

# INTEGRATION OF THE MODIFIED FLOW-OF-FUNDS ACCOUNTS WITH NATIONAL ACCOUNTS OF INDIA

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Two issues are considered in this paper. The first deals with the possibility of reshaping the flow-of-funds accounts on the basis of the structure of the Indian economy. Integration of the modified flow-of-funds accounts with national accounts of India forms the second issue at stake. Structurally, the paper has been divided into three parts. The lines on which to carry the modifications in the flow-of-funds accounts are suggested in the first part; the details of the desired framework are presented in the second part; and an attempt has been made to apply the suggested accounting framework to the Indian economy in the final part of the paper.

## I

### I.1 *'Sources' and 'Uses'*

The concepts of 'sources' and 'uses' of funds as used in the Reserve Bank of India Bulletins<sup>1</sup> and in the Report of the Working Group on Flow-of-Funds<sup>2</sup> (Hereafter abbreviated as the Report) differ in coverage. The former takes into account the financial sources and uses while the latter records all monetary ones — the financial as well as the non-financial. In advanced countries where exchange in money covers most of the transactions, we can rely upon the concepts used in the Report to cover all transactions. But in an under-developed country like India, where the household production predominates, a significant proportion of the transactions is carried out on the non-monetary basis. The flow-of-funds accounts, by definition, do not cover such transactions and thus give an incomplete picture of the economy. The 'uses' side of the household account records currency and deposits, loans and financial investment. But it does not cover saving in the form of physical assets which uses more than 50% of the household saving. To make our accounts more useful we should show the total sources and the total uses of any sector. For, the problem confronting an underdeveloped country is the excess of domestic investment over domestic saving and finding out the various means to cover this gap. It requires, first, the identi-

\* I am extremely grateful to Prof. Ajit K. Biswas, Prof. M. Mukherjee and Dr. Suraj B. Gupta for suggestions and comments.