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From the Editor's Desk

OVER the past two quarters Indian officials have excelled at predicting with magnificent conviction that an sustainable economic recovery would happen in the rest of the quarters. Finally, it is in the third quarter of the current financial year, there is something to cheer about. On 2 December, 2014 in the Fifth Bi-Monthly Monetary Policy Statement of 2014-15, the RBI announced that the softening of inflation; easing of commodity prices and input costs; comfortable liquidity conditions; and rising business confidence as well as purchasing activity – are gathering. On all these measure India is growing at its fastest pace. Hence, the central estimate of projected growth for 2014 – 15 has been retained at 5.5 per cent.

But some other sources confirm that not everything is heading in the right direction. And the fact is that inflation is high and rising. Interest rates may have to go up too. And the government's finances continue to deteriorate.

In 2000, the United Nations held a Millennium Summit, at which the membership adopted the Millennium Development Goals (MDGs). Spanning a range of development indicators – poverty, gender, health, education and the environment – the MDGs essentially established a set of targets for the global community to achieve by 2015. The framework sets eight broad goals in relation to these domains. The Union Ministry of Statistics and Programme Implementation recently published its Statistical Yearbook for 2014. One chapter is dedicated to the country's achievements on the eight goals for next year, tracking them in terms of relevant indicators. The assessment says India's performance on the basis of those data are far from satisfactory.

We hope the assessment of MDGS gives the government a good sense of the priorities beyond 2015. Till then "India's economic health is improving" remain according to the data. More specifically, just the hunches of its ever-optimistic officials.

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From Plan to Market: Outline of Some Major Macroeconomic Changes in India

Santanu Ghosh*

Introduction

The year 1991 marks a great watershed in India's economic development and in her post independence economic history. The severe financial crisis, or the (balance of) payments crisis, that had steadily been building up since the late 1980s arising out of primarily due to political disturbances in the middle-east coupled with fiscal profligacy at home, pushed the country to the brink – a point of no return. By the middle of the 1991, India's foreign exchange reserves were barely sufficient to meet few weeks' import bill and the country was nearing a stage of default; her credit worthiness at the international level took a serious beating and all the donor governments and international aid givers were reluctant to bail the Government of India out without implementation of wide spread reforms or of a structural adjustment programme. By the middle of the 1991, Indian economy was at the crossroads and had been staring at one of the worst economic crisis since independence; her macroeconomic management was in utter chaos and doldrums.

Between late 1989 and the mid

1991, India was plagued by political uncertainty at home too, apart from a series of disturbing and transforming political scenario at the global level (e.g. fall of erstwhile USSR, Gulf War etc.). In mid-1991, the Congress – after a hiatus of nearly two years – formed a government at the centre with P.V. Narasimha Rao as the prime minister and Dr. Manmohan Singh as the finance minister. One of the first and urgent tasks before this new government was to put the derailed economy back on to its tracks and with that objective, Dr. Singh announced a series of bold policy measures. These were, in fact, not just bold ones; rather, these were sweeping reforms covering almost every aspect of macroeconomic management – domestic economic policies plus external economic policies. These measures, therefore, spread across agriculture, industry, fiscal, banking, foreign trade, including exchange rate, and other sectors.

If one takes a broad look at India's economic policy making since the early 1950s – i.e. the beginning of the plan era – two distinct policy regimes can be identified. While the first four decades were characterized by

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centralized planning, dominance of the public sector, prevalence of wide spread government control mechanism – in the form of ‘licence raj’ etc. – the other phase, i.e. the one from the second half of 1991, may be deemed as a regime that is more market friendly and a situation where the omnipresent public sector is gradually retreating or receding, withdrawing and tending to play a second fiddle or preferring to remain dormant in many key areas.

II

The debate concerning the effects and benefits of economic liberalization has, in a sense, been highly polarized. While one group of authors would insist that economic reforms have benefited the economy, unleashing its growth potential, there is another category of researchers who would question its purported benefits and positive impact on the economy. In this context, the issue of inclusive growth has nowadays come to the forefront. A most notable controversy, in recent months, regarding the effects of economic reforms on India has generated from the pens of the two leading Indian economists, viz. Prof. Amartya Sen and Prof. Jagdish Bhagwati. The latter and his associate Prof. Arvind Panagariya have frequently contended that the pace of economic reforms in India needs to be stepped up; in their opinion, economic growth in the post reform era has been inclusive. They argue that higher growth would automatically lead to lower incidence of poverty and an improvement in the

average standard of living. Bhagwati and his associate, it seems, are content to accept the so-called trickle down philosophy and the argument in favour of inclusive growth. Sen and his associate, Prof. Dreze, on the other hand, would rather insist on active government intervention in the form of implementation of various welfare measures – e.g. food security law, rural employment guarantee act and so on – in order to reduce poverty; they do not subscribe to the view that economic liberalization is panacea to economic inequality, poverty and other ills that plague India. Apart from Bhagwati and Panagariya, there are other protagonists of the new regime too. Prominent among them are, for instance, Kaushik Basu, Montek Singh Ahluwalia and Bibek Deb Roy. On the other hand, economists like Josef Stiglitz, Amit Bhaduri and Deepak Nayyar have been conservative while discussing the efficacy of liberalization (and associated globalization). In contrast, a more balanced or neutral appraisal may be located in the writings of a small group of authors, notable among them being Prof. Mihir Kanti Rakshit.

It is against this background, the purpose of this short exercise drop is to portray or highlight the major macroeconomic changes that have taken place in India’s economy in the post-1991 years vis-a-vis the pre-1991 era. We shall first focus on growth and composition of output and employment and then go on to analyze the external trade sector, with special reference to exports before finally touching the budgetary side of the government.

The major limitations of our analysis are that we shall not be considering financial sector developments and questions of poverty, distribution, human development and allied issues. Yet, we hope that this short exercise will, at least, throw some light on other major macroeconomic changes that have been shaping over the last several decades.

III

Before taking a look at India's macroeconomic scenario, let us consider India's status in global context in terms of some key economic or development indicators. Table 1 provides information on Human Development Index (HDI) and Gender Inequality Index for a select group of countries. It is observed that even though there has been some improvement in HDI level in India (though marginal), the country still lags far behind the leading economic powers and is even behind Sri Lanka, Brazil and China. On the other hand, in

Table 1: HDI & Gender Inequality Index

Country	HDI		Gender Inequality Index
	2000	2011	2011
Japan	0.868	0.901	0.123
USA	0.897	0.910	0.299
Germany	0.864	0.905	0.085
Brazil	0.665	0.718	0.449
China	0.588	0.687	0.209
Sri Lanka	0.633	0.691	0.419
Bangladesh	0.422	0.500	0.550
India	0.461	0.547	0.617

Source: HDI, 2011.

terms of incidence in gender inequality, the country's position is considerably down the ladder. In fact, in the above Table, India's rank is lowest or worst; even Bangladesh ranks higher than India. So, it is tempting to conclude that even after more than two decades of launching of economic reforms, India's score sheet with respect to human development remains rather poor.

A crude, but often handy, measure of performance of an economy is (compound) annual rate of growth (CARG) of GNP (and its components) at constant prices. Table 2 (a) contains annual growth rates figures of India's GNP during the plan period, i.e. from the early 1950s to the recent past.

Table 2(a): Growth Rates of Output

Growth Rate of GNP (% per annum) at 1999-2000 Prices			
First Plan (1951-56)	3.7	Sixth Plan (1980-85)	5.5
Second Plan (1956-61)	4.2	Seventh Plan (1985-90)	5.8
Third Plan (1961-66)	2.8	Eighth Plan (1992-97)	6.8
Fourth Plan (1969-74)	3.4	Ninth Plan (1997-2002)	5.5
Fifth Plan (1974-79)	5.0	Tenth Plan (2002-07)	7.1

Source: Government of India.

It is found that from the Fifth Plan onwards, India moved on to a higher growth trajectory, compared to modest or so-called Hindu Rate of Growth a la Raj – recorded in the first twenty five years of centralized planning. India's growth experience in recent years – especially in the post-1991 period – has, indeed, been quite impressive with the Tenth Plan recording a more than 7% growth rate of GNP at constant prices. In Table 2(b), we have

Table 2(b): Compound Annual Rates of Growth for the Different Sub Periods

	1950-51 – 1970-71	1970-71 – 1990-91	1990-91 – 2002-03
GDP	3.71%	4.82%	5.39%
GDPAG	2.07%	2.86%	2.58%
GDPMFG	5.95%	6.60%	5.19%
GDPNONTER	3.27%	3.92%	3.40%
GDPPTER	4.92%	6.94%	8.26%

Source: Source: Government of India.

furnished sectoral growth rates on sub-period basis, starting from the early 1950s till the end of the first decade after launching of liberalization. A glance at the figures reveal that GDP from the tertiary sector has always recorded much higher growth rates than non tertiary sector as a whole and also agriculture and manufacturing sectors. Interestingly, while during the first decade of economic reforms, agriculture and manufacturing sectors' growth rates declined, tertiary sector, in contrast, achieved an impressive rise in its growth rate – from 6.94% to 8.26%.

IV

In order to understand India's macroeconomic transformation over the years, one may take recourse to a number of alternative routes. Table 3(a) provides a glimpse of sectoral

Table 3(a): Sectoral Composition of GDP (% Shares): India

	1970	1980	1990	2000	2010
Agriculture	42.3	35.7	29.3	23.4	19.0
Services	36.9	39.6	43.8	50.5	54.7
Industry	20.8	24.7	26.9	26.2	26.3
(Manufacturing)	14.2	16.7	16.7	15.6	14.2

Source: Veeramani, India Development Report, 2012-13.

composition of output on decadal basis since 1970; for the sake of comparison, we furnish corresponding data for China too [in Table 3(b)] – a leading and emerging super power. It

Table 3(b): Sectoral Composition of GDP (% Shares): China

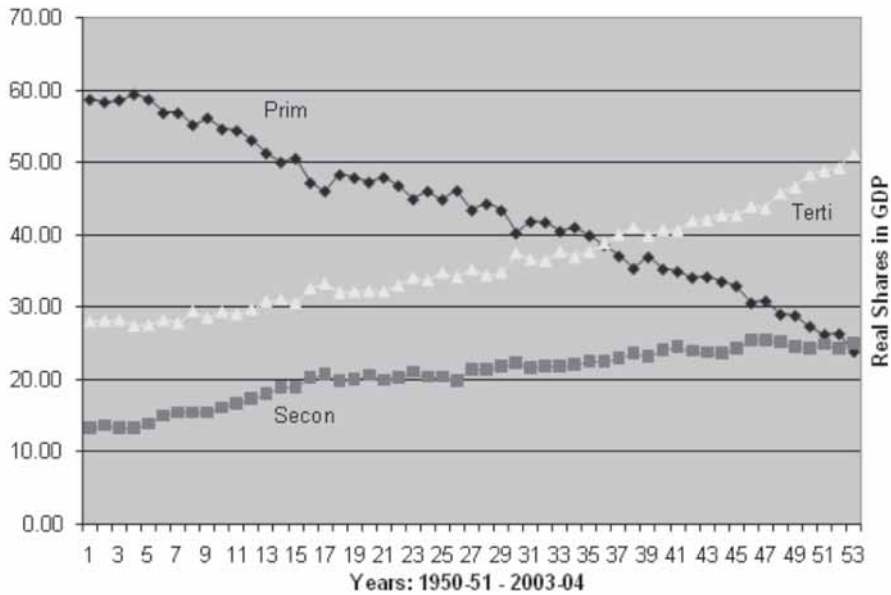
	1970	1980	1990	2000	2010
Agriculture	35.2	30.2	27.1	15.1	10.1
Services	24.3	21.6	31.5	39.0	43.1
Industry	40.5	48.2	41.3	45.9	46.8
(Manufacturing)	33.7	40.2	32.7	32.1	29.6

Source: Veeramani, India Development Report, 2012-13.

is found that in the last four decades, agriculture's share in GDP has sharply declined, while share of services has increased significantly; in contrast, the share of industry has risen rather marginally. Figure – 1 clearly bears out this structural transformation process; it can easily be discerned that the share of services has increased primarily at the expense of the share of agriculture while the share of the industry has risen at a negligible or very modest pace. From the mid-1980s onwards, tertiary sector overtook agriculture in terms of absolute size of output share.

