

CHAPTER - IVGROWTH AND COMPOSITION OF BANK DEPOSITS IN INDIA

This chapter is devoted to measuring the growth trend of total deposits in the country. The growth during the pre-bank nationalisation period is studied for providing a proper perspective to the growth of bank deposits during the study period, 1969-70 to 1986-87.

The bank deposits increased from Rs.861 crores in 1951-52 to Rs.4,338 in 1968-69 and crossed the landmark of Rs.one lakh crores in the last year of the study period, as indicated in the following table.

Table No. 4.1 - Growth of Deposits in India :
Planwise

Sr. No.	Years (March ending)	Aggregate deposits (Rs.Crores)	Growth over the previous year (in percent)
1.	2.	3.	4.
First Five Year Plan			
1	1951-52	860.7	- 2.3
2	1952-53	830.5	- 3.5
3	1953-54	847.5	2.0
4	1954-55	942.6	12.2
5	1955-56	1043.2	10.7
Second Five Year Plan			
6	1956-57	1175.3	12.7
7	1957-58	1451.2	23.5
8	1958-59	1635.0	12.7
9	1959-60	1902.0	16.3
10	1960-61	1746.1	- 8.2

Table No. 4.1 contd.

1.	2.	3.	4.
Third Five Year Plan			
11	1961-62	1921.9	10.1
12	1962-63	2042.3	6.3
13	1963-64	2285.1	11.9
14	1964-65	2583.3	13.0
15	1965-66	2949.9	14.2
Annual Plans			
16	1966-67	3425.5	16.1
17	1967-68	3856.0	12.6
18	1968-69	4338.2	12.5
Fourth Five Year Plan			
19	1969-70	5028.0	15.9
20	1970-71	5906.0	17.5
21	1971-72	7106.0	20.3
22	1972-73	8643.0	21.6
23	1973-74	10139.0	17.3
Fifth Five Year Plan			
24	1974-75	11827.0	16.6
25	1975-76	14155.0	19.7
26	1976-77	17566.0	25.0
27	1977-78	22211.0	26.4
28	1978-79	27016.0	21.6
Annual Plan			
29	1979-80	31759.0	17.6
Sixth Five Year Plan			
30	1980-81	37988.0	19.6
31	1981-82	43733.0	15.1
32	1982-83	51358.0	17.4
33	1983-84	60596.0	17.9
34	1984-85	72244.0	19.2
Seventh Five Year Plan			
35	1985-86	85404.0	18.2
36	1986-87	102127	19.6

The increase in bank deposits is measured by using two statistical techniques. Firstly, compound growth rates are calculated for the pre and post bank nationalisation period and for each five year plan period, separately. Secondly, for all the years, annual growth rates are calculated in terms of growth over the previous year. The following table gives the compound growth rates:

Table No. 4.2 - Growth of Bank Deposits in India

Sr. No.	Period	Compound growth rate per annum (in percentage)
1.	2.	3.
1	1950-51 to 1968-69	8.74
2	1969-70 to 1986-87	17.05
3	1950-51 to 1955-56	3.50
4	1956-57 to 1960-61	10.90
5	1961-62 to 1965-66	11.10
6	1966-67 to 1968-69	13.70
7	1969-70 to 1973-74	18.50
8	1974-75 to 1978-79	21.70
9	1980-81 to 1984-85	17.90

N.B. - First two compound growth rates are calculated using the three yearly moving averages.

The above table reveals that the compound growth rate almost doubled (17.05 percent) during the post bank nationalisation period compared to the growth rate in pre-nationalisation period (8.74 percent).

Comparing the annual compound growth rates between 5 year plans, as shown in table no. 4.2, a continuously rising trend is observed, except during the Sixth Five Year Plan. The lower growth rate can largely be attributed to increasing popularity of financial assets like government bonds and securities which enjoyed tax exemption. The highest growth rate of around 22 percent was registered during the 5th Plan period.

During the 1st Five Year Plan, the low compound growth rate was due to the continuation in the first two years, of the declining trend of the bank deposits from 1946 onwards. The phase of declining deposits was the result of the failure of many banks during the immediate post war period accompanied and followed by the devastation caused by the partition of the country.¹ With the launching of the economic planning, the growth trend in the bank deposits picked up from the year 1953-54.

