

REPORT OF THE WORKING GROUP ON FLOW-OF-FUNDS

1963



**Central Statistical Organisation
Department of Statistics
Cabinet Secretariat
Government of India**

R E P O R T O F T H E W O R K I N G ~~G R O U P~~
O N F L O W - O F - F U N D S

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S E C T I O N - I

CHAPTER - 1

INTRODUCTION

The flow-of-funds system of accounts as a tool of general economic analysis is of recent origin and is becoming one of the notable features of monetary analysis. During the pre-war and war years when more direct measures were essential to plan production as well as allocation of goods and services, the focus of economic analysis was on national income and product accounts. Consequently a vast quantity of statistical data systematised and summarised in various aggregates and in such relationships as the balance of payments, input-output accounts and national income and product accounts became available. But what has not been available is a set of data that would demonstrate that, in a market economy, the flow of credit and money affects all activities and in turn all activities affect the flow of credit or money - in other words an economic record which would encompass all major types of transactions in which financial factors influence and are influenced by other economic developments.

1.2 It was perhaps the growing awareness of the inadequacies of national income and product accounts that induced economists and central banking authorities in the fifties to consider the need for a study of money flows. It was in this context that the National Bureau of Economic Research, U.S.A., published Morris A. Compeland's 'A Study of Money Flows in the United States' in 1952. The Federal Reserve Board, U.S.A. have also been interested for some years in the development of flow-of-funds system of accounts and brought out in 1955 a study entitled 'Flow of Funds in the United States 1939-53'. Since August 1959 the Federal Reserve Board have been publishing regularly on a quarterly basis the flow-of-funds accounts of the U.S. economy.

1.3 For India, the suggestion to construct a model of flow-of-funds system of accounts was first made in December 1955 by Shri C.D. Deshmukh, the then Finance Minister. As a result, in May 1956 some tentative arrangements were made between the Central Statistical Organisation (CSO) and the Reserve Bank of India (RBI) and it was proposed that the CSO should do the preliminary work on government sector and the RBI on banking and corporate sectors. Some exploratory studies were made in the Reserve Bank to examine the feasibility of casting the available data relating to banking and corporate business sectors into money flows accounts and in 1957 an attempt was made to construct the accounts for these two sectors for the First Plan period. This tentative effort revealed that, though the available data were inadequate in many respects, it was possible to cast them in the form of money flows accounts. Early in 1959, Prof. H.W. Arndt of the Australian National University visited India at the invitation of the Indian Statistical Institute (ISI) and held discussions on the subject with the officials of CSO, Ministry of Finance and RBI. He prepared a memorandum on flow-of-funds entitled "Financial Flows of Indian Economy, 1951-52 - 1957-58". In his memorandum, the

economy was divided into four broad sectors, viz., government, banks, rest of the world and residual. However, his analysis was confined to lending and borrowing only, since the main object of the accounts was to show as to how and in what forms domestic savings had become available to Government for financing its expenditure.

1.4 The CSO arranged for a preliminary meeting of the representatives of the RBI, Ministry of Finance and ISI, in February 1959 to consider the Memorandum of Prof. Arndt and for formulating proposals for further study of the subject. In this meeting, a Working Group consisting of the following members was constituted to arrange for the collection and compilation of data necessary for the preparation of accounts for the year 1957-58 which was the latest year for which the data were available and to study the methods to be followed for the purpose :

Constitution of
the Working Group

Shri P.C. Mathew, (Chairman)	CSO
Dr. N.S.R. Sastry	RBI
Shri S.L.N. Simha	RBI
Dr. D.N. Saxena	Planning Commission
Shri M. Mukherjee	ISI
Dr. S.G. Tiwari	CSO
Shri B.K. Barpujari*	Ministry of Finance

Shri B.K. Barpujari expired in March 1961 and thereafter Shri K.C. Sharma has represented the Ministry of Finance on the Working Group.

1.5 The present Report is the result of the deliberations and work of the members of the Working Group at its various meetings and incorporates the results of the studies undertaken at the CSO, RBI and the Ministry of Finance. The Working Group met five times - July 1959, October 1960, September 1961, September 1962 and December 1962. For purposes of preparation of accounts, the Working Group at first decided on the distribution of work among Ministry of Finance, RBI and CSO. The Ministry of Finance was assigned the responsibility of preparing the accounts of government sector, the RBI for the banking, private corporate business and rest of the world sectors and the CSO for the 'households sector'. The conceptual problems, the frame work to be adopted, the methods to be followed and the types of data to be collected etc. were discussed at the earlier meetings, and draft chapters on the various sectors were discussed at the later meetings. The final draft was considered and adopted by the Working Group at its last meeting.

1.6 This Report presents the flow-of-funds accounts for India in a consolidated form as well as for the individual major sectors. The Report is divided into four sections. Section I gives a general description of flow-of-funds system of accounts

*The Working Group wishes to place on record its deep and sincere appreciation of the services rendered by late Shri B.K. Barpujari.

and its conceptual framework, defines the framework of accounts for India and presents the consolidated accounts for the economy. Sections II and III contain a detailed discussion of available data and the methodology etc. adopted, sector by sector, of non-financial and financial flows respectively. Finally in Section IV are enumerated the limitations of the accounts, and recommendations made with regard to filling up of gaps in available data and the future programme of work.

1.7 Finally, the Working Group would like to place on record its appreciation of the valuable and painstaking work done by Sarvashri K.S. Srikantan (now on deputation to United Nations) and B.Kumar of the Central Statistical Organisation and Shri V.K. Sastry of the Reserve Bank of India in the preparation of this Report.

CHAPTER - 2

FLOW-OF-FUNDS SYSTEM OF ACCOUNTS - GENERAL CONCEPTS

2.1 The flow-of-funds accounts, in simple language are the accounts which divide the economy into institutionally homogeneous groups called sectors. For each sector, the accounts

Definition show various transactions effected through the medium of credit and money in a consistently defined system of classification.