If we look at China's performance, then a couple of interesting observations may be inferred. From Table 3(b). In China, unlike in India, there has been a balanced development services and industry; also, the role of manufacturing sector in Chinese economy is considerably bigger vis-a-vis India. This is obvious from the fact that the share of manufacturing in China's GDP is more than double of the corresponding share in India. On the other hand, share of services

Figure - 1: Sectoral Output Shares of GDP (at 1993-94 Prices)



in India's GDP is much higher than that of China. One may argue that in India service or tertiary sector has grown disproportionately compared to the growth of secondary, including manufacturing sector – a pattern that is often considered as unhealthy for the economy in its early phase of development.

That the over all development of India's economy has not necessarily been in the right direction can also be judged from the angle of employment composition. Table 3(c) and Table 3(d) would possibly convey this. One observes that even though its share in India's GDP has sharply declined over the years, agriculture still occupies the dominant position in terms of employment share; for instance, in the year 2010, the employment share of

Table 3(c): Sectoral Composition of Employment (% Shares): India

	1994	2000	2005	2010
Agriculture	61.9	59.8	55.8	51.1
Services	22.4	24.1	25.2	26.5
Industry	15.7	16.1	19.0	22.4

Source: Veeramani, India Development Report, 2012-13.

Table 3(d): Sectoral Composition of Employment (% Shares): China

	1994	2000	2005	2008
Agriculture	54.3	50.0	44.8	39.6
Services	23.0	27.5	31.3	33.2
Industry	22.7	22.5	23.8	27.2

Source: Veeramani, India Development Report, 2012-13.

agriculture was still as high as 51.1%. In contrast, the share of service sector in employment was just 26.5%, though in terms of output share, the figure was as high as 54.7%. In China, on

the other hand, one would observe a more balanced employment growth. So, one of the important features of India's macroeconomic progress is excessive or disproportionate growth of tertiary sector without a corresponding or commensurate expansion in employment, coupled with a relatively slow expansion of manufacturing activities.

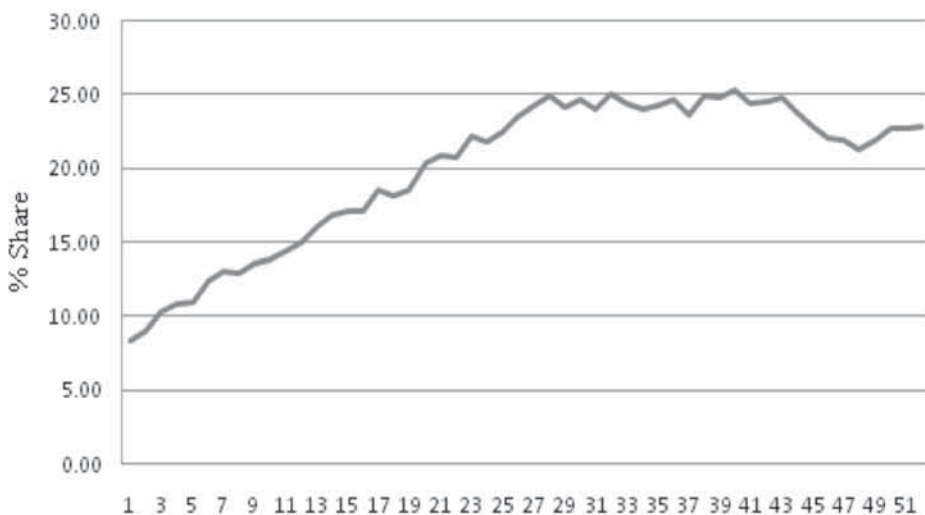
Apart from the developments outlined above, there is another significant aspect associated economic transformation in India: viz. steady rise of the public sector in the economy, at least from the early 1960s and till the early 1990s. Prior to 1991, we observe, from Table 4 and Figure – 2, that there is a continuous rise in the share of the public sector in the GDP, indicating an expansion of the public sector – in both

Table 4: Share of Public Sector in GDP at Constant Prices

Year	% Share of Public Sector	Year	% Share of Public Sector
1970-71	14.31	1991-92	25.05
1971-72	15.00	1992-93	24.41
1972-73	16.02	1993-94	24.09
1973-74	16.88	1994-95	24.36
1974-75	17.07	1995-96	24.70
1975-76	17.04	1996-97	23.63
1976-77	18.59	1997-98	24.92
1977-78	18.18	1998-99	24.80
1978-79	18.49	1999-00	25.34
1979-80	20.34	2000-01	24.41
1980-81	20.85	2001-02	24.49
1981-82	20.76	2002-03	24.83
1982-83	22.16	2003-04	23.74
1983-84	21.84	2004-05	22.90
1984-85	22.51	2005-06	22.09
1985-86	23.53	2006-07	21.89
1986-87	24.28	2007-08	21.25
1987-88	24.96	2008-09	21.93
1988-89	24.20	2009-10	22.75
1989-90	24.75	2010-11	22.73
1990-91	24.05	2011-12	22.82

Source: RBI.

Figure - 2: Share of Public Sector in GDP (at 2004-05 Prices): 1960-61 - 2011-12



absolute and relative terms. From the mid-1950s – i.e. since the introduction of the Second Plan – public sector came to occupy a commanding position in India's economy. The first four decades of plan era witnessed a highly centralized planning, aided by a plethora of controls – an era that came to be christened as “licence raj”. Private enterprise was severely blunted and discouraged, though, ironically, the system of wide spread controls failed to arrest the concentration of economic power. In the post mid-1991 period, the emphasis of economic policy has been on greater reliance on market forces and gradual effacement of the public sector, coupled with withdrawal and removal of controls. So, in the last two decades, falling tendency in the share of the public sector in the GDP is quite understandable.

The strength and resilience of a modern economy are often determined by the size and nature – or base – and performance of its industrial sector. In Table 5, we have shown the growth

rates of the industrial sector since the early 1970s and from this an attempt may be made to judge how our economy has behaved from the plan era through the market era. It is easy to observe that the first few years of the 1990s – 1990-91 to 1993-94 – had been a phase of dismal industrial outlook in general. These were the years of economic crisis, mentioned at the beginning, and were, as well as, the early years after the initiation of the economic reforms. The positive effects of liberalization were yet to be reaped due to gestational and other lags – quite common in case of industries, especially heavy and basic industries; rather, the drags created by the negative factors since the late 1980s had still been spilling into these years, causing, thereby, low growth rates.

Contrary to popular belief, we find that the manufacturing and the basic goods sectors recorded highest growth rates in the decade of the 1980s, followed by the preceding decade; in the post reform period, only the phase 2004-

Table 5: Growth Rates of Industry

	1970-71 – 1980-81	1980-81 – 1990-91	1990-91 – 1993-94	1993-94 – 2004-05	2004-05 – 2011-12
Mining & Quarrying	4.6	7.6	1.4	3.2	4.2
Manufac-turing	4.7	7.7	2.4	6.6	9.0
Electricity	4.2	9.1	6.8	5.4	5.7
Use-Based Category					
Basic Goods	6.0	7.9	5.8	4.8	5.8
Capital Goods	5.6	11.3	-3.9	7.1	16.5
Intermediate Goods	3.5	6.3	4.9	6.8	5.5
Consumer Goods	3.4	6.5	2.2	6.8	9.3
Consumer Durables	4.6	14.8	0.7	9.8	17.9
Consumer Non-Durables	3.3	5.1	2.6	5.9	4.5

Source: India Development Report, 2012-13.

05 – 2011-12 shows comparatively better growth performance than other (remaining) sub-periods. It is possible to assert that the positive effects of economic reforms came to be realized after almost a decade and half of launching the process of economic liberalization. Surprisingly, this was also phase when the global recession had set in. On the other hand, when we consider consumer goods sector as a whole, we find a spurt mostly in the post-1991 period; the industries producing consumer durables and non-durables, it seems, received a fillip in the liberalized regime, though the decade of the 1980s possibly saw the foundation of the future expansion. In fact, this decade marks an important phase in India's quest for economic transformation and should be treated as a great watershed. Actually, the first or early dose of reforms were introduced in the mid-1980s, a process that became wide spread and fast only after the mid-1991 onwards.

V

Let us now take a quick look at India's foreign trade scenario across the two policy regimes. The main thrust of the liberal policy – as far as

external trade is concerned – is export promotion, contrary to the policy of import substitution pursued during the previous regime. So, it may be worthwhile to examine how India have fared on her export front in the global context and also what changes, if any, have taken place in her export structure across the two regimes. Table 6 provides certain key growth rate figures with respect to exports, covering a span of three decades since the early 1980s. On the basis of information provided in the table, the following broad observations may be inferred:

- (a) of the three decades, the first decade of the new millennium has shown the most spectacular expansion in exports – both merchandise and services; and
- (b) while India's rate of growth of service exports has outstripped merchandise export growth since the early 1990s, in the decade of 1980s, merchandise exports grew faster than the services. The situation may, therefore, point to increasing dominance of services or invisibles in India's export basket – which, in turn, is likely to be a corollary of rising dominance of the tertiary sector in the country as a whole.

Table 6: Growth Rates of Exports (based on Millions of US \$)

	Merchandise		Total Merchandise	Services	Merchandise & Services
	Manufacturing	Non Manufacturing			
1980-1990	10.6	2.1	7.3	4.7	6.7
1990-2000	10.2	7.1	9.5	13.8	10.5
2000-2010	17.1	27.1	20.0	26.0	21.9

Source: Veeramani, *India Development Report, 2012-13*.