The compound growth rates during the plans were substantially higher in the post nationalisation period ranging between 18 to 22 percent. Whereas, in the earlier period, they ranged from 3 to 14 percent only. This figures indicate a substantial rise in deposit mobilisation after bank nationalisation.

In the pre-nationalisation period the annual growth rates ranged from 2 to 24 percent. Considering the annual growth rates, there was a decline only in one more year 1960-61, besides the first two years. The decline of 8 percent in this single year was the result of the shift of P.L. 480 counter funds from deposits held with Stat Bank of India², to investment in government securities. Besides this, the failure of the scheduled commercial banks in 1960 shocked the public confidence. To some extent the decline in bank deposits can also be attributed to variations in macro variables such as lower amount of deficit financing, widening of the balance of payment gap and net sales of sterling during the year.³

On the other hand, in the year 1957-58, the deposits ^{increased} more than doubled, considering the previous year deposits. This sharp increase can be attributed to several factors, firstly, the opening of large number of State Bank of India branches in the unbanked centre; secondly the introduction by few banks of 3 to 5 years cash certificates bearing the attractive rate of interest and lastly, substantial increase in M_3 due to large scale deposit financing.

In the post nationalisation period, annual growth rates ranged between 15 to 26 percent and followed a fluctuating trend.

In sum, there was a sharp increase in bank deposits the initial phase of bank nationalisation followed by a lower rate of increase, since the beginning of eighties. This deceleration in the growth rate of bank deposits in the recent past has been a matter of concern, which need an in-depth probe.

Bank Deposits and National Income, Net Savings and Financial Assets

Bank deposits is one of the major macro level monetary variable. Hence, it is pertinent to compare its growth trend with other important macro level variables, viz. national income, net savings and financial assets.

The following table presents the growth rates of all the four macro variables.

Table No. 4.3 - Growth Rate of Major Macro Variables
(1969-70 to 1986-87)

Sr. No.	Variables	Compound Growth Rate per Annum (in percentage)
1.	2.	3.
1	Bank Deposits	17.05
2	National Income	10.67
3	Net Savings	15.20
4	Financial Assets	16.40

N.B. Time period for bank deposits and national income is from 1968-69 to 1986-87 and for net savings and financial assets from 1969-70 to 1986-87.

The growth rates are computed on the basis of 3 yearly moving averages.

Source Appendix - IV.1

The above table indicates that during the period 1968-69 to 1986-87 out of the four variables bank deposits had the highest growth rates.

The following table presents bank deposits as a percentage of national income, net savings and financial assets for the period from 1969-70 to 1986-87.

Table No. 4.4 - Ratio of Bank Deposits to Monetary Variables

Sr. No.	Years	Deposits as a percentage of		
		National Income	Net Savings	Financial Assets
1.	2.	3.	4.	5.
1	1969-70	15.9	25.0	45.6
2	1970-71	17.3	24.1	42.1
3	1971-72	19.4	29.5	47.8
4	1972-73	21.4	33.4	47.4
5	1973-74	20.1	22.9	40.1
6	1974-75	19.9	21.1	49.6
7	1975-76	22.7	25.0	45.2
8	1976-77	26.2	34.2	52.1
9	1977-78	29.3	29.4	65.7
10	1978-79	33.2	26.8	50.6
11	1979-80	35.8	28.1	45.9
12	1980-81	35.9	29.4	50.6
13	1981-82	36.2	23.9	41.2
14	1982-83	38.4	29.5	48.4
15	1983-84	38.3	31.2	48.6
16	1984-85	41.5	36.1	48.5
17	1985-86	43.6	36.6	51.6
18	1986-87	47.3	37.0	53.3

N.B. This ratio is based on the annual figures of deposits.

Source The percentage are computed on the basis of Appendix - IV.1

Bank deposits as a percentage of national income shot-up from 16 to 47 percent over the period. As indicated in the above table, this ratio followed a continuously increasing trend except in four years of which, in two years the decline was marginal.

Further, bank deposits as a proportion of net savings increased from 25 to 37 percent. The ratio followed a fluctuating trend.

Lastly, bank deposits as a percentage of financial assets ^{had} touch^{ed} the peak of 65 percent in 1977-78 and declined to 41 percent in 1981-82, and gradually increased to 54 percent in 1986-87. This ratio followed a highly fluctuating trend.

Per Capita Deposit Mobilisation

The effort put in by the country over a period of time for deposit mobilization can best be measured with reference to the following three parameters.