Each sector account identifies and measures the main sources and uses of funds.

2.2 The distinction between financial and non-financial transactions is significant in the flow-of-funds analysis. The transactions involving the use of money or credit relating to flows of goods and services and unilateral transfers (for example taxes, gifts and donations) are termed non-financial while those relating to borrowing and debt repayment and accumulation of or reduction in financial assets are called financial flows. Such a distinction tends to highlight the types of goods and services exchanged, or the immediate purposes served by the exchange as also the types of financial instruments used in payment of or exchanged against other financial claims. Thus the account brings to the forefront the role played by the credit and monetary developments in a modern economy, that is to say, how financial factors influence and are influenced by other economic developments.

2.3 The flow-of-funds system of accounts is one of the general body of tools of economic analysis, usually described as systems of national economic accounts. The flow-of-funds

Relation to other systems of accounts system may be distinguished from three other systems of accounts viz., national income and product, input-output and national balance sheets. These four accounts present different perspectives of the economy, each supplementing the other three.

In the case of national income and product accounts, the orientation centres around the measurement of values created in current productive activity in different sectors and their distribution among the factors of production. The accounts also focus attention on the distribution by final expenditure between consumption and investment. In the case of the input-output analysis the orientation is towards technological relations between physical inputs and physical outputs in the productive process. The system's main interest lies in the input and output of each industry rather than in the final product of the economy as a whole. The focus of flow-of-funds system of accounts is on all transactions involving the use of money or credit, on the financial relations between various segments of the economy and on the relations between financial and non-financial transactions. National balance sheets show the assets and liabilities of different sectors of the economy. They are closely related to flow-of-funds accounts except that they deal with stocks rather than flows.

2.4 As all these four differentiating perspectives pertain to the same economy, the systems are inter-related and for a great many transactions they overlap or coincide. Thus most of the transactions in the input-output system and in the national income and product system are effected through the use of money or credit and, therefore, appear in some form or other in the flow-of-funds system of accounts. At the same time, each of the systems contains transactions not found in others. For instance, flow-of-funds system of accounts contain no information on the inter-industry relations nor do they reveal the amount of current production of goods and services in an economy. Neither input-output nor national income and product systems of accounts contain any recording of financial transactions, nor do they show any relation between monetary and credit flows and purchases of goods and services. National product data are in a sense not complete without a complementary set of accounts to show the manner in which one sector's saving is used to finance the investment of another sector and the impact of financial transactions on income and product.

2.5 The sectors or economic groups for which flow-of-funds accounts are to be compiled would generally represent broad aggregation of economic units. The level of aggregation depends to a large extent on the availability of the basic data. For each sector complete statements are to be compiled showing the

Flow-of-funds structure -
sectoring and transactions

use of money and credit for (i) all types of non-financial receipts and expenditures (ii) borrowing and repayment of debt and (iii) accumulation of and/or reduction in financial assets. The closest analogy to the flow-of-funds statement is the traditional balance of payments statement used in recording international flows of receipts and payments. The general form of a flow-of-funds statement for a sector is as indicated below:-

<u>Sources of funds</u>	<u>Uses of funds</u>
I. <u>Non-financial</u>	I. <u>Non-financial</u>
II. <u>Financial</u>	II. <u>Financial</u>
(i) borrowing	(i) repayment of debt
(ii) decrease in financial assets.	(ii) increase in financial assets.
Total	Total

2.6 The extent of detail under the broad categories of sources and uses of funds mentioned above varies, however, from sector to sector depending upon the availability of data. Whatever be the details in which the accounts are presented, the principles governing the type of transactions to be covered by these accounts should be applied consistently. Broadly speaking these are : (i) only such transactions as involve the transfer of money and/or credit between two aggregations of economic units, i.e. sectors should be included, (ii) all such

transactions relating to a sector should be recorded in one set of sector accounts and (iii) whatever be the basis of recording (cash or accrual) a particular type of transaction, it should be applied uniformly to all sectors.

2.7 The chief contribution of financial flows accounts is in the ordering of various financial claims into a system of sector accounts, in the identification of the users and suppliers of bank and non-bank credit, in the identification of owners of money in circulation and Government debt and in the integration of these and other financial flows with the saving and investment of each major sector of the economy. Such a system of accounts would be particularly useful in analysing the changes in liquidity of the private sector of the economy. In recent discussions on monetary policies, greater emphasis has come to be laid on the control of liquidity of spenders than on the restriction of supply of money alone. The Radcliffe Committee had remarked : "The decision to spend depends upon liquidity in the broad sense, not upon immediate access to money..... The spending is not limited by the amount of money in existence; but it is related to the amount of money people think they can get hold of whether by receipts of income (for instance from sales), by disposal of capital assets or by borrowing" (Radcliffe Committee Report, para 390). The wider concept of liquid assets should cover besides 'money supply' all such assets that can be brought into use for the purpose of spending. It is no doubt a difficult task to earmark assets that are liquid and make a statistical assessment of their volume; but an arrangement of the changes in all such assets in a decreasing order of liquidity would be extremely useful. Such accounts for instance will point out what kinds of financial assets surplus sectors bought, and what kinds of liability deficit sectors incurred. Besides recent studies relating to the consumption function and other related subjects reveal that national income data alone are not adequate. What is also required is information on financial assets and liabilities of various sectors. The flow-of-funds accounts should help fill this gap. It should be recognised, however, that the use of this system as an important analytical tool is conditioned by the extent to which the financial system of a country is sophisticated and by the timely availability of statistics.