The new regime has brought with it liberal foreign capital and new technology, aided by tremendous strides achieved in the information technology or the arrival of the so-called information revolution. Under the changing circumstances, export composition or nature of exportables has been undergoing transformation. This scenario may be discerned from Table 7(a), showing export composition. An important trend – one may observe – is that since the new millennium unskilled labour intensive exports have become less dominant, while importance of human capital intensive and technology intensive products in the export basket is

Table 7(a): Export Composition in Terms of Factor Intensity

India	1980	1990	2000	2005	2010
Primary					
Natural Resource Intensive	16.2	24.3	20.0	20.0	17.5
Unskilled Labour Intensive	30.2	30.6	29.1	20.0	14.3
Capital Intensive					
Human Capital Intensive	8.5	9.1	14.0	16.8	13.8
Technology Intensive	6.3	7.4	16.1	18.4	21.6

Source: Veeramani, *India Development Report, 2012-13*.

clearly on the rise. This shows greater modernization of India's export trade. It may have been caused by a more liberal attitude of the country towards foreign capital and foreign technology, in export industries, apart from significant advances made by the country in information technology sector.

Not only the nature of exportables has seen structural transformation, but also there has been a change in the direction of exports. Table 7(b) shows that over the years – to be more precise, since the 1980s – developed nations' shares in India's exports have fallen significantly; percentage shares of India's exports to USA, UK, Germany, Japan, Italy – some of the leading developed nations – have fallen significantly in the last 25 years. In contrast, shares of countries like China and the UAE have grown much. India's export market has, therefore, diversified a lot in terms of regional or geographical spread and the country is no longer heavily dependent on a few developed nations. However, it needs to be investigated that to what extent such a change has been beneficial. This is because, the export markets in China and the Middle East, after all,

Table 7(b): Direction of India's Exports (% Shares in Total)

	1987-88	1990-91	1994-95	2000-01	2004-05	2010-11
China	0.1	0.1	1.0	1.9	6.7	7.7
Germany	6.8	7.8	6.6	4.3	3.4	2.7
USA	18.6	14.7	19.1	20.9	16.5	10.2
UK	6.5	6.5	6.4	5.2	4.4	2.9
UAE	2.0	2.4	4.8	5.8	8.8	13.5
Japan	10.3	9.3	7.7	4.0	2.5	2.1
Italy	3.2	3.1	3.3	2.9	2.7	1.8

Source: Veeramani, *India Development Report, 2012-13*.

do not supply hard currencies, which mostly come from trade with the USA, UK and the European Union. The direction (of exports) aspect also holds true for imports too. It can easily be observed that shares of China and the UAE in India's imports have risen markedly during the last two decades. In fact, China has been emerging as India's leading trade partner in the recent years.

A couple of more points needs to be highlighted before closing discussion on India's external sector. First, consider the growth and composition of foreign investment in India. It is well known

that the issue of foreign investment is highly contentious and vexed one. While in recent years much heat has generated concerning foreign direct investment (FDI), especially FDI in retail, the question of foreign portfolio investment (FPI) assumed the center stage during the debate on capital account convertibility. Table 8(a) shows that while both FDI and FPI have been showing rising trend since the 1990s – a natural corollary of reforms – FPI has shown greater fluctuations, its share in total foreign investment has shown a lot of variations. It needs to be pointed out that as a form of

Table 8(a): Foreign Investment in India (in US \$ Million)

Year	FDI	FPI	Total Foreign Investment	% Share of FPI in Total
1990-91	97	6	103	5.83
1991-92	129	4	133	3.01
1992-93	315	244	559	43.65
1993-94	586	3567	4153	85.89
1994-95	1314	3824	5138	74.43
1995-96	2144	2748	4892	56.17
1996-97	2821	3312	6133	54.00
1997-98	3557	1828	5385	33.95
1998-99	2462	-61	2401	-2.54
1999-2000	2155	3026	5181	58.41
2000-01	3272	2590	5862	44.18
2001-02	4734	1952	6686	29.20
2002-03	3217	944	4161	22.69
2003-04	2388	11356	13744	82.63
2004-05	3713	9287	13000	71.44
2005-06	3034	12494	15528	80.46
2006-07	7693	7060	14753	47.85
2007-08	15893	27433	43326	63.32
2008-09	22372	-14031	8341	-168.22
2009-10	17966	32396	50362	64.33
2010-11	11834	30293	42127	71.91
2011-12	21860	17171	39031	43.99
2012-13	19819	26891	46710	57.57

Source: RBI.

Table 8(b): Foreign Exchange (Forex) Reserves (in Rs. Billion)

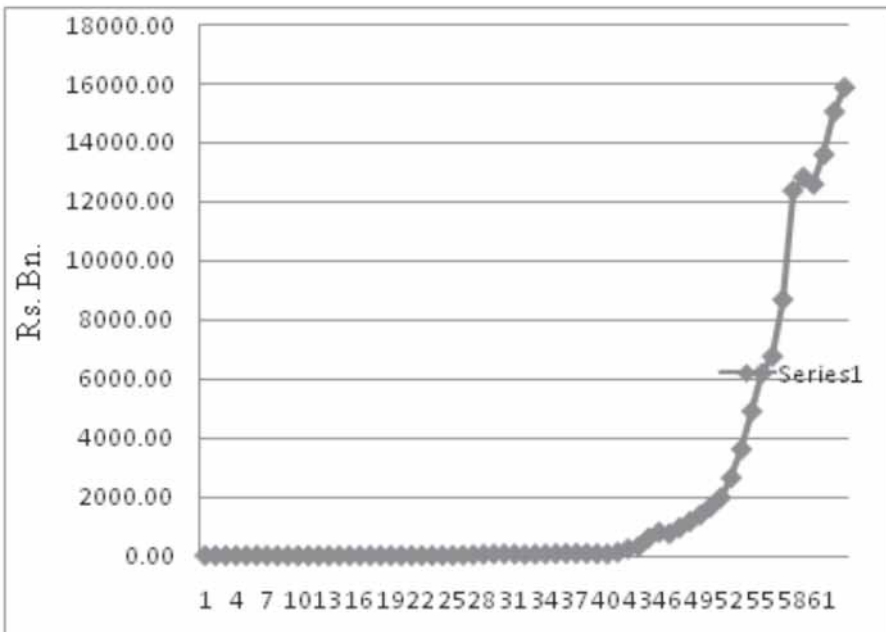
Year	Forex	Year	Forex	Year	Forex
1970-71	7.33	1984-85	72.43	1998-99	1380.05
1971-72	8.57	1985-86	78.19	1999-00	1659.13
1972-73	8.88	1986-87	81.51	2000-01	1972.04
1973-74	9.94	1987-88	76.86	2001-02	2640.36
1974-75	10.22	1988-89	70.40	2002-03	3614.70
1975-76	18.86	1989-90	62.52	2003-04	4901.29
1976-77	32.43	1990-91	114.16	2004-05	6191.16
1977-78	48.63	1991-92	238.50	2005-06	6763.87
1978-79	58.21	1992-93	307.44	2006-07	8682.22
1979-80	59.34	1993-94	604.20	2007-08	12379.65
1980-81	55.45	1994-95	797.80	2008-09	12838.65
1981-82	40.25	1995-96	743.84	2009-10	12596.65
1982-83	47.82	1996-97	949.32	2010-11	13610.13
1983-84	59.72	1997-98	1159.05	2011-12	15061.30

Source: RBI.

foreign investment, FDI is considered to be more stable and desirable than FPI, since the latter is highly volatile in nature. The other important point

to note is the nature of movement in foreign exchange (Forex) reserves. Figure – 3 indicates that in the post liberalization era, India’s Forex situation

Figure – 3: Trend in Foreign Exchange Reserves (Rs. Billion): 1950-51 – 2010-11



has, at least, become quite comfortable. In the first four decades of planning, India's Forex reserves were meagre; since the launching of the reforms, however, the reserves have grown quite sharply, especially since the end of the 20th century. India has, therefore, experienced a significant easing of its Forex constraint in the post 1991 period. This may, indeed, be taken as an important hallmark of India's macroeconomic transformation during the last two decades.

VI

Any discussion on India's macroeconomic scenario will remain incomplete without touching government's budgetary health and operations. The financial crisis that forced the government to open up its economy was induced partly by serious balance of payments crisis and thrust upon by the international agencies and stake holders and partly as a consequence of fiscal profligacy and budgetary mismanagement. Successive governments at the centre followed soft budgetary policies, primarily due to populism and welfare-centric philosophy. While public expenditure sky rocketed, on one hand, revenue generation, on the other hand, failed to keep pace. A sizeable part of public expenditure was accounted by consumption and unproductive expenditure, leaving little room for capital expenditure. Excessive dominance of revenue expenditure over capital expenditure weakened the fiscal base. On the other hand, failure to tap or generate adequate

resources, especially tax revenues in general and direct tax revenues in particular aggravated the problem. The government was unable to raise the coverage of the direct taxes and was reluctant to raise user charges etc. Further, leakages in various forms complicated the situation. Adverse budgetary position and consequent rise in fiscal deficit and expenditure on interest payments (on government borrowings) reinforced one another – i.e. it created a sort of vicious circle.

One of the urgent tasks facing the successive governments in the post liberalization period has been controlling (gross) fiscal deficit (FD). It means, the policy makers have been forced to pursue a two-pronged strategy: viz. controlling the tendency of unbridled expansion in public expenditure along with emphasis on revenue generation through imposition of new taxes (e.g. service tax) and rationalization, harmonization and simplification of tax structure with increasingly greater reliance on direct taxes. It needs to be recalled that indirect taxes are likely to cause excess burden or deadweight loss, which results in allocative inefficiency. In the last two decades, policy makers have, therefore, tried to lean towards direct taxes. This is evident from the data contained in Table 9 where one finds that the share of direct taxes in total tax revenue has been rising over the years since mid-1991. Figure 4 indicates that the gross FD as a percentage of GDP has a rising trend from the early 1970s up to the mid-1980s; from then onwards the figure is showing

**Table 9: Tax Revenue of Central and State Governments
(in Rs. Billion)**

Year	Direct Tax	Indirect Tax	Total Tax	% of Indirect Tax to Tax
1980-81	35.92	161.71	197.63	81.82
1981-82	43.95	196.41	240.36	81.71
1982-83	47.80	223.58	271.38	82.39
1983-84	53.37	258.65	312.02	82.90
1984-85	58.57	299.51	358.08	83.64
1985-86	69.64	360.26	429.90	83.80
1986-87	79.22	415.36	494.58	83.98
1987-88	86.65	483.85	570.50	84.81
1988-89	112.65	556.77	669.42	83.17
1989-90	130.28	644.69	774.97	83.19
1990-91	142.67	733.60	876.27	83.72
1991-92	190.47	837.22	1027.69	81.47
1992-93	224.84	920.78	1145.62	80.37
1993-94	253.10	964.60	1217.70	79.21
1994-95	338.68	1124.18	1462.86	76.85
1995-96	414.76	1312.64	1727.40	75.99
1996-97	471.79	1501.26	1973.05	76.09
1997-98	546.26	1597.46	2143.72	74.52
1998-99	572.44	1727.27	2299.71	75.11
1999-00	709.37	2006.07	2715.44	73.88
2000-01	811.63	2198.09	3009.72	73.03
2001-02	848.76	2240.71	3089.47	72.53
2002-03	1003.02	2517.16	3520.18	71.51
2003-04	1253.03	2827.96	4080.99	69.30
2004-05	1568.28	3285.47	4853.75	67.69
2005-06	1954.28	3811.66	5765.94	66.11
2006-07	2690.78	4549.45	7240.23	62.84
2007-08	3556.89	5218.07	8774.96	59.47
2008-09	3779.86	5483.18	9263.04	59.19
2009-10	4248.74	5597.37	9846.11	56.85
2010-11	5087.19	7413.48	12500.67	59.30
2011-12	5770.53	8763.92	14534.45	60.30
2012-13	6605.12	10578.15	17183.27	61.56

