

## CHAPTER - I

### INTRODUCTION

In the last two decades, besides being a major source of funds for financing economic development and growth, bank deposits have emerged as an important source of funds on which governments of less developed countries (L D Cs), depend for financing their expenditure. Further, being a strategic economic variable at the macro-level, it is under strick control and regulation of the central monetary authority. In most of the LDCs bank deposits have attracted very little attention of the bankers, mainly due to the easy flow of deposits in the early phase of economic development. Most of the growth in LDCs in bank deposits over the last three decades can be largely attributed to the increasing monetisation of the economy, rising level of national income and the geographical expansion of the coverage of the institutional financial structure. However, this initial phase of deposit growth being over, in future, bankers will have to innovate new schemes even for maintaining the deposit growth rate at the present level.

At the individual bank level deposit mobilisation is one of the two major functions of a bank. Hence, it constitutes profit maximising entity. An empirical analysis of commercial banks in U.S.A. revealed positive and significant relations between total deposits and profits of banks (Warapatr Todhanakasem, 1983). This study concluded ".....the results' of this research shows that total deposits are the greatest sources of economics of scale."<sup>1</sup>

The present study is mainly concerned with bank deposit at the macro level. Temporal study of bank deposits in India can be divided into two equal parts of 18 years each. The first period, from 1951 to 1969, the post independence and pre-bank nationalisation period; and the second period from 1969 to 1987, the post bank nationalisation period. The compound growth rate of Bank deposits was 9 percent in the first period and it more than doubled (99.2 percent) in the second period. The decade of seventies was the golden age when the annual growth in bank deposits touched the peak of 26 percent in 1977-78. This was the end of the first decade after bank nationalisation comprising the early phase of growth in bank deposits. However, from the next year process of deceleration is noticed reaching the lowest level of 15 percent in 1981-82. All through the 1980s, the growth rate was subdued ranging from 15 to 20 percent.

The deceleration in the growth of bank deposits observed during the 1980s is a cause of concern in view of the great importance of the bank deposits as a source of funds for financing economic development. The importance of deposits as a monetary variable is indicated by the ratio of bank deposits to the national income, which was 47 percent in 1986-87. The deceleration of bank deposits was the main factor responsible for subdued rate of saving in the economy during the 1980s, and thus becomes an important concern for a research enquiry.

In view of the above, it is pertinent to study the distribution pattern of deposits and the ~~promoting~~ factors promoting and constraining the growth of bank deposits in the eighties. The findings of such a study can provide the policy makers guidelines necessary for promoting the growth in bank deposits. The present study is an attempt in this direction.

The inquiry throws light on both the endogeneous and exogenous factors influencing bank deposits. The analysis of the components and distribution pattern of deposits provide an insight in the mechanisation and operation of the process of deposit mobilisation by banks. On the other hand, the regression analysis identifies the causal relationship of the external variables with deposits at the national level. The third dimension is the provided by opinion survey of depositors with reference to the characteristics of deposits, asset preference of depositors and the degree of satisfaction with the interest rate paid on deposits and location of bank branches. The opinion survey also aims at highlighting the age and gender issues in the preferences expressed by the depositors.

### Objectives

It is a comprehensive study of bank deposits in India during the post bank nationalisation period. An attempt is made to measure the growth of bank deposits, examine its composition and distribution patterns and to identify the factors which have influence on bank deposits. More ~~specifically~~ specifically the objectives are :

- 1) To measure the growth of bank deposits in India during the post bank nationalisation period.
- 2) To examine the changes in the composition of bank deposits :
  - a) Statewise,
  - b) Bank Groupwise,
  - c) according to categories of deposits, and
  - d) population groupwise.
- 3) To determine the exogenous factors influencing the growth of bank deposits at the macro level and suggest an appropriate model for establishing causality.
- 4) To study the depositors preference with respect to :
  - a) ranking of bank deposits vis-a-vis; other financial assets,
  - b) Preference for types of deposits,
  - c) characteristic of bank deposits,
  - d) location preference of bank branch.

In sum, it is a problem oriented study, throwing light on the constraints to the growth of bank deposits in the eighties. Its findings will provide policy prescription and also help decision taking at the bank level, for higher deposit mobilisation.

The literature survey indicates that most of the work in the area of bank deposits is in terms of preparing statistical models for forecasting bank deposit growth at the macro level. Such studies however, have limited utility. In the recent past a major study was undertaken by NIBM

on preferences of depositors, with a view to examining the phenomenon of bank deposits from the other end. The present study also includes an inquiry into depositors' preferences. In the past very little attention has been paid by the researchers on the deposit mobilisation schemes and recognition of the preferences of the depositors. The major contribution and importance of the present study, lies in the dual approach, whereby, the sophisticated econometric model and the simple preferences of the depositors, are blended with a view to providing an innovative research methodology for examining the problem of deposit mobilisation by banks.