2.8 As stated earlier the 'flow-of-funds' system of accounts which has been developed by the Federal Reserve Board, U.S.A., following the pioneering project of Morris Copeland's "A Study of Money Flows in the United States", is the first exhaustive work on the subject and has been the guide for many other countries to develop their local accounts.

Work done in
other countries

The flow-of-funds accounts for the United States, is a comprehensive system of national economic accounts that is independent of, but forming the financial counterpart to, the national income and product accounts. The accounts are presented in a form that permits their incorporation into many alternative analytic inter-

pretations. These accounts were substantially revised for regular reporting in the Federal Reserve Bulletin, and quarterly data on flow-of-funds are regularly being published since August 1959 in the Federal Reserve Bulletin. A feature of the revised version is the presentation of saving and investment series, for individual sectors as well as for the economy as a whole as integral elements of the flow-of-funds system of accounts. Other countries where work on financial flows has been developed include Canada, Japan, Mexico, Italy, Netherlands, France, West Germany, Norway and Yugoslavia. More recently, Australia and U.K. have also started compiling flow-of-funds accounts.

CHAPTER - 3

THE FRAMEWORK OF ACCOUNTS FOR INDIA

3.1 The foremost conceptual problem in the construction of flow-of-funds system of accounts relates to the division of the economy into homogeneous and economically meaningful sectors.

Conceptual problems

The two main criteria for identifying and delimiting the sectors are (i) all the activities of any economic unit are included in one sector and (ii) each sector contains units showing generally similar reactions to changes in their claims and liabilities. In other words, the basis upon which the flow-of-funds are organised into statements of receipts and expenditure for major economic groups should be chosen in such a way that the accounts portray distinct patterns of economic behaviour. However, in practice, the availability of data and the form in which they are available are important factors in delimiting the sectors.

3.2 Another conceptual problem relates to whether the definition of each sector should be made on an institutional basis or on a functional basis. This issue cannot be solved either formally or from the point of view of accounting design. As a matter of course, the definition should not only match the realities of the institutional set up of the economy and finance, but also be decided in accordance with the purposes for which the accounts are to be utilised.

3.3 On a consideration of the availability of data and the economic significance of various sectors, the economy can be divided into the following sectors and sub-sectors:

<u>Sector</u>	<u>Sub-sectors</u>
1. households	1. non-corporate non-farm business including partnerships. 2. farm business 3. non-profit organisations 4. consumer sector 5. miscellaneous (not elsewhere classified)
2. banking	6. reserve bank of India 7. scheduled and non-scheduled banks 8. co-operative banks and co-operative credit societies,
3. other financial institutions	9. government financial corporations 10. life insurance 11. non-life insurance 12. other private financial institutions (excluding non-profit organisations)

<u>Sector</u>	<u>Sub-sectors</u>
4. private corporate business	13. joint stock companies
	14. co-operative (non-credit) societies
5. government (a) general govt.	15. central government(including post office savings banks)
	16. state governments
	17. local authorities
(b) govt. enterprises	18. departmentally managed enterprises
	19. autonomous enterprises consisting of:
	a) government companies, &
	b) statutory corporations (excluding financial corporations)
6. rest of the world	20. rest of the world

3.4 In the presentation of flow-of-funds accounts, it has not been possible to adhere strictly to the sectoring given above owing to the dearth of statistical material in the required form and detail. For some sub-sectors practically no data are available while for some others, the information is inadequate for the purpose. Conditioned as they are by the limited availability of reliable data, the sector accounts do not necessarily cover all the sub-sectors given under that sector but include such sub-sectors for which the data could be obtained with the requisite detail.

3.5 The other problem in building up a framework for flow-of-funds system of accounts is the classification of the transactions into economically meaningful groups. In flow-of-funds accounts a distinction is made between 'financial' and 'non-financial' transactions. The following transaction classification has been adopted in this Report:

<u>A. Non-financial transactions</u>	<u>B. Financial transactions</u>
1. payroll (wages, salaries, etc.)	1. currency and deposits
2. interest	2. bank loans other than mortgages
3. rents and royalties	3. central government obligations
4. dividends	4. state governments and local authorities obligations
5. net withdrawals by proprietors	5. corporate securities
6. grants and donations	6. mortgages
7. taxes and tax refunds	7. trade credit
8. real estate transfers	8. provident fund
9. capital acquisitions	
10. other goods and services	

B. Financial transactions

9. life insurance premiums and claims
10. miscellaneous financial assests and liabilities

3.6 For analytical studies, gross* transactions are preferable to net transactions since the latter can sometimes conceal significant deviations in behaviour. However, data on financial transactions are available on a net basis whereas data on non-financial transactions can be had on gross basis. Broadly, therefore, in this Report the recording of non-financial flows is on a gross basis and that of financial flows on a net basis. For the government sector, however, data on financial flows on a gross basis are available.

Netting of
accounts

3.7 The cross classification of each sector account by transactions and sectors (to-whom-from-whom type of arrangement) enables us to identify all the inter-sector flows. If we have independent estimates of the flow-of-funds to sector A from sector B as revealed by the accounts for sector A and of the same flow as revealed in the accounts for sector B, then one can be checked against the other for consistency. However, if such cross classification is not available then recourse can be had to that sector for which the accounts are available. For instance, if bank deposits are classified by 'consumer', 'corporate' and 'non-corporate' sectors, then it would be possible to estimate the bank deposits of 'consumer' sector from the records of the banking sector and this estimate could be shown in the consumer sector accounts if an alternative estimate from holders' records is not available. Such an identification and cross-classification have been attempted as far as the data permit.

Inter-sector
flows

3.8 The consolidated accounts for a sector are derived by eliminating intra-sector flows completely. Conceptually, it would be preferable to have consolidated accounts for each sector. However, for such sectors as 'corporate' and 'consumer', it is not possible to do so in view of the lack of data to estimate intra-sector flows.