Source: RBI.

a downward trend, which, in a sense, corroborates our earlier assertion that the first dose of reforms actually started in the mid-1980s (though on a modest and experimental scale). Similarly, the figure brings out the information that the share of indirect taxes in total tax

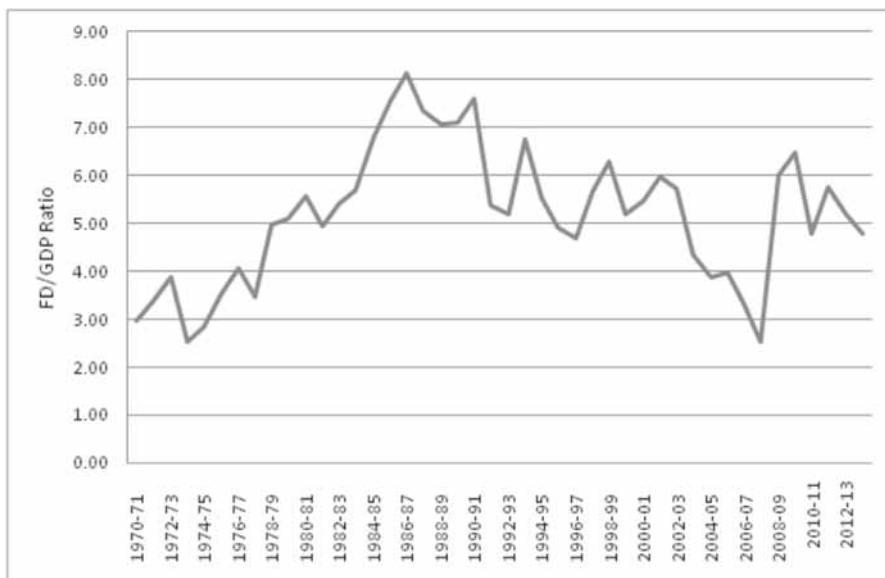
revenues (centre and the states taken together) marks a steadily falling trend from the early 1990s – a trend that continued till the later portion of the second half of the first decade in the new millennium.

**Table 10: Budget Deficits
(in Rs. Billion)**

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit	% of GFD to GDP
1980-81	82.99	56.95	20.37	5.55
1981-82	86.66	54.71	3.92	4.93
1982-83	106.27	66.89	13.08	5.40
1983-84	130.30	82.35	25.40	5.69
1984-85	174.16	114.42	42.25	6.79
1985-86	218.58	143.46	58.89	7.55
1986-87	263.42	170.96	77.77	8.13
1987-88	270.44	157.93	91.37	7.34
1988-89	309.23	166.45	105.15	7.08
1989-90	356.32	178.75	119.14	7.10
1990-91	446.32	231.34	185.62	7.61
1991-92	363.25	97.29	162.61	5.39
1992-93	401.73	90.98	185.74	5.19
1993-94	602.57	235.16	327.16	6.76
1994-95	577.03	136.44	310.29	5.52
1995-96	602.43	101.98	297.31	4.91
1996-97	667.33	72.55	326.54	4.70
1997-98	889.37	233.00	464.49	5.66
1998-99	1133.49	354.66	669.76	6.29
1999-00	1047.16	144.67	675.96	5.18
2000-01	1188.16	195.02	852.34	5.46
2001-02	1409.55	334.95	1001.62	5.98
2002-03	1450.72	272.68	1078.79	5.72
2003-04	1232.73	-8.15	982.61	4.34
2004-05	1257.94	-11.40	783.38	3.88
2005-06	1464.35	138.05	923.00	3.96
2006-07	1425.73	-76.99	802.22	3.32
2007-08	1269.12	-441.18	525.69	2.54
2008-09	3369.92	1447.88	2535.39	5.99
2009-10	4184.82	2053.89	3389.98	6.46
2010-11	3735.92	1395.69	2522.52	4.79
2011-12	5159.90	2428.40	3943.48	5.75
2012-13	5209.25	2042.51	3912.45	5.20
2013-14	5424.99	1718.14	3798.38	4.77

Source: RBI.

**Figure – 4: Behaviour of Fiscal Deficit as % of GDP:
1970-71 – 2013-14**



It may be imperative to take a close look at the over-all long term growth rates of the main components of budget deficit. In order to do that we have estimated the following growth equations where FD, PD and RD stand for fiscal deficit, primary deficit and revenue deficit (measures in billions of rupees), respectively. We take roughly a span of three decades starting from the early 1980s – 1980-81 to 2012-13 (i.e. 33 years). Further, in order to grasp the change in the movement pattern of the deficits, we split the entire time period into two phases: 1980-81 to 1990-91 and 1990-91 to 2012-13. The compound annual growth rates are calculated for each sub period as well as for the entire period; these values have been presented in Table 11.

Table 11: Compound Annual Rate of Growth of Budget Deficits

	Fiscal Deficit	Primary Deficit	Revenue Deficit
Sub Period 1			
1980-81 – 1990-91	18.53%	15.72%	49.78%
Sub Period 2			
1991-92 – 2012-13	13.09%	14.91%	10.74%
Entire Period			
1980-81 – 2012-13	13.77%	11.29%	17.94%

Source: Author's Calculation.

A comparison of the compound growth rates of the three measures of budget deficits show that it is the revenue deficit that has grown faster than fiscal and primary deficits. In the 1980s, the RD records a whopping 50% compound growth rate pointing to unchecked

fiscal profligacy on the part of the government. It needs to be recalled that large and rapidly mounting revenue deficits do not augur well as far as the fiscal health of the economy is concerned. This is because, revenue deficits have nothing to do with capital formation and infrastructure development and, therefore, it mostly refers to consumption expenditure and/or unproductive expenditure. That after the reforms and especially after the enactment of the FRBM Act, there has been attempt to tame revenue expenditures is evident from the fact that in the second sub-period, the CAGR for the revenue deficit drastically came down to a level of 10.74%. We also observe that the growth rates of FD and PD are also lower in the post liberalization era when there has been continuous endeavour to curtail public expenditures, on one hand, and raise revenue generation, on the other hand.

Conclusion

In this short exercise, we have attempted to provide a brief and broad overview of the major macroeconomic changes and their nature that have taken place in the Indian economy since early the 1970s, with special reference to the period from the mid-1980s. In doing so we have tried to highlight some positive developments in India's over all macroeconomic environment. We have argued that while the early 1990s have been talked about much because of reform

measures initiated during this phase, the mid-1980s, however, provided the first dose of economic reforms and the 1980s decade marks as a great watershed in India's economic development. Economic liberalization, as one finds, has taken the economy to a higher growth path, along with modernization. The economy is more resilient in several respects, particularly with respect to external trade and payments. However, in several areas, the economy needs to improve upon its performance. For instance, it seems there has been a disproportionate and unbalanced growth in tertiary activities, especially when one considers labour absorption rate in tertiary sector. The industrial sector, and, more importantly, the manufacturing sector have not developed to its desired height. Role and importance of the public sector have relatively been declining; the government has also been trying to control fiscal deficit and introduce greater fiscal discipline. While the country has been experiencing transformation in many directions, the issue of inclusive growth possibly needs to be addressed more vigorously. The poor rank of the country in terms of Human Development Index, Gender Inequality Index and so on basically reflects that the fruits of economic growth have not been uniform. It is time to prioritize the public expenditures and put emphasis on key social sectors and quality of investment so as to ensure improvement in overall quality of life of the masses which can transform the country into a truly emerging super power.

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Trends in Bank Deposits

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Abstract

Analysing trends in bank deposits between 2008 and 2012, this note argues that bank depositors by and large seemed to prefer to move their money to nationalised banks. Just like any investor, depositors responded to the crisis by moving their deposits from one bank group to another, from one maturity to another, or to other assets more rewarding than bank deposits.

Although the banking system in India can claim to have ensured relative resilience to global developments as exemplified by virtually nil bank failure, does this mean that depositors remained silent spectators over these global developments? A related question here is, as banks in India have different ownership structures (known as bank groups), namely, public sector, private Indian, and foreign banks, did depositors show any preference for a bank group over another. This note seeks to examine how depositors behaved subsequent to the global crisis between 2008 and 2012.

Data Source

This article uses data from Basic Statistical Return (BSR), an annual publication of the Reserve Bank of India (RBI), which is a vital database on banking, primarily providing

information on bank deposits and credit. It however does not provide the distribution of deposits by type of institutional category of ownership. This was culled out from the “Composition and Ownership Pattern of Deposits with Scheduled Commercial Banks” published in RBI Monthly Bulletins.¹ Thus, we use both BSR and the aforementioned RBI study.

Trends in Deposit Growth

The BSR provides data on outstanding deposits by bank groups which help in analysing distribution of deposits across bank groups and trends in deposit growth across these groups.² As shown in Table 1, total deposits outstanding in 2008 (end-March) grew at 25.1% over the previous year, but thereafter growth steadily declined to 12.8% by end-March 2012. Deposits with State Bank of India and its associates (henceforth SBI and group) did better, except in 2010 and 2011 when they registered growth far lower than the aggregate level. As for nationalised banks, their deposit growth became firmer throughout, except in 2012.

Interestingly, the share of nationalised banks rose between 2008 and 2012 from 48.1% to 52.8%.

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Table 1: Trends in Deposit Growth

End-March	SBI and Group	Nationalised Banks	Regional Rural Banks	Indian Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
Growth in %						
2008	31.0	24.1	19.5	22.7	23.1	25.1
2009	25.6	24.1	21.6	8.7	13.8	20.7
2010	7.6	22.1	19.8	12.9	11.6	16.3
2011	13.3	21.1	15.3	20.5	2.9	18.2
2012	14.4	12.0	10.9	12.9	15.3	12.8
As % to total deposits						
2008	23.2	48.1	3.0	20.2	5.5	100.0
2009	24.1	49.4	3.0	18.2	5.2	100.0
2010	22.3	51.9	3.1	17.7	5.0	100.0
2011	21.4	53.2	3.0	18.0	4.4	100.0
2012	21.7	52.8	3.0	18.1	4.5	100.0

Source: Authors' estimates based on data extracted from EPW Research Foundation, India Time Series.