(The urban and rural parts of India have totally different environments and the preferences of individuals are also very different. Deposit mobilisation in rural areas, will be to a great extent, a function of increasing degree of monetisation and the structural growth of semi-urban and rural bank branches and increasing income levels transmitting people from subsistence level to lower middle income groups. On the other hand, in the urban, sector there is a considerable resemblance to the approaches, attitudes and preferences of people, to those obtaining in the developed countries. Hence, unless specific measures are taken, the share of bank deposits in total financial assets is likely to decline due to the stiff competition offered by other financial assets which enjoy higher rates of return, tax concessions and other fiscal benefits as upheld in the Gurley and Shaw Thesis.

### Hypothesis

- 1) As economic development progresses, the share of banking system (bank deposits) in the total financial assets of a country increases in the initial stage and declines latter on.
- 2) Inter-state variations in deposits are likely to be more inequitous by the end of the study period, as compared to its beginning.
- 3) Number of branches, population per branch, ratio of newly opened to total branches aggregate monetary resources, national income, rate of inflation and lagged variable viz., deposits,  $M_3$  national income and rate of inflation <sup>do</sup> <sup>have influence on</sup> ~~are not positively related~~ <sup>with</sup> bank deposits.

### Data Sources

The study is based on both primary and secondary data.

The data was mainly drawn from various publications of Reserve Bank of India, Central Statistical Organisation, Government of India and Population Census. Information and data were also collected from several published and unpublished reports of Expert Committees, Commissions and Working Groups. All through the study, time series data is used, however, in a few cases, the cross section data <sup>is</sup> ~~was~~ taken.

Primary survey was conducted for collecting opinions of depositors in an urban area with respect to their preferences about characteristics of bank deposits, types of deposits and ranking of bank deposits vis-a-vis other financial assets, and location of bank branch.

### Methodology

Questionnaire-cum-interview method was adopted for soliciting the opinions of 200 respondents, randomly selected from the list of employees of a semi-government organisation.

A structured questionnaire was prepared, tested by undertaking a pilot survey and after making necessary changes was used for the primary survey.

A list of macro-economic variables which were supposed to have causal relationship with bank deposits, was prepared on the basis of the literature review. The relationship between selected variables and bank deposits is tested by applying the statistical technique of multiple regression, by using log log linear function.

Both the secondary and primary data were tabulated to make the data more meaningful.

The major contribution of this study lies in the three dimensional approach to the analysis of the problem of growth of bank deposits in India. Firstly, the growth, composition and distribution pattern of bank deposits in India is analysed. Secondly the macro level model is formulated and tested for identification of exogenous variables influencing bank deposits. Lastly, an opinion

survey of bank depositors throws light at the grass-root level on the values attached to various characteristics of bank deposits, preference given to bank deposits vis-a-vis other financial assets, satisfaction with the rates of interest paid on deposits and the preference for location of branches.

Ratio, percentages, index numbers etc. are also used for analysing the data.

### Chapter outline

The chapter in this dissertation are organised in the following way. Chapter-II presents the theoretical back-ground and a selective review of the literature. In Chapter-III, the policy and schemes of deposits mobilisation are reviewed. In Chapter-IV, we measure the growth of total deposits in India and examine its components. Chapter-V, VI and VII examine the distribution pattern of deposits, statewise, bank groupwise and branch categorywise. In Chapter-VIII, the exogenous determinents of bank deposits are identified and a model is presented for explaining their causal relationship with bank deposits. It also contains the approach to model estimation, parameter estimates and the simulation results. The model simulation over alternative determinant mixes are also discussed. Finally, by using <sup>Linear time trend equation, the</sup> the model, annual bank deposit ~~counts~~ <sup>amounts</sup> are forecasted for the period 1985 to 2000. Chapter-IX presents the results of the opinion survey of bank deposits on the characteristics of deposits as a financial asset, preference ranking of selected financial assets, types of deposits accounts.

satisfaction with interest rate paid on deposits and location of bank branches. Lastly, Chapter-X presents the conclusions and findings of the study and makes suggestions for further areas of research.

REFERENCES

- 1 The Risk - Adjusted Profit Function Measurement of Economics of Scale and Efficiency in Commercial Banking. - Warapatr Tochanaekasen, Ph.D Thesis, University of Illinois, U.S.A., 1983, / . 109