Consolidation of
sector accounts

3.9 Transactions could be recorded in the flow-of-funds system of accounts either at the time the actual payment is made (cash basis) or as soon as payment is earned or an obligation incurred (accrual basis); the choice depends mainly on the availability of data. For instance, taxes are recorded in government account at the time of actual payment. On the other hand, purchases and sales of goods by enterprises are usually recorded on an accrual

Timing of
Transactions

*In such accounts, receipts and expenditures are recorded separately and are not offset against each other.

basis. However, when once it is decided to record a particular transaction on 'accrual' or 'payment' basis, it is necessary to record it, as far as possible, on the same basis in all sectors in order to avoid discrepancies in the balancing entries of the accounts. In this Report transactions have been recorded both on 'cash' and 'accrual' basis depending upon the availability of data.

3.10 Ideally, the accounting period used in all the sectors should be the same if the sector accounts are to be consolidated into a national system.

Accounting period But, as indicated in the table below, there is considerable diversity at present in the accounting period used in various sectors of the Indian economy.

<u>Sector</u>	<u>Accounting period</u>
central government state governments local authorities railways posts & telegraphs post office savings banks reserve bank of India	April - March
scheduled & non-scheduled banks	July-June (Balance sheet is also available as on every Friday).
industrial finance corporation	January - December
co-operative banks	July - June
insurance	July - June
	January - December

In the case of the corporate sector, data relate to accounting years closing during July-June. An attempt was made to extend the coverage on the financial year basis by analysing the balance sheets of companies which close their accounts during October-September. However, since by shifting the period of analysis only a little improvement in coverage was noticed, the effort involved in recasting the data was not considered worthwhile. For banking sector accounts, special returns giving balance sheet figures as at the end of March were obtained for the Reserve Bank of India and commercial banks beginning with the year 1957-58; however, the data derived from profit and loss accounts relate to calendar year for commercial banks and agricultural year (July-June) for co-operative banks and Reserve Bank of India. In all such cases in which accounts are not recorded on a financial year basis, accounting year is treated as corresponding to the fiscal year. The object is to present the accounts on the basis of the financial year to the extent possible.

3.11 At the time of the constitution of the Working Group
Years for which individual and consolidated sector accounts are presented in the Report
 the preparation of the flow-of-funds system of accounts

for 1957-58 was contemplated. However, wherever data are available accounts for individual sectors have been presented for some other years also as indicated below:-

<u>Sector</u>	<u>Period for which data are presented in the Report</u>	
	<u>Non-financial flows</u>	<u>Financial flows</u>
households	1950-51 to 1957-58	1956-57 & 1957-58
banking	1957-58 & 1958-59	1957-58 & 1958-59
other financial institutions }	1957-58	1957-58
private corporate business	1957 and 1958	1957 and 1958
government	1957-58	1955-56 to 1957-58
rest of the world	1956-57 to 1958-59	1956-57 to 1958-59
consolidated all sector accounts	1957-58	1957-58

3.12 Table 3.1 gives the consolidated flow-of-funds accounts for the whole economy for the year 1957-58. This table is a combination of the two tables on non-financial and financial flows accounts presented in Sections II and III respectively. In such an integrated system of accounts, the total sources and uses of funds should tally. Any statistical discrepancy that exists points to the inadequacy of the data and indicates the field where further efforts at refinements are called for.

TABLE 3.1: CONSOLIDATED FLOWS IN THE INDIAN ECONOMY, 1957-58

sector/transaction	(Rs. crores)							
	households		banking		other financial institutions		private corporate business	
	s	u	s	u	s	u	s	u
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
a. non-financial								
1. pay roll	1779	93	-	29	-	33	-	522
2. interest, dividends, rents, royalties etc.	596	129	121	35	28	6	-	112
3. taxes and tax refunds	-	129	-	6	-	4	-	284
4. purchases and sales of goods & services	-	1656	-	13	-	9	3313	2671
5. other items not elsewhere classified	196	-	-	31	32	28	42	-
6. total	<u>2571</u>	<u>2007</u>	<u>121</u>	<u>114</u>	<u>60</u>	<u>80</u>	<u>3355</u>	<u>3589</u>
b. financial								
1. currency and deposits	-	132	325	7	-	28	-	22
2. investments in								
2.1 government securities	-	-	-	497	-	29	5	-
2.2 others	-	41	264	-	11	13	41	6
3. loans and borrowings	58	6	-	76	-	2	132	-
4. small savings	-	69	-	-	-	-	-	-
5. life insurance premiums	-	55	-	-	55	-	-	-
6. trade debt or credit	-	36	-	-	8	14	73	37
7. foreign claims not covered elsewhere	-	-	10	23	-	-	-	-
8. other items not elsewhere classified	-	78	18	5	27	-	18	-
9. total	<u>58</u>	<u>417</u>	<u>617</u>	<u>608</u>	<u>101</u>	<u>86</u>	<u>269</u>	<u>65</u>
c. discrepancy	-	205	-	16	5	-	30	-
d. grand total								
(a + b + c)	<u>2629</u>	<u>2629</u>	<u>738</u>	<u>738</u>	<u>166</u>	<u>166</u>	<u>3654</u>	<u>3654</u>

s = sources
u = uses

TABLE 3.1: CONSOLIDATED FLOWS IN THE INDIAN ECONOMY, 1957-58 - (Contd.)