- 1) Bank deposits per capita
- 2) Bank deposits per bank office
- 3) Bank deposits per bank account.

The per capita deposits shot-up from Rs.92 to Rs. ¹⁷³⁷ ~~1145~~ increasing by more than 10 times over the period 1969 to ~~1984~~ 1987.

The following table presents the relevant data.

Table No. 4.5 - Indicators of Growth in Bank Deposits

Sr. No.	Years	Deposits per bank office (Rs. in lakhs)	Deposits per bank account (Rs.)
1.	2.	3.	4.
1	1969	59.99	N.A.
2	1970	56.12	N.A.
3	1971	57.54	N.A.
4	1972	61.22	2569
5	1973	65.75	2550
6	1974	69.87	2562
7	1975	74.83	2584
8	1976	81.63	2644
9	1977	87.14	2732
10	1978	100.81	2968
11	1979	114.16	3078
12	1980	124.03	3182
13	1981	137.43	3482
14	1982	156.30	3801
15	1983	164.27	3847
16	1984	178.13	4078

Source - Appendix - IV.2

Deposits per bank offices increased from Rs.60 lakhs to around Rs.178 lakhs. In all the years, there was an increasing trend except in 1970 which was due to relatively larger increase in the number of branches in that year.

Lastly, bank deposits per account rose from Rs.2569 to 4078 between 1972 to 1984. In all the years, there was an increasing trend, except in 1973.

Composition of Bank Deposits

There are mainly three types of bank deposit accounts viz., current, savings and fixed.

Current deposit accounts cater to the needs of industries and businessmen. They are mainly for transaction purposes. Number of withdrawals permitted from such accounts is very liberal. Hence, no interest is paid on them.

Savings deposit accounts cater to the savings needs of household and others. This accounts are mainly held for providing short term liquidity to households for balancing their consumption budget. Limited withdrawals are permissible. Currently 5 percent interest is paid on them.

Fixed deposit accounts are of various maturities from 45 days to above 5 years. Different interest rates are paid on each different maturity. The interest rate ranges from 8 to 11 percent at present. These deposits cater to long term savings needs of the households and others. Their most important characteristic is better liquidity than other long term financial assets, payment of market rate of interest and high degree of security.

The following table presents the classification of deposit accounts and amount according to the three main categories.

Table No. 4.6 - Composition of Bank Deposits

(Amount Rs. in lakhs)

(December end)

Sr. No.	Year	Current Deposits			
		Account	Index Number	Amount	Index Number
1.	2.	3.	4.	5.	6.
1	1969	N.A.	N.A.	134919 (25.0)	100
2	1970	N.A.	N.A.	157127 (25.4)	116
3	1971	N.A.	N.A.	173454 (23.3)	129
4	1972	3023083 (09.0)	100	216867 (24.2)	161
5	1973	3436070 (08.1)	114	248217 (23.0)	184
6	1974	3843869 (07.8)	127	298785 (23.7)	221
7	1975	4367961 (07.4)	144	348516 (23.0)	258
8	1976	4848906 (06.7)	160	420087 (21.9)	311
9	1977	5193138 (06.0)	172	478445 (20.4)	355
10	1978	5837781 (05.8)	193	618149 (20.8)	458
11	1979	6593187 (05.6)	218	750314 (20.8)	556
12	1980	7962797 (05.9)	263	840979 (19.6)	623
13	1981	6543645 (04.4)	216	1054893 (20.2)	782
14	1982	7096334 (04.2)	235	1216762 (19.1)	902
15	1983	7807149 (04.1)	258	1462350 (20.2)	1084
16	1984	8341226 (04.0)	276	1680111 (19.6)	1245
17	1985	9286684 (04.0)	307	1320183 (15.4)	979

Table No. 4.6 Contd.

