6.7)	61,20 (9.1)
Personal & Individuals	221,18 (11.2)	1869,29 (78.6)	2782,54 (56.8)	290,61 (11.9)	2849,24 (79.9)	4051,07 (60.5)
of which:						
(i) Farmers	24,10	151,62	195,34	67,07	264,43	327,94
Total:	1980,36 (100.0)	2379,60 (100.0)	4898,36 (100.0)	2441,14 (100.0)	3565,89 (100.0)	6693,56 (100.0)

Figures in brackets represent percentage to total

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STATEMENT VIII.10 (Concld.)

OWNERSHIP PATTERN OF DEPOSITS

(Rupees, Lakhs)

	June 1982		
	Current	Savings	Fixed
Institutional & Business Sectors			
a) Public Sector	947,51 (35.9)	497,23 (23.3)	1725,54 (24.3)
b) Private Corporate Sector	648,94 (24.6)	72,04 (1.9)	409,48 (5.8)
c) Other Institutions	698,60 (26.4)	269,21 (7.2)	650,00 (9.2)
Personal and Individuals:	345,68 (13.1)	2885,93 (77.5)	4307,79 (60.7)
Of which: (i) Farmers	98,90	276,65	347,28
Total:	2640,73 (100.0)	3724,41 (100.0)	7092,81 (100.0)

Figures in brackets represent percentage to total