sector/transaction	(Rs. crores)					
	government		rest of the world		total	
	s	u	s	u	s	u
(1)	(10)	(11)	(12)	(13)	(14)	(15)
a. non-financial						
1. pay roll	-	1105	-	-	1779	1782
2. interest, dividends, rents, royalties etc.	49	134	29	23	823	439
3. taxes and tax refunds	1106	-	-	-	1106	423
4. purchases and sales of goods & services	780	1253	1233	595	5326	6197
5. other items not elsewhere classified	179	200	87	230	536	489
6. total	<u>2114</u>	<u>2692</u>	<u>1349</u>	<u>848</u>	<u>9570</u>	<u>9330</u>
b. financial						
1. currency and deposits	-	5	-	139	325	333
2. investments in						
2.1 government securities	548	-	-	-	553	526
2.2 others	5	9	12	262	333	331
3. loans and borrowings	45	113	24	163	259	360
4. small savings	69	-	-	-	69	69
5. life insurance premiums	4	-	-	-	55	55
6. trade debt or credit	22	-	-	-	103	87
7. foreign claims not covered elsewhere	5	-	12	25	27	48
8. other items not elsewhere classified	29	-	-	-	92	83
9. total	<u>723</u>	<u>127</u>	<u>48</u>	<u>589</u>	<u>1816</u>	<u>1892</u>
c. discrepancy	-	18	40	-	-	164
d. grand total (a + b + c)	<u>2837</u>	<u>2837</u>	<u>1437</u>	<u>1437</u>	<u>11386</u>	<u>11386</u>

s = sources

u = uses

S E C T I O N - I I

N O N - F I N A N C I A L F L O W S

CHAPTER - 4

HOUSEHOLDS

4.1 The households sector includes (i) non-corporate non-farm business including partnerships (ii) farm business (iii) non-profit organisations (iv) consumers and (v) miscellaneous (not elsewhere classified). But in the absence of adequate data relating to the non-financial flows, it has not been possible to separate the accounts of the above five sub-sectors. The accounts for the households sector have been prepared from the accounts of the consumer sub-sector after eliminating the inter-sub-sector flows between the consumer and other sub-sectors. Thus the accounts presented in this Chapter relate to all non-financial transactions of the households in respect of exchange of goods and services for money or other credit instruments, cash factor incomes and uncompensated transfers of cash and credit instruments. The accounts include (a) all monetary personal income including interest receipts, grants and dividends, sale of assets etc., (b) all monetized purchases of goods and services, tax payments, donations and charities etc. and (c) cash purchases and sales of second hand goods by the households. The accounts thus exclude the transactions relating to (a) exchange in kind of goods and services and (b) imputed value of consumption from own production and income in kind.

4.2 The following classification of transactions has been adopted in presenting the accounts for this sector : -

<u>Non-financial sources</u>	<u>Non-financial uses</u>
1. pay roll (wages, salaries etc.)	1. pay roll
2. interest	2. rents
3. rents and royalties	3. taxes
4. dividends	4. purchases of goods and services
5. grants and donations	

4.3 There are a number of conceptual problems which arise in the construction of these accounts. Transactions of a person in his capacity as owner operator of a non-corporate enterprise should figure in the accounts for the non-corporate business sector. Thus, if a person invests certain sum of money in his own business, it should be shown on the "uses" side of his consumer account as a loan to his enterprise and on the "sources" side of his enterprise account as an increase in liabilities. This, however, raises the question whether all income from non-corporate business should be transferred to the consumer sector as "sources of funds" or whether a portion of it should be treated as retained savings of the non-corporate business sector. However, as the net withdrawals by proprietors are from both the non-farm non-corporate business sub-sector and the farm business sub-sector, such amounts have been eliminated for the purpose of presenting consolidated

accounts of the households sector. Secondly the expenditure by consumers on ornaments, gold and jewellery can be treated either as durable goods or as financial assets. Generally the practice is to treat purchase of gold as financial investment. However, in the Indian context it has been considered more realistic to treat it on par with expenditure on durable goods. This item is, therefore, shown separately under the non-financial uses of consumer sub-sector. Thirdly since aggregate income and expenditure are derived from the estimate of national product, it would be necessary to include separate estimates of sales and purchases of second-hand goods in the accounts. However, it appears from some preliminary tabulations made by the NSS that these transactions are likely to be negligible and could be disregarded. Finally the aggregate income and expenditure of the households sector have been derived from the 'Estimates of National Income' which includes imputed transactions and payments or receipts in kind. In the national income accounts the purchase of new residential buildings is treated as a part of business purchase on capital account. Persons living in the houses owned by them are considered to rent these houses from themselves as business land-lords. Their activities as renters are recorded in the personal sector and as land-lords in the business account. The business account in the system of national income accounts is charged with the operating and maintenance expenses of home ownership-mortgage, interest, taxes, depreciation, etc. The gross rental value of owner-occupied houses is treated as an expenditure of the personal sector account and as a receipt of the business sector. The difference between the gross imputed rent and the expenses of home ownership is treated as part of the business sector's net income, and, in turn, this net imputed rental income is included in the personal sector as a component of personal income. In the flow-of-funds accounts, on the other hand, the house-owning and maintaining activities of consumers are not separated from their other activities; all these activities are recorded in the consumer sector, and not in the business sector. Consumer outlays for purchases of new non-farm houses for owner occupancy, and consumer costs for operation, maintenance and repair of these houses are all recorded as uses of funds by the consumer sub-sector. However, due to non-availability of data, it has not been possible to estimate the value of transactions relating to the sales and purchases of the residential houses.

4.4 The accounts for the non-financial flows of the consumer sector for the period 1950-51 to 1957-58 are presented in Table 4.1.

Method of
estimation

They have been prepared from the "Estimates of National Income" published by the CSO, which gives the estimates of national income by industrial origin for various sectors.