The government being the principal shareholder of nationalised banks, they enjoy a greater degree of credibility with government-assured intervention in case of failure. As a result of this guarantee, nationalised banks gained confidence amongst depositors, which perhaps explain why they recorded faster deposit growth. The fact that private sector banks, comprising both Indian private, and foreign banks, experienced gravitation in deposit growth and a dip in their overall share in total deposits, suggest that these banks faced confidence-shocks subsequent to the crisis of 2008.

By Population Group

In the BSR, deposits are reported by population groups – rural, semi-urban, urban and metropolitan. The attitude towards bank deposits could vary across these population groups given their differing risk perceptions. Rural and semi-urban population groups may not demonstrate aversion

towards bank deposits as much as the urban and metropolitan populations comprising a variety of depositors such as corporations, individuals, other financial institutions and so on, who are likely to be well informed and quick to respond to new information.

As shown in Table 2, distribution of deposits by population groups shows that rural deposits are mostly, about 95%, concentrated in public sector banks (PSBs) comprising the SBI and group, nationalised banks and regional rural banks. Among PSBs, though nationalised banks hold a dominant position in the mobilisation of rural deposits, the relative share in total rural deposits has gone down from 52.1% in 2008 to 49.9% in 2012. This was largely gained by SBI and group. In urban centres, the presence of Indian private banks is increasingly felt, as their relative share is more than that in rural and semi-urban deposits, though in all these centres, their share has improved between 2008 and 2012.

Table 2: Distribution of Deposit by Population Group (in %)

Population Group	End-March	SBI and Group	Nationalised Banks	Regional Rural Banks	Indian Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
Rural	2008	23.5 (9.5)	52.1 (10.1)	19.7 (61.2)	4.7 (2.2)	- (-)	100.0 (9.3)
	2012	25.8 (11.2)	49.9 (8.9)	18.6 (58.8)	5.6 (2.9)	0.03 (0.1)	100.0 (9.4)
Semi-urban	2008	36.0 (20.5)	45.5 (12.5)	6.0 (26.5)	12.5 (8.2)	0.03 (0.1)	100.0 (13.2)
	2012	35.6 (22.7)	45.0 (11.8)	5.5 (25.7)	13.8 (10.6)	0.02 (0.1)	100.0 (13.9)
Urban	2008	28.1 (24.5)	52.2 (22.0)	1.7 (11.2)	17.2 (17.2)	0.8 (3.0)	100.0 (20.2)
	2012	26.8 (25.9)	52.0 (20.6)	2.0 (13.7)	18.5 (21.4)	0.7 (3.3)	100.0 (20.9)
Metropolitan	2008	18.4 (45.5)	46.5 (55.4)	0.1 (1.1)	25.6 (72.4)	9.4 (96.9)	100.0 (57.2)
	2012	15.7 (40.2)	55.5 (58.6)	0.1 (1.7)	21.1 (65.0)	7.7 (96.6)	100.0 (55.8)
Total	2008	23.2 (100.0)	48.1 (100.0)	3.0 (100.0)	20.2 (100.0)	5.5 (100.0)	100.0 (100.0)
	2012	21.7 (100.0)	52.8 (100.0)	3.0 (100.0)	18.1 (100.0)	4.5 (100.0)	100.0 (100.0)

Figures in brackets are per cent to total deposits of respective bank groups. (-) indicates negligible or nil.

Source: Authors' estimates based on data extracted from EPW Research Foundation, India Time Series.

On the contrary, foreign banks have been mostly confined to metropolitan centres. Here again, their share in total deposits declined from 9.4% in 2008 to 7.7% in 2012. Though both private banks and foreign banks have a larger presence in metropolitan areas as compared to other centres, their share in metropolitan deposits had gone down between 2008 and 2012.

By Deposit Type

We now examine distribution of deposits over current, savings, and term deposits to understand if depositors exhibited any preferential change in the deposit tenure (Table 3). In terms of relative share in current deposits, there has been a sharp reduction in the share of SBI and group between

Table 3: Distribution Deposit by Type of Deposits (in %)

Population Group	End-March	SBI and Group	Nationalised Banks	Regional Rural Banks	Indian Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
Current	2008	27.2 (16.4)	39.6 (11.5)	1.1 (5.2)	21.6 (14.9)	10.4 (26.4)	100.0 (13.9)
	2012	17.7 (8.8)	44.8 (9.1)	1.2 (4.3)	24.1 (14.3)	12.1 (29.2)	100.0 (10.7)
Savings	2008	26.3 (28.1)	48.5 (25.0)	6.6 (54.2)	15.3 (18.7)	3.3 (14.9)	100.0 (24.8)
	2012	27.6 (33.5)	46.7 (23.4)	6.1 (54.3)	16.9 (24.8)	2.6 (15.4)	100.0 (26.4)
Term	2008	21.0 (50.5)	49.8 (63.5)	2.0 (40.6)	21.9 (66.4)	5.3 (58.8)	100.0 (61.3)
	2012	19.9 (57.7)	56.7 (67.5)	2.0 (41.4)	17.5 (60.9)	3.9 (55.3)	100.0 (62.8)
Total	2008	23.2 (100.0)	48.1 (100.0)	3.0 (100.0)	20.2 (100.0)	5.5 (100.0)	100.0 (100.0)
	2012	21.7 (100.0)	52.8 (100.0)	3.0 (100.0)	18.1 (100.0)	4.5 (100.0)	100.0 (100.0)

Figures in brackets are per cent to total deposits of respective bank groups.

Source: Authors' estimates based on data extracted from EPW Research Foundation, India Time Series.

2008 and 2012 from 27.2% to 17.7%; whereas for all other bank groups, there is an increase. In particular, the share of nationalised banks witnessed a rise from 39.6% to 44.8% between 2008 and 2012. On the other hand, SBI and group and Indian private banks had increased their share in savings deposits, while nationalised banks and foreign banks showed a marginal decline.³

However, a considerable change in the relative share of term deposits across bank groups is discernible. While the share of nationalised banks registered a sharp rise, Indian private banks and foreign banks went down during the same period. The percentage share of term deposits in the total deposits of each segment of PSBs also showed an increase during this period.

By Institutional Ownership

As mentioned above, the BSR does not provide bank-group-wise deposits by institutional sector categories and so this subsection relies on RBI's study of deposit ownership and composition. As presented in Table 4, by and large, the PSBs are the most preferred banks by the government sector for parking their deposits (about 90% of their deposits), though they increasingly prefer private sector banks as well. Preference of nonfinancial private corporate sector (PCSNF) for private sector banks drastically came down during the period under review with considerable reduction in the PCS-NF deposits with these banks.

However, deposits of PCS-NF still remain more important for foreign

Table 4: Distribution of Deposit by Institutional Sectors (in %)

Sector / Banks	Year Ended	SBI and Group	Nationalised Banks	Regional Rural Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
Government sector	2008	29.0 (17.3)	61.7 (17.4)	2.8 (13.0)	6.5 (4.2)	0.04 (0.1)	100.0 (13.5)
	2012	26.7 (18.4)	65.6 (17.9)	1.5 (7.4)	4.7 (3.7)	1.6 (5.3)	100.0 (14.6)
	2013	22.3 (14.2)	67.7 (17.9)	1.3 (6.2)	7.6 (5.6)	1.2 (4.2)	100.0 (13.9)
Private corporate sector (non-financial)	2008	11.3 (6.5)	20.3 (5.5)	0.0 (0.1)	46.7 (29.0)	21.6 (48.9)	100.0 (13.0)
	2012	15.9 (11.0)	35.6 (9.8)	0.1 (0.5)	35.3 (28.4)	13.1 (44.1)	100.0 (14.6)
	2013	21.3 (12.2)	34.4 (8.1)	0.2 (0.9)	30.8 (20.3)	13.3 (41.5)	100.0 (12.4)
Financial sector	2008	17.5 (8.0)	36.5 (7.9)	0.2 (0.7)	38.8 (19.1)	7.0 (12.5)	100.0 (10.3)
	2012	7.0 (3.1)	62.9 (11.1)	0.2 (0.8)	24.7 (12.8)	5.2 (11.1)	100.0 (9.4)
	2013	7.5 (3.5)	60.8 (11.6)	0.3 (1.0)	27.0 (14.3)	4.4 (11.2)	100.0 (10.0)
Household sector	2008	24.0 (61.5)	53.6 (65.2)	4.3 (85.9)	15.5 (43.0)	2.6 (26.8)	100.0 (58.1)
	2012	23.0 (63.0)	55.1 (59.9)	4.5 (91.1)	15.3 (49.0)	2.1 (28.6)	100.0 (58.1)
	2013	24.1 (65.9)	53.3 (60.4)	4.4 (91.6)	16.3 (51.6)	1.8 (27.8)	100.0 (59.6)
Foreign sector	2008	30.2 (6.7)	37.1 (3.9)	0.2 (0.3)	19.3 (4.7)	13.3 (11.7)	100.0 (5.1)
	2012	29.9 (4.6)	21.5 (1.3)	0.1 (0.2)	34.0 (6.1)	14.5 (10.9)	100.0 (3.3)
	2013	22.4 (4.3)	25.3 (2.0)	0.2 (0.3)	37.4 (8.2)	14.7 (15.3)	100.0 (4.1)

Figures in brackets are per cent to total deposits of respective bank groups.

Source: Authors' estimates based on data extracted from RBI Monthly Bulletin, various issues.

banks and for Indian private banks as they account for a major share of these banks' deposits.

There was a serious flight of deposits of financial sector from SBI and group, and private sector banks to nationalised banks between 2008 and 2013 – the relative share of nationalised banks in total deposits of financial sector showed a sharp rise from 36.5% in 2008 to 60.8% in 2013. The household sector does not display any major change in their preferences for any bank group, as their deposit distribution across bank groups remained more or less the same throughout, though 80% of their deposits are with PSBs. However, deposits of the household sector are dominating total deposits of all bank groups except foreign banks.

As a whole, the deposits of PCS-NF and the household sector constitute a major chunk of total deposits (more than 70%). The growth rate of deposits of these sectors has registered a steady decline since 2009, which has dragged overall deposit growth (Table 5).

Concluding Remarks

As a coda, it may be observed that the depositors were not mere spectators of global events; just like any investor, they responded to the crisis by moving their deposits from one bank group to another, from one maturity to another and they even considered other assets more rewarding than bank deposits.⁴ Such behaviour was mostly demonstrated by the non-financial private corporate and households sector, whose depositing behaviour resulted in a reduction in the overall deposit growth. The group-wise analysis showed that banks were not evenly affected in the post-crisis period. If one argues that nationalised banks enjoyed more confidence of depositors at the time of the crisis due to the state guarantee; it makes more sense for banks to remain under state control so as to avoid loss of confidence of depositors. In a competitive environment, such a safeguard is however subject to a qualification that these banks deploy resources in a manner that does not result in a drain

Table 5: Trends in the Annual Growth Rate of Bank Deposits of Major Institutional Sectors (in %)

As at End March	Government Sector	Private Corporate Sector (Non-Financial)	Financial Sector	Household Sector	Foreign Sector	Total
2006	19.6	41.0	51.5	16.7	5.7	21.0
2007	25.2	39.1	34.6	22.6	10.8	24.9
2008	14.6	42.4	21.4	24.4	-3.4	22.9
2009	26.2	35.7	4.4	22.2	4.2	21.7
2010	15.9	21.6	34.7	19.1	3.4	19.7
2012	19.3	14.7	11.7	15.2	7.7	15.1
2013	5.9	-5.4	18.8	14.3	41.2	11.5

Growth rate for 2012 are the compounded annual growth rates over 2010.