Sr. No.	Year	Savings Deposits			
		Account	Index Number	Amount	Index Number
1.	2.	3.	4.	5.	10.
1	1969	N.A.	N.A.	128183 (24.0)	100
2	1970	N.A.	N.A.	151908 (24.5)	119
3	1971	N.A.	N.A.	184681 (25.0)	144
4	1972	23615469 (68.0)	100	217567 (24.3)	170
5	1973	28418848 (67.2)	120	265793 (24.7)	207
6	1974	33249713 (67.5)	141	311958 (24.7)	243
7	1975	38677116 (65.8)	164	373072 (24.5)	291
8	1976	46801833 (64.4)	198	444822 (23.1)	347
9	1977	55105575 (64.2)	233	554513 (23.6)	433
10	1978	64966499 (65.0)	275	718666 (24.2)	561
11	1979	75683986 (64.8)	320	886350 (24.6)	691
12	1980	87072548 (64.6)	369	1087949 (25.4)	849
13	1981	97845638 (65.3)	414	1335403 (25.6)	1042
14	1982	111325211 (66.4)	471	1520352 (23.9)	1186
15	1983	125068580 (66.4)	530	1812624 (25.0)	1414
16	1984	139191431 (66.2)	589	2222429 (26.0)	1734
17	1985	154889385 (68.0)	656	2556334 (29.7)	1994

Table No. 4.6 Contd.

Sr. No.	Year	Fixed Deposits			
		Account	Index Number	Amount	Index Number
1.	2.	11.	12.	13.	14.
1	1969	N.A.	N.A.	266405 (50.0)	100
2	1970	N.A.	N.A.	310400 (50.1)	117
3	1971	N.A.	N.A.	383419 (51.7)	144
4	1972	7849109 (23.0)	100	461267 (51.5)	173
5	1973	9879615 (23.4)	126	563467 (52.3)	212
6	1974	11685640 (23.7)	149	650495 (51.6)	244
7	1975	15516784 (26.4)	198	798116 (52.5)	300
8	1976	20960562 (28.8)	267	1056678 (55.0)	397
9	1977	25570159 (29.8)	326	1313731 (56.0)	493
10	1978	29209974 (29.2)	372	1592222 (54.0)	598
11	1979	34533295 (29.6)	440	1925652 (53.6)	723
12	1980	39694071 (29.5)	506	2331696 (54.0)	873
13	1981	45410613 (30.3)	579	2827441 (54.1)	1061
14	1982	49315408 (29.4)	628	3270846 (51.3)	1228
15	1983	55395185 (29.4)	706	3967576 (54.8)	1489
16	1984	62465592 (29.7)	796	4661255 (54.4)	1750
17	1985	63688931 (28.0)	811	4715664 (54.9)	1770

N.B. Figure for 1985 taken from Banking Statistics, Basic Statistical Returns, Reserve Bank of India, Vol. 14

SOURCE Accounts' figures taken from Banking Statistics, Basic Statistical Returns, Reserve Bank of India, 1972 onwards. Amount figure taken from Statistical Tables relating to banks in India, Reserve Bank of India, 1969, onwards.

The above table indicate the growth of each type of deposit during 1969-1985. However, the figure for deposit accounts are available only from 1972 onwards.

The current deposits increased by more than fifteen times over the period. Whereas, the number of current accounts increased by more than nine times. It's share in total deposits declined from 25 to 15 percent over the period, and their share in total accounts was reduced to less than half from 9 percent.

Savings deposits increased by more than twenty times and the accounts by more than fifteen times over the period.

As a proportion of the total deposits, savings deposits increased from 24 to 30 percent over the period.

Lastly, fixed deposits increased by more than 19 times and number of accounts by more than 17 times over the period. Their share in total deposits increased marginally from 50 to 55 percent and in total deposit account from 23 to 28 percent.

In sum, the composition of deposits underwent change over the period in favour of savings and fixed deposits. The share of current deposits in total deposits declined by 10 percent and there was a corresponding rise in saving deposits and fixed deposits, almost equally shared by the two. By the end of the period, fixed deposits constituted highest share of 60 percent of total deposits, followed by Savings deposits with half the share of fixed deposits and current deposits with almost half the share of savings deposit.

The above analysis reveals that bank deposits are becoming popular with the masses as a financial asset to hold their savings, mainly with a view to earning returns. Further, the dominant share of fixed deposits enable banks to undertake long-term financing. On the whole, there was a substantial increase in bank deposits, judged by any criteria. Further, the shares of savings and fixed deposits increased and there was a corresponding decline in the share of current deposits over the period.

The ratio of bank deposits followed a continuously increasing trend between 1973 to 1978 and in the following two years, it sharply declined. Thereafter, a fluctuating trend is noticed. Hence, the Gurley & Shaw Thesis is partially upheld, the share of deposits in total financial assets increased in the initial period and declined later on, but this fall was temporary as in the later period fluctuating trend was observed in the ratio.

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