From the estimates of net value added in each sector, the estimates of (i) wages and salaries (ii) interest and rent and (iii) profits paid in cash, have been prepared by applying proportions obtained from various sources. Thus the monetized

personal income has been estimated for the following items : -

1. wages and salaries excluding small scale industries and other commerce and transport
2. wages and salaries and income of self-employed in small scale industries and other commerce and transport
3. income of self-employed and net cash income in agriculture
4. dividends and net withdrawals by proprietors in sectors other than agriculture
5. other income from property
6. national debt interest
7. transfer payments from government to private sector
8. net private donations from abroad

4.5 Item 1, "wages and salaries" excludes cash wages and salaries paid by small scale industries and "other commerce and transport", as it has not been possible to separate out the cash wages and salaries paid by these two sectors. Hence, the estimate of cash wages and salaries paid by these two sectors together with income of the self-employed persons engaged in them is shown as item 2. Since it has not been possible to separate out the income of the self-employed from net cash income in agriculture, the sum of these two factor earnings is shown under item 3. The estimate for item 4 has been derived from profits in cash which were taken from a memorandum prepared by the CSO by making the following adjustments : -

- (i) operating surplus of railways and communications have been subtracted as they accrue to government sector
- (ii) other income accruing to government sector in the form of operating surplus from commercial enterprises other than railways and communications, interest receipts and other income from property have been subtracted
- (iii) the profits retained and the taxes paid by corporate business sector have been deducted.

Item 5, "other income from property" comprises interest and rent receipts. Transactions under items 6, 7 and 8 have been taken from "Estimates of National Income".

4.6 The cash purchases of goods and services by the consumer sub-sector have been estimated in two stages. First the consumption expenditure has been derived from the figures given in the "Estimates of National Income" by deducting from the net domestic product at market prices, current expenditure of public authorities, net capital formation in public and private sectors and net exports of goods and services. The second step is to estimate the proportion of cash expenditure of each group of items to the total consumer expenditure of all items of consumption and this has been done on the basis of NSS data. Finally, by suitably combining the groups of items of consumption, estimates of cash purchases of durables, non-durables, services, rent payments and purchases of ornaments, gold and jewellery by the consumer sub-sector have been prepared. Taxes paid by the consumer sub-sector

have been estimated directly by subtracting the estimates of tax paid by the corporate sector from the total income tax revenue of the government as given in the "Estimates of National Income".

4.7 The accounts for the non-financial flows of the households sector have been prepared after eliminating the inter-sub-sector flows relating to the following transactions of the consumer sub-sector both from the sources and uses of funds : -

- (i) wages and salaries accruing to the consumers in the sectors "agriculture" and "professions and liberal arts"
- (ii) wages and salaries and income of self-employed in "small scale industries" and "other commerce and transport"
- (iii) income of self-employed and net cash income in agriculture
- (iv) dividends and net withdrawals by proprietors accruing in small scale industries
- (v) other income from property in agriculture sector

The consolidated accounts for the households sector are presented in Table 4.2. In the absence of adequate details in respect of purchases of goods and services by the consumers from the "non-corporate non-farm business including partnerships" and "farm business" sub-sectors, it is assumed that the amounts involved in these transactions are equal to those in the non-financial transactions relating to the sources of funds. However, this assumption is likely to result in some discrepancy in the accounts.

4.8 For preparing estimates of consumer expenditure, it is necessary to have reliable estimates of national income, net fixed capital formation and net change in inventories. Certain proposals have been formulated by the CSO for the revision of the series of national income estimates which are under consideration. In this

Limitations
of the data

Report, only the figures given in the "Estimates of National Income" have been used. Preliminary studies relating to capital formation have also been undertaken by the CSO. However, the estimates of net fixed capital formation have been prepared by utilising the series available for the period 1948-49 to 1954-55 in the paper "Estimates of domestic fixed capital formation in India - 1948-49 to 1954-55" by B. Kumar. Rough estimates of changes in stock have been compiled from currently available statistics. The estimates of fixed capital formation and net changes in stock are based on scanty data and hence should be viewed with caution.

4.9 The estimates of corporate savings have been made on the basis of RBI analysis of company finances. Further, the changes in the proportions of monetised expenditure that have taken place since the 4th round of NSS have not been taken into consideration

due to non-availability of tabulated results relating to cash consumer expenditure in the subsequent rounds.

4.10 The estimates of cash factor earnings involve some subjective assumptions about the proportion of cash to total earnings in certain sectors and hence their reliability may not be much. Moreover, it has not been possible to cover all non-financial transactions in the accounts; e.g. the cash transactions in land and buildings and other physical assets have not been estimated.

4.11 Adequate data are not available for separating out the inter-sub-sector flows in the households sector. Only a rough estimate of the amounts involved in these transactions can be prepared for the purpose of preparing consolidated accounts of the households sector.

4.12 Though it is possible to effect minor improvements in the estimates of the non-financial transactions of the households sector, the overall reliability of these accounts cannot be increased significantly unless and until adequate data on cash factor income, cash consumption expenditure, etc., become available. The major gaps in statistics required for construction of accounts of the non-financial transactions of the households sector have been described in the preceding paragraphs. It would be evident that the preparation of satisfactory flow-of-funds accounts calls for filling up of these gaps.

TABLE 4.1: NON-FINANCIAL FLOWS: CONSUMER SECTOR, 1950-51 TO 1957-58

(Rs. crores)

	sources							
	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.wages and salaries excluding small scale industries and other commerce and transport	1896	2010	2069	2205	2185	2281	2549	2748
2.wages and salaries and income of self-employed in small scale industries and other commerce and transport	1690	1763	1783	1796	1777	1800	1830	1891
3.income of self-employed and net cash income in agriculture	1660	1704	1633	1802	1476	1534	1873	1792
4.dividends and net withdrawals by proprietors in sectors other than agriculture	186	219	206	237	259	290	322	308
5.other income from property	348	357	377	393	382	397	446	484
6.national debt interest	37	37	37	40	39	46	46	58
*7.transfer payments from government to private sectors	59	59	71	76	91	126	142	150
8.net private donations from abroad	35	42	46	40	34	37	48	46
9.total	5911	6191	6222	6589	6243	6511	7256	7477

*includes expenditure on displaced persons, grants to educational institutions, etc.