Source: Reserve Bank of India, "Composition and Ownership Pattern of Deposits with Scheduled Commercial Banks", RBI Monthly Bulletin, April 2013 (p 58).

on the state exchequer for want of inadequate realisation of investments, loans and advances made.

Notes

1. This study was originally based on the sample of returns received directly from bank branches selected on the basis of stratified sampling and was designed to capture ownership of deposits by major institutional sectors and their subsectors for all types of deposits such as current, savings and term including inter-bank deposits. Since 2012, RBI adopted census method, though design of the frame had captured the information originally designed for. See RBI Monthly Bulletin (April 2013).
2. In the BSR, Indian private banks were reported under "Other Scheduled Commercial Banks" till 2008, since when they reported as Private Sector Banks.
3. It may be noted that saving bank deposit interest rate was

deregulated with effect from 25 October 2011. See RBI, Report on Trend and Progress of Banking in India 2011-12 (p 28).

4. Particularly, the changed attitude towards bank deposit has reflected in the overall decline in financial savings of household sector – its savings in bank deposits used to be 7.9% of GDP at factor cost which declined to 5.7% in 2012-13, and 32.4% of the sector's financial savings that reduced to 24.1% during the same period (Source: Authors estimates based on the data extracted from EPWRF's India Time Series). RBI notes that the fall in financial savings is accompanied by a rise in non-financial assets such as gold and real estate which had relatively high real return. See RBI (2012: 12-13).

Reference

RBI (2012): Financial Stability Report, Issue No 6, December.



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Industrial Growth Issues & Trade Credit – A Systemic View

B.L. Chandak*

Industrial recessions caused by financial sector infirmities are more severe and protracted. Unprecedented and prolonged slowdown in the manufacturing sector [annual average growth rate at 3.3% for the last six years ending FY 2014 as against 12-14% annual growth envisaged in the New Manufacturing Policy] and uncertainty about its future growth prospects despite good economic fundamentals [high saving/investment rates, large external capital inflows, large consumption market] are essentially the outcome of trust-deficit-induced systemic weaknesses in financial intermediation role of trade credit [TC] or B2B credit-based transactions. Long-drawn slowdown in manufacturing is reflected by the fact that CAGR of GDP at 7.12% was higher than manufacturing growth at 6.83% over 2001-14 period. The share of manufacturing in GDP has declined in the recent years compared to mid-1990s. This is in contrast to the New Manufacturing Policy's roadmap of higher rate of manufacturing growth than GDP and thereby increasing its share in GDP from about 16% to 25% by 2022. In this context it is interesting to note that during the 1980s [pre-policy reform period] the manufacturing growth [CAGR 6.36] was much higher than GDP growth rate [CAGR 5.37%] and its share in

GDP improved. As such, diagnosis of slowdown due to delays in policy reforms is an oversimplification.

TC Disruptions – A Black Swan Event

Historically, TC operations remained normal. Disruptions in TC during late 1990s was like a black swan event. We have very limited analytics/research about the crucial role of TC in the trade and industry. This make it hard for academia/policy makers to visualize growth impacting nature of TC network's weaknesses. Sometimes, even a small segment of dysfunctional credit market can trigger systemic economic crisis. A good example is the subprime mortgages crisis. It constituted only about 5% of the overall US mortgage market. However, it sparked off long-drawn worldwide economic crisis.

TC chain is the largest financial intermediary. It provides financial infrastructure to the world of trade, commerce and industry. As such, the amplification of TC-induced disruptions in financial and economic activities are of systemic proportion. Ignoring these facts have resulted into ineffective and inefficient policy initiatives to put the economy on the high growth trajectory. Optimism/higher growth projections for the next quarter/

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half year by policy makers/eminent economists after every disappointing macro-growth data are undermined time and again over the last 3-4 years. Credibility of growth projections is frequently dented. Until the cause-and-effect of the present growth impasse is known and corrective actions taken thereof, low growth and uncertainty will continue to haunt the economy. Again, apparent normal working of banking network and common perception of bank credit as be-all-end-all in the credit world have created tunnel-view syndrome about credit system. It makes us oblivious about the systemic weaknesses in TC creating crucial economic and financial sector vulnerabilities. Further, the India Growth Story made us unconscious about these vulnerabilities though high GDP growth rates during the period is doubtful. The high growth was based on over-estimated gross capital formation in private corporate sector [PCS-GCF]. Time has come to understand the credit market vulnerabilities associated with systemic weaknesses in TC network and its crucial role in economic activities.

Importance of TC

In terms of credit volume, activity, reach and inclusiveness TC is far bigger than banking network. It is an ubiquitous source of working capital across firms. World over TC is very important. Frederic Boissay et al [2003] find TC is 1.5 times bank credit in US and 42% of short-term liabilities of firms. Frederic Boissay et al [2007] find TC constitutes 50% of short-term

liabilities and 1/3rd of all liabilities of firms in most OECD countries. TC is linked to every aspect of a business – production, sales, management of inventory/finance/liquidity/capex and operational efficiency. It is both a source [a/c payables] and uses [a/c receivables] of funds across firms. TC and bank credit form interdependent links in credit chain. Bank credit growth, its multiplier effect & effective transmission of monetary policy depend on working efficiency level of TC system. It provides last-mile links in the sequential credit creation/distribution chain running from raw material/input suppliers to manufacturer to dealers/wholesalers to retail firms. In a systemic crisis, credit multiplier through TC chain can work in reverse direction and create liquidity/payment crisis. Today the problems of growing NPAs and slowdown are basically impacted by tighter TC conditions. TC network is akin to water carrying field channels in an irrigation system. Frail channels lead to uneven distribution. Total production and productivity suffer even though water supply is sufficient. This is evident from large cash & bank balances held by high-end corporates/PSUs and excess SLR holding by banks amounting to Rs. 6-7 lakh crore. In contrast, MSMEs are severely credit-constrained.

Unfolding of Black Swan Event

Trust is the basic ingredient for efficient and smooth working of TC network. Impairment of trust affects confidence. Financial markets are highly susceptible to public confidence. We can trace

back the growing trust deficit in TC following en masse and rapid meltdown of NBFCs in late 1990s following collapse of CRB Capital Market in 1997. Event risks in financial markets can be very high and its after effects can be enduring; eg. the global slowdown following Lehman collapse. Further, a string of events [defaults in ICD and company fixed deposit markets, disappearance of large number of fly-by-night leasing & finance companies, capital market slump, lower credit from banks following implementation prudential norms etc.] compounded the crisis. These interrupted and greatly impacted the circulatory trade credit flows and credit-based payment system. Cumulative effects of these disorderly developments severely impacted “trust channel” and “confidence channel”; the very foundation of trade credit. Many firms faced financial sickness/illiquidity due to linked delays/defaults by trade debtors which led to spurt in NPAs in late 1990s [Table 1]. Iconic financial institutions like IDBI, ICICI, UTI faced existential threat. Massive capitalization of public sector banks was

undertaken by the Govt. The legacy of impacted “trust channel” is currently reinforced by decadence of credit culture in recent times. World Values Survey in 2006 indicates that number of Indians having trust on others fell from 39% in 2001 to 21% in 2006. Growing trust/reliability gap in inter-firm credit sales due to declining ethical milieu of feeling ashamed/guilty of being defaulter/bankrupt and fast vanishing social/business stigma attached to debt default/bankruptcy have turned the trust-gap an unremitting phenomenon in TC in recent years. It has resulted into reassessment of risk in TC and tightening of TC for vast majority of businesses. Larger the number of credit-constrained businesses lower are the investment, growth and productivity in the industrial sector. More than the direct impact, the invisible cost of growing trust gap in TC is very high in terms of trade deal not effected, goods not produced, firms not started as businesses anticipate in advance that they cannot rely on trade debtors. Trust-gap induced disorderly developments in TC impact the pattern and volume of

Table 1 : Post-1997 Sickness Indicators

Sr. No.	Item/Year	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
1	Gross NPA of public sector Banks [Rs. Crore]	41041	38385	41661	43577	45653	51710	53294	54774	56507
2	Gross NPA of IDBI [Rs. Crore]	NA	NA	4751	5592	7506	9523	11428	13230	14449
3	SFCs'NPA-%	NA	NA	40	38	47	54	56	57	61
4	BIFR cases registered [No.] @	152	193	115	97	233	370	413	429	463

@: Relate to calendar year i.e.1996-97 means 1996.

Sources: 1. BIFR website. 2. Trends and Progress of Banking in India (various issues), 3. Development Banking in India, IDBI (various issues). 4. Annual Reports of IDBI.

credit flows, risk perceptions, relative credit pricing and capex across sectors/firms. Credit composition in favour of large corporates and crowding out of MSMEs from credit market impact output, employment and capex. Cumulatively these impact efficiency, volume of financial intermediation and credit multiplier.

Financial & Economic Imbalances

Given the central and crucial role of TC in the economy, network effects of adverse developments in TC are amplified and transmitted to inter-connected financial and real sectors. It systemically impacts financial structure of firms, fund flows across firms/sectors, credit reallocation, pattern and profile of investment and growth. It can create perverse incentives and opportunities across sectors/activities that can undermine productive investment and encourage sideline investment/activities and skewed distribution of financial resources. Large liquidity holdback, higher financial investment vs. lower capex by corporates, businesses' preference for trading activities backed by import/outsourcing vs. their reluctance to undertake manufacturing activities/capex and banks' preference for low-interest corporate loans/retail credit vs. productive loans and their excess SLR holdings, are the symptoms and outcome of dysfunctional TC. It is perplexing to note that in a growing and credit-deficit economy average SLR holding reached unprecedented level of 40% during 1999-05 period as against requirement of 25%. Even

now it is around 30%. Low reliability induces strong preference for cash-based sales transactions. This results into inordinately high cash discounts in trade and industry. Low/uncertain risk-return investment matrix in manufacturing compared to trading business due to tighter TC, high cash discounts and competitive imports encourage trading/import vs. capex/ production. Result is low growth in manufacturing investment despite consumption demand, good economic fundamentals and high corporate profits. Today, large capital inflows is propelling boom in secondary capital market but not capex/manufacturing output.

Perverse Functioning of Working Capital System

Receivables work as an important collateral for working capital assistance from banks/factoring companies in many countries. However, due to reliability concerns about the receivables or trade credit, banks in India generally prefer stocks and collaterals for advancing working capital. This adversely impact the availability and quantum of assistance. If the reliability of receivables is ensured, flow of credit can expand hugely. MSMEs will greatly benefit from this.