TABLE 4.1: NON-FINANCIAL FLOWS: CONSUMER SECTOR, 1950-51 TO 1957-58- (Contd.).

(Rs. crores)

	uses							
	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1. cash purchase of durables	156	167	164	144	134	130	140	140
2. cash purchase of non-durables	3851	4127	4047	4518	4184	4358	4978	5114
3. cash purchase of services	1446	1550	1520	1327	1211	1182	1268	1310
4. cash rents	107	114	112	110	116	110	112	129
5. ornaments, gold & jewellery	101	109	106	96	82	84	96	91
6. taxes	109	89	86	74	80	98	106	129
7. total	5770	6156	6035	6269	5807	5962	6700	6913

TABLE 4.2: NON-FINANCIAL FLOWS : HOUSEHOLDS, 1950-51 TO 1957-58

(Rs. crores)																
	1950-51		1951-52		1952-53		1953-54		1954-55		1955-56		1956-57		1957-58	
	s	u	s	u	s	u	s	u	s	u	s	u	s	u	s	u
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1. pay roll	1084	75	1161	81	1223	75	1306	81	1362	81	1427	81	1591	87	1779	93
2. interest, dividends, rents, royalties etc.	339	107	372	114	391	112	419	110	453	116	511	110	558	112	596	129
3. taxes and tax refunds	-	109	-	89	-	86	-	74	-	80	-	98	-	106	-	129
4. purchases and sales of goods and ser- vices	-	1085	-	1315	-	1261	-	1256	-	1227	-	1253	-	1478	-	1656
5. other items not elsewhere classified	94	-	111	-	117	-	116	-	125	-	163	-	190	-	196	-
6. total	1517	1376	1644	1599	1731	1534	1841	1521	1940	1504	2101	1542	2339	1783	2571	2007

s = sources

u = uses

CHAPTER - 5

BANKING SECTOR

5.1 The banking system represents the aggregation of those institutions which bear liability for currency and deposits. The banking sector in the Indian economy has been taken to comprise RBI, commercial banks (including State Bank of India and its subsidiaries) and state co-operative banks. Besides state co-operative banks other co-operative banks and credit societies which should have been included in this sector, have been omitted for want of data in the required form and detail.

Scope and coverage

5.2 The transaction classification adopted in the accounts is given below : -

Non-financial sources

1. interest, commission, etc.
2. other income

Non-financial uses

1. interest
2. pay roll
3. other expenses
4. dividends
5. profits tax
6. remittances to head office abroad .
7. surplus of RBI paid to government

5.3 In the case of banking sector a major difficulty is the evolution of a uniform accounting year. The three sub-sectors of the banking sector, namely, the RBI, commercial banks and state co-operative banks, do not have a common accounting year. The accounting year for the RBI and the co-operative banks is the year ending June, while for commercial banks it is the year ending December. It is rather diffi-

Conceptual problems

cult to obtain data on non-financial flows of commercial banks except on a calendar year basis. There are similar difficulties in getting data for co-operative banks on calendar or financial year basis. Hence accounts for banking sector for the years 1957-58 and 1958-59 have been prepared by combining the accounts for the RBI and state co-operative banks on agricultural year (July-June) basis with the accounts for commercial banks on calendar year basis.

5.4 The flow-of-funds transactions for any sector are to be presented on a consolidated basis after elimination of inter-unit and inter-sub-sector transactions. Internal transactions such as allocation to reserves, which are of a book-keeping nature and do not involve two separate units, have to be eliminated. Sub-sector accounts for the banking sector can easily be compiled on a consolidated basis. However, it is difficult, at present, to eliminate completely the transactions between sub-sectors mainly due to the mixing up of different types of misce-

llaneous transactions, differences in their timings, differences in accounting periods, etc. Even after adjustments, some of these residuary transactions are bound to be included in the totals and would lead to discrepancy between the aggregates of non-financial and financial transactions shown on the 'sources' and 'uses' sides of the accounts.

5.5 In the transaction classification for financial flows, 'other assets' (item b, 7 in Table 12.1, Chapter 12) include property transactions which strictly speaking are non-financial transactions. But it has not been possible to segregate them due to want of data. However, the magnitude of these transactions is not likely to be large.

5.6 The flow-of-funds accounts for the banking sector should show separately the operations of branches of foreign banks in so far as they pertain to their business in India and their transactions with their head offices abroad. However, due to paucity of data, it has not been possible at present to segregate completely these two types of transactions.

5.7 Data on the non-financial transactions of the RBI are readily available in the Annual Report of the Central Board of Directors, RBI. Those pertaining to commercial banks can be obtained from the profit and loss accounts which are given in the "Statistical Tables Relating to Banks in India". Data on the non-financial transactions of state co-operative banks are available in "Statistical statements relating to the co-operative movement in India".

5.8 The accounts of non-financial flows for the entire banking sector are presented for the two years 1957-58 and 1958-59 in Table 5.1. The consolidated accounts have been compiled by aggregating the calendar year transactions of commercial banks with the agricultural year transactions of the RBI and state co-operative banks.

TABLE 5.1: NON-FINANCIAL FLOWS : BANKING SECTOR, 1957-58* AND 1958-59*

				(Rs. crores)	
sources	1957-58	1958-59	uses	1957-58	1958-59
(1)	(2)	(3)	(4)	(5)	(6)
1. interest, commission, etc.	121	140	1. interest	32	40
			2. pay roll	29	33
			3. other expenses	13	13
2. other income	-	1	4. dividends	3	4
			5. profits tax	6	4
			6. remittances to head office abroad	1	1
			7. surplus of RBI paid to government	50	40
3. total	121	141	8. total	114	135

*calendar year basis for commercial banks and agricultural year basis (July-June) for the RBI and state co-operative banks.