Imbalances in Corporate Capital Structure -Lower Capex and Higher Financialisation

A comparative study of asset composition of PCS [based on RBI's annual study of financials of companies] shows a decline in the

annual average ratio of fixed assets to total assets [66.4% in 1990s to 50.2% in 2000s] while there was commensurate increase in financial assets [20.5% in 1990s to 36.2% in 2000s] [Table 2]. A detailed comparative ratio analysis of annual average changes in financials of RBI's sample companies during 2000s vis-à-vis 1990s with their implications are given in Annexure I.

RBI's Financial Stability Report [FSR] Dec. 2013 refer to the above findings [The Indian Banker, Oct.2013]. It also corroborates these findings by its own

analysis of 765 companies. FSR, June 2014 makes references to surge in corporates' financial assets. The Report of the High Level Committee on Estimation of Savings & Investment, 2009 [Dr. C. Rangrajan, Chairman] corroborate the above findings. All these clearly prove that the India Growth Story was built on over-estimation of PCS-GCF and as such lacked innate strength, vitality and potential. This is well manifested in sharp decline in growth momentum, a supply-constrained economy, dramatic fall in growth potential

Table 2- Private Corporate Sector's GCF, FD & Financials

Year/ Item	Gross Capital Formation in PCS			RBI sample Cos.		PCS's Fixed Deposits with Banks		
	Amt. (Rs. Cr.)	Y-on-Y Growth (%)	% to GDP	Gross Fixed Assets/Total Assets %	Financial assets / total assets %	Amt. (Rs. cr.)	Y-on-Y (%)	Share in total Term Deposits of banks (%)
1999-00	140750	16.0	7.0	70.2	21.8	18517	5.4	3.4
2000-01	106524	24.3	4.9	70.5	22.8	26727	44.3	4.3
2001-02	121187	13.8	5.2	73.5	20.9	42328	58.4	5.8
2002-03	145011	19.7	5.7	71.9	24.2	44699	5.6	5.4
2003-04	186088	28.3	6.6	69.0	27.9	75630	69.2	7.7
2004-05	334869	80.0	10.3	69.2	28.3	103074	36.3	9.5
2005-06	500675	49.5	13.6	65.3	29.1	151387	46.9	11.6
2006-07	624179	24.7	14.5	60.0	30.8	223591	47.7	13.2
2007-08	863147	34.0	17.3	56.8	32.4	317365	41.9	15.2
CAGR 2004-08	42.9 %					48.0		
2008-09	636314	26.3	11.3	53.4	34.0	449746	41.7	17.2
2009-10	820966	31.1	12.7	53.9	34.6	515422	14.6	17
2010-11	928512	13.1	12.1	-	-	-	-	-
CAGR 2000-10	19.29					39.5		
Annual Average 1991-00				66.4	20.5			
Annual Average 2001-10				50.2	36.2			

Sources: 1] Handbook of Statistics on Indian Economy, 2011-12, RBI, 2] Statistical Tables Relating to Banks in India [various issues] 3] RBI's Annual Financial Studies of Public Ltd. Companies [1990-91 to 2009-10]- RBI Bulletins.

and unprecedented stagnation in industry in the recent years. Dip in the manufacturing growth rate, inordinate increase in ICOR, decline in productivity, fall in manufacturing employment by 5 million over 2005-10, drop in share of manufacturing in export from 76% in FY 2001 to 61% FY2010, etc., reinforce the fact of under-investment in industry.

Corporate Financials in 2000s : Unusual Trend

Analysis of RBI's annual study of corporate financials over the last 4 decades show a highly exceptional trend in their asset composition [declining fixed assets and growing financial assets share in total assets] during the decade of 2000s as compared to 1970s, 1980s and 1990s. These ratios are significantly out of line with the past 3 decade trend [Table 3].

Significant changes in the asset composition of RBI's sample companies during 2000s vis-à-vis previous 3 decades by way of abnormal spurt in share of cash & bank balances and financial investment in total assets and corresponding decline in share of productive assets in total assets of

these companies point to systemic changes in their capital structure. It is abnormal and strange to find that cash and bank balances ratio to total assets after declining steadily since 1970s had suddenly surged in 2000s. Decline in the ratio over the past 3 decades is consistent with the progress of banking. Further, with rapid progress of digital banking and payment system during 2000s, this ratio should have been declined appreciably instead of spurting. The main reason for such a surge in cash & bank balances lies in the fact that with the decline in general availability of trade credit [TC] due to growing trust-deficit in B2B credit transactions, firms need to keep higher level of cash & bank balances to meet transaction demand. Secondly, during slowdown and with the increase in risk of default/delays by trade debtors, businesses hold higher liquidity as precaution to safeguard their working capital and future cash flows. Steady increase in liquidity holding is very much reflected in the decline of income velocity of money during 2000s as compared to 1990s. Corollary fall out of surge in liquidity holding by firms is undermining businesses' capacity to extend TC. Given the

Table 3: Annual Average share [%] in total assets of Public Limited Companies

Item	1970s	1980s	1990s	2000s
Gross Fixed Assets of which	72.20	69.29	66.86	59.01
Plant & Machinery	52.12	50.19	47.01	40.89
Loans & Advances	20.45	13.83	24.92	24.07
Sundry Debtors	13.32	15.07	13.69	11.45
Investment	2.27	2.68	8.02	15.33
Cash & Bank balances	4.25	3.79	3.50	6.41

Source: RBI's annual study of financials of the non-Govt. non-financial public ltd. companies.

generalized phenomenon of increase in liquidity holdback during 2000s, the aggregate effect of millions of business on trade credit creation at macro level is of systemic proportion as the impact of lower TC is sequentially transmitted along the supply chain financing network. In TC, tenure and volume of receivables of a firm are linked to its payables. When TC creation capacity is subdued, credit multiplier declines. If credit multiplier falls, it becomes difficult for the economy to sustain high growth trajectory.

Resource Flows to Sideline Activities

Empirical data and corroborative evidences show that surge in foreign capital inflows, high corporate savings and accelerated and large bank credit flows to the corporate sector during the peak growth period in 2000s have encouraged more financial investment, import, consumption, rupee appreciation, higher equity prices

than productive investment in the real sector [Table 4]. Another phenomenon which has experienced accelerated fund inflows and price boom is the realty sector. Accelerated investment inflows to the realty sector including diversion of funds from trade and industry to this sector have impacted capex, real sector activities and overall market liquidity.

Spillover Effects of Large External Fund Inflows

The depth and efficiency of financial sector influences a country's capacity to absorb external capital inflows. Credit creation and credit absorption capacity impacted by weaknesses in TC restrict benefits from capital inflows in terms of spillovers from target projects to the rest of the economy. In fact, large low-interest bearing capital inflows led to appreciation of rupee [Table 4] which encouraged import-intensive consumption/financial investment and impacted capex and production activities during 2000s. In absence of

Table 4 : Financial/Market/Investment/ Exchange Rate/Credit flow Indicators

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Annual average Rs/\$ rate	48.40	45.95	44.93	44.27	45.28	40.24
Foreign Investment Inflows [\$ mln]	6014	15699	15366	21453	29829	62106
Import/Export %	116.5	122.4	133.5	144.7	146.9	154.3
% share of manufacturing in export	71.4	71.0	68.0	65.8	62.9	59.2
Average of Sensex Index	3206	4492	5741	8280	12277	16569
Corporates' Bank FD[Rs. Cr]	44699	75630	103074	151387	223591	317365
Bank credit [above Rs.25 crore size] O/S [Rs. Cr]	109958	119501	177226	249563	386889	470410
Gross Fixed Assets /Total Assets % [RBI Sample cos.]	71.9	69.0	69.2	65.3	60.0	56.8
Financial Assets/Total Assets % [RBI Sample cos.]	24.2	27.9	28.3	29.1	30.8	32.4

Sources: Various issues of 1] Handbook of Statistics on Indian Economy, RBI 2] RBI's Annual Study of Financials of non-Govt. Public Limited Companies 3] Statistical Tables Relating to Banks in India, RBI 4] Basic Statistical Returns, RBI, 5] DGCI&S, 2012.

well functioning financial markets, spillover benefits for MSMEs from expected large FDI, infrastructure and domestic investment flows may be very limited. MSMEs may find it difficult to get credit for undertaking capex and working capital for execution of large orders from upcoming projects. The gap may be filled more by import than domestic production.

Circular Flow of Funds between Banks and PCS- A Systemic Incongruity

An interesting and unusual phenomenon of circular flow of funds between banks and PCS emerged during 2000s. In a reversal of the role, PCS has become a significant lender of funds to the banking sector during 2000s through fixed deposits [FD]. CAGR of PCS' FD with banks was 39.5% during 2001-10 period. PCS-FD which was Rs. 18,517 crore as at end-March 2000 steadily surged by 28 times to Rs. 5,15,422 crore as at end-March 2010. The share of PCS-FD in total bank FD increased from 3.4% in FY 2000 to 17% in FY 2010 [Table 2]. At the same time CAGR of bank loan-size above Rs. 25 crore was 34% during 2000s. This circular flow of funds between banks and PCS was facilitated by : i] accelerated sub-BPLR lending by banks (share spurring from 28% in FY 2002 to 76% in FY2008 in total bank loans) ii] surge in low-interest ECB borrowings and iii] good demand for bulk-deposits by banks. This bypassed capex. Credit redistribution role of large firms through TC is impaired.

More strangely, FD and GCF of the PCS concomitantly spurted with a CAGR of 48% and 43% respectively during the golden-growth period of 2004-08 [Table 2]. Concurrent surge in both FD and PCS-GCF in 2000s are contradictory. The FD data are actual. Hence, the PCS-GCF is overestimated.

Working capital constraints undermine MSMEs' capex activities. ASI's factory sector data shows large decline of 32% in fixed capital to value of output ratio during 2000s over 1990s. Large firms' cash-sales-and-credit-purchase policy aggravates liquidity problems for MSMEs. The study shows PCS as the net receiver of trade credit [TC] during 2000s. This is in sharp contrast to World Bank's advocacy of TC as an important tool for channelising credit to SMEs from large businesses. Further, with mere 5% credit coverage of MSMEs by banks, TC assumes critical significance for the sector.

Economic and Financial Sector Incongruities

The amount of intermediation of bank credit by firms through TC influences demand for bank credit as bank credit is redistributed via TC from financially strong firms to financially weaker firms. Large cash & bank balances and spurt in financial investment by high-end corporates, their cash-sale and purchase-on-credit policy make them the net recipient of TC. These seriously impact credit distribution role of financially strong firms. Liquidity crisis and resultant NPAs for MSMEs start off when liquidity of TC

network contracts as 95% of MSMEs are dependent on non-bank credit sources, esp. TC. These impact normal functioning of short-term funding market. Interconnected network of TC transmit and amplify these shocks by disrupting credit-based payment and settlement system. Credit deleveraging becomes self-reinforcing. Steep fall in the share of cash credit in banks' credit portfolio from average of 40% during 1990s to 17% in the recent years indicates firm' lower intermediation of working capital from banks through TC. Further, consistently excess SLR holdings by banks, their investment in mutual funds since 2000s and circular fund of funds between banks and PCS are seriously impacting financial intermediation by banks. Interruption in credit intermediation process was the critical factor for the greater length and depth of the Great Depression.