5.9 The available statistics relating to co-operative banks and credit societies are not in a form suitable for construction of flow-of-funds accounts. It is understood that the Department of Co-operation of the Ministry of Community Development Panchayati Raj and Co-operation has been advised by the RBI to keep in view the requirements of data for flow-of-funds accounts in the Ministry's proposals for collection of statistics on the co-operative sector. A sample survey for collecting basic statistics from co-operative societies has been proposed by the RBI for inclusion in 'Statistical Schemes for the Third Plan'.

Limitations of the accounts

5.10 On the 'sources' side of the accounts of the banking sector the different factor payments such as rents, royalties, etc. are not recorded separately, but lumped together under 'other income'. For the studies relating to the flow-of-funds it would be desirable to have separate categories for each of these transactions.

5.11 Since the basic data for construction of accounts of non-financial transactions of the banking sector are available on an annual basis, it should be possible to bring out the flow-of-funds accounts for this sector also annually.

5.12 At present transactions of the entire banking sector are not covered in the accounts due to inadequacies of data. In order to fill these gaps it would be necessary to obtain further data on Indian branches of foreign banks. It would also be necessary to collect data relating to co-operative banks (other than state co-operative banks) and co-operative credit societies on the lines of those obtained for commercial banks.

5.13 For adequately meeting the requirements of statistics in constructing the flow-of-funds accounts for the banking sector, it would be necessary to obtain additional information regarding transactions between sub-sectors and in respect of heads for which detailed break-up is not presently available. This would enable proper reconciliation of these figures and more satisfactory elimination of inter-sub-sector transactions.

CHAPTER - 6

OTHER FINANCIAL INSTITUTIONS

6.1 The non-financial flows of the banking sector have been discussed in the preceding chapter and this chapter deals with the non-financial flows of financial institutions other than banks. These include (i) private financial and investment companies and government financial corporations viz., Industrial Finance Corporation of India and State Financial Corporations and (ii) life and general insurance. The unorganised sector (such as money lenders) is not covered here.

Scope and coverage

(i) Private financial and investment companies and government financial corporations

6.2 The RBI conducted a study of these companies and corporations and published the results for the years 1957-60 in the RBI Bulletin, August, 1962. Since the analysis of the company accounts relating to 1956 is required for the purpose of construction of flow-of-funds accounts for 1957, a special study had to be undertaken for the year 1956 on the lines initiated by RBI. For this purpose, the accounts were analysed for all the government corporations and for a sample of 98 non-government public and private financial & investment companies. Some of these companies were also engaged in activities other than advancing of loans and investment in securities such as financing of hire purchases, trading in shares and commodities and managing agency business. It was estimated that these 98 companies formed about 74 per cent of the sub-sector in terms of paid-up capital on the basis of which the aggregate has been calculated.

6.3 The RBI's study also covers an analysis of the balance-sheets of the Industrial Finance Corporation of India and State Financial Corporations. The Madras Industrial Investment Corporation which is registered under Companies Act and is working on the lines of other State Financial Corporations is also covered by this study. The accounts of the government financial corporations have been combined with the blown up figures of the private financial investment companies in order to obtain the aggregate figures for the whole sub-sector.

6.4 The limitations mainly stem from the inadequacies of the RBI studies on company finances as for instance (a) the break-up of 'other income' is not available (b) they cover only a sample of the companies and as such the aggregate figures obtained by blowing up the results of these studies on the basis of paid-up capital need not always be correct. Also the accounts presented are on "combined" and not on "consolidated"

basis. In other words it has not been possible to eliminate inter-company transactions. Further, the sample of 98 financial and investment companies covers only such companies as have a paid-up capital of Rs. 5 lakhs and above, and hence small units are ignored. However, it is presumed that the magnitude of the adjustment necessary on this account is not likely to be large.

6.5 To mention some other limitations, the data collected do not provide separate information on rents, grants and donations, etc. Moreover, the amount corresponding to the annual tax payment during 1957 is not available in view of peculiar circumstances during that year. Further during this year some of the selected companies were required to provide for excess taxation under section 34(1) of the Income Tax Act with the result that the basic assumption viz., that the transfers from taxation reserve to other reserves and vice versa are negligible, was not found to hold good. To take care of this factor, data in respect of profits tax have been presented after making suitable adjustments.

6.6 The following classification has been adopted in the presentation of the data (as available from the RBI study) for non-financial flows in respect of the private financial and investment companies and also the financial corporations:-

Flow-of-funds classification

RBI classification

non-financial sources

1. interest, dividends, commission etc.
2. others

main income

other income

non-financial uses

1. pay roll
2. interest and dividends
3. other operating uses not elsewhere specified
4. capital expenditure
5. profits tax

establishment expenses
interest and dividends
other expenses

increase in gross fixed assets
tax provision plus increase in taxation advance minus increase in tax reserve.

6.7 In Table 6.1 are presented the data relating to non-financial flows of the government financial corporations and non-government public and private financial and investment companies for the year 1957. As stated earlier the aggregates have been derived by blowing up the results obtained for 98 companies in terms of paid-up capital to which are added the data obtained for financial corporations :

TABLE 6.1: NON-FINANCIAL FLOWS : PRIVATE FINANCIAL AND INVESTMENT COMPANIES AND GOVERNMENT FINANCIAL CORPORATIONS , 1957

(Rs. lakhs)			
sources	1957	uses	1957
(1)	(2)	(3)	(4)
1. interest, dividends, commission etc.	841	1. pay roll	59
		2. interest and dividends	479
		3. other operating uses not elsewhere specified	75
2. others	85	4. capital expenditure	76
		5. profits tax	323
3. total	925	6. total	1012

(ii) Insurance