An analysis of size-wise bank credit shows that while big ticket bank loans increased exponentially, the share of credit-size ranging between Rs. 25 lakh to Rs. 10 crore in the total bank credit declined from 35% to 18% over the same period. Sharp changes in credit composition in favour of large firms and crowding out of MSMEs lead to liquidity crisis for them. MSME sector contributes about 45% of industrial output. This impacts investment, growth and productivity in the industrial sector.

TC deleveraging and liquidity constraints remain a major headwind for industrial growth in the coming period as TC network of finance

has become weak. Even with a slew of policy reforms, monetary easing, higher public expenditure, measures to increase bank credit and lower interest rates to stimulate economic growth may not have the desired level of outcome as ultimately the finance has to travel through the TC chain. The present industrial sluggishness and economic imbalances are essentially due to failure of credit system to generate sufficient volume of credit and its misallocation across firms/sectors and sub-optimal use. Policy reform issues could have aggravated the situation. All these call for understanding how the financial frictions in the credit intermediation role of TC have contributed to structural imbalances in financial and real sectors.

Roadmap

Fear of default/delay/opportunistic behaviour by debtors in TC has triggered structural weaknesses in credit architecture. To overcome these, collective action by industry bodies against willful defaulters/opportunistic behaviour in private credit, naming/shaming them through creation of national file of delinquent debtors, establishment of credit registries, strengthening creditors' rights etc. are required. Effective institutionalised sanction mechanism against willful defaulters in private credit will engender environmental/transactional trust which is necessary for creating a sound eco-system of secured credit-based B2B transactions. This is

Annexure I : Summary of Financial Ratios of Public Ltd. Cos. : Implications

	Item	Annual Average		% Change in 2001-10 over 1991-00	Implications /observations
		1991-00	2001-10		
As % to Total Assets/Liabilities	Gross Fixed Assets:-	66.86	59.01	-11.74	Imply lower capex & more so in P&M. Impact future industrial growth capacity and productivity. Tendency towards greater reliance on marketing by outsourcing/ imports. Rush for retail-chains. Power & fuel expenses to sales of these companies declined by 34% points to this trend.
	Land	1.77	2.07	17.04	
	Buildings	7.03	5.76	-18.04	
	Plant & Machinery	47.01	40.89	-13.03	
	Net Fixed Assets	46.62	39.61	-15.03	
	Inventories:-	15.58	12.71	-18.44	No corresponding decline in sundry creditors
	Sundry debtors	13.69	11.45	-16.32	Higher bank WC + decline in inventories + net positive TC flow increased by 24% whereas inventories decline by 18%. It means excess credit inflows.
	Sundry creditors	12.56	12.11	-3.63	
	WC from banks	10.24	10.65	3.96	
	Investments	8.02	15.33	91.09	Surplus liquidity/credit resulted into spurt in investment & fixed deposits with banks. Imbalances in credit allocation across firms.
	Cash and Bank Balances of which	3.50	6.41	83.22	
	Fixed deposit with Banks	1.27	4.68	268.81	
As % of Total Sources & Uses of Funds	Gross Fixed Assets:-	57.02	39.41	-30.88	Lower flow of funds to capex. Impact industrial growth and its future potential.
	Plant & Machinery	42.24	28.01	-33.69	
	Sundry debtors	10.94	8.84	-19.23	Credit redistribution role of cos. drastically reduced. Impact credit availability to MSEs.
	Sundry creditors	10.31	9.94	-3.55	
	Investments	10.68	21.77	103.78	Financialisation of corporates. Net credit flow from cos. to MSEs impacted. World Bank advocates TC for channelizing from large cos. to MSEs.
	Cash and Bank Balances	2.02	5.97	195.77	
Ratios	Gross Fixed Assets formation to uses of funds	56.14	41.45	-26.17	Corporates' savings sufficient to meet capex. This is due to higher profit & lower capex.
	Gross savings to gross capital formation	57.78	100.33	73.64	
	TOL/TNW	176.76	149.93	-15.18	Credit deleveraging.
	Current Ratio	1.33	1.17	-11.76	
As % of Sales	Power & Fuel cost	7.52	4.94	-34.25	Imply more outsourcing/import and lesser in-house production
	Salaries & wages	6.87	6.35	-7.61	
	Interest	6.15	3.13	-49.05	Lower interest rates and borrowings
	PAT	4.76	7.73	62.48	Higher profitability.
	Total no. of cos./ observations	18264	25801		RBI's sample is representative of corporate sector

Source : RBI Company Finance Studies, Various issues of RBI Bulletins]

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- ▶ Marketing group meeting
- ▶ Finance & Budget discussion
- ▶ Arbitration & Legal discussion & many more ...



Ruby Board Room - 40 Seater

Our Value

We deliver superior value to our clients through responsive and proactive result oriented client service.

We look after your business as our own and treat your success as our success.

Our People

A team of very friendly, helpful and competent people always there to make your meeting even more worth while.

Our High Service Standards

Complete catering services with multiple menu options.

Our Cost Effective Solution

Fully furnished meeting facilities at reasonable cost.

Our Safety

The centre is fully equipped with CCTV cameras in all the common areas.



Ballard Estate Board Room - 50 Seater

HOW DO WE SET OURSELVES APART

Our Products & Service

Best-in-class service, scaled to meet the needs of each client, whether big or small, local or international.

Full of premium facilities like teleconferencing and videoconferencing, printing/scanning services, stationery, high-speed internet access with Wi-Fi connectivity, whiteboard, markers, LCD screens etc.

Our Location

Ruby Tower stand-alone building located in the heart of Mumbai at Dadar on the Tulsi Pipe Road which enables easy access and connectivity to all parts of the city. Ballard Estate office is situated in south Mumbai next to the 'Fort' area.



Ruby Meeting Room - 14 Seater

All meeting rooms are served by a dedicated support team and include:

- FREE Wi-Fi and Telephone*
- FREE LCD projector and screen
- FREE Flipchart, whiteboard and markers
- FREE Bottled water
- FREE Note pads & pencils

Video Conferencing and Catering services available as per requirement.



For bookings & enquiries, kindly contact:

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Bombay Chamber of Commerce and Industry

Administrative Office:

'The Ruby', 4 Floor, 29, Senapati Bapat Marg (Tulsi Pipe Road),
 Dadar (W), Mumbai 400 028.
 Tel.: +91-22 6120 0200 Fax : +91-22 6120 0213

Registered & Certificate of Origin Office:

Mackinnon Mackenzie Building, 4, Shoorji Vallabhdas Marg,
 Ballard Estate, Mumbai 400 001. Tel.: +91-22 4910 0200

E-mail : bcci@bombaychamber.com
 URL : www.bombaychamber.com

Charges of Conference Room

Ballard Estate office

Rooms	Capacity	Full Day	Half Day
Board Room	50 Seater	Rs.16,500 - Members Rs.18,500 - Non Members	Rs.9,000 - Members Rs.10,000 - Non Members
Meeting Room	6 Seater	Rs.6,000 - Members Rs.8,000 - Non Members	Rs.4,000 - Members Rs.5,000 - Non Members

Ruby office (Dadar)

Rooms	Capacity	Full Day	Half Day
Board Room	40 Seater	Rs.16,500 - Members Rs.18,500 - Non Members	Rs. 9,000 - Members Rs.10,000 - Non Members
Training Room	35 Seater	Rs.15,000 - Members Rs.17,000 - Non Members	Rs. 8,000 - Members Rs. 9,000 - Non Members
Meeting Room	14 Seater	Rs.10,000 - Members Rs.11,000 - Non Members	Rs. 5,000 - Members Rs. 6,000 - Non Members
Meeting Room	6 Seater	Rs. 6,000 - Members Rs. 7,500 - Non Members	Rs. 3,500 - Members Rs. 4,500 - Non Members

► The above charges are exclusive of Taxes, Tea, Coffee, Lunch, Audio-Video recording, etc.

► Refreshments & Luncheons will be arranged on request through Chamber's authorized caterers.

BULK BOOKINGS:

For 3 - 4 bookings in a quarter: 10% discount
 For 5 or more bookings in a quarter: 15% discount

ADVANCE POLICY:

25% of the advance at the time of booking before the event.
 (This security deposit is non-refundable).

* T & C Apply



necessary for a free flow of TC without the fear and uncertainty of delays/default by debtors. In these matters including self-regulation/self-discipline, industry associations' role become critical and more effective as they are in better position to judge the events. Their reputational weight and moral authority can work more effectively and efficiently than legal remedies in solving the problems of bad debts/insolvency in private credit. Govt. can facilitate these.

Government also needs to strengthen creditors' rights and legal system for quicker and cost-effective private credit recovery. It may facilitate formation of credit bureaus in private sector. Besides these, it can act as facilitator/coordinator by involving industry associations, chambers and other institutions to evolve and build up a system of generalized code of conduct for a disciplined and orderly working of private credit channels. Lack of fear

of institutionalized penal action against default has made TC availability very selective [based on inter-personal links/ethnicity/past experience] and calculative [preference for low exposure & higher safeguards]. There is a need for facilitating generalized and impersonal trust environment for free flow of credit. Without free flow of credit no economy can attain its full potential.

The views are personal.

References

- 1] Frederic Boissay and Cyril Monnet [March 2003] of European Central Bank, Bankruptcy in Credit Chains, available at www.gemini.econ.and/edu.
- 2] Trade credit defaults and liquidity provision by firms [May 2007], Working Paper No. 753-- Frederic Boissay and Reint Gropp of ECB.



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Inside Covers [Front / Back]	12,500/-	21,250/-	37,500/-

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Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies

The Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies was constituted in 1996 by the Bombay Chamber of Commerce and Industry to undertake independent research activities on various economic and management issues and for providing analytical views on macro-economic scenario, industrial performance and other issues of topical interest.

The Trust started publishing the quarterly magazine 'AnalytiQue' for the quarter October-December in the year of 1999 to serve as an effective vehicle of communication between the government, industry, economists, thinkers, management consultants and scholars. In its short journey the magazine had some trying spells and after the issue of January-March, 2006 there has been no issue. However, after four years, the Trust published the next issue as Journal in March, 2010. While retaining its basic purpose and character, AnalytiQue now continues to serve members, who are drawn mainly from the world of business and commerce and deals with contemporary economic issues while documenting some of the important developments of the Indian economy.

Bombay Chamber of Commerce & Industry Trust for Economic and Management Studies

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“E - Information Service”

The “E - Information Service” is provided through an online newsletter called ‘E - weekly’ to disseminate useful information on business and commerce in India and International countries. This service is provided to both the members of Bombay Chamber as well as non-members. The information contains notifications, circulars and reports issued by respective Department on:

- Banking & Taxation
- Customs & Central Excise
- D. A. circulars, Industrial Relation and Labour Laws
- Selected Statistical Data
- International Trade Information through Economic and Commercial Reports
- World Bank news on Loan and Credit Summary
- Shipping

For Further information on prescribed fees and registration please refer the link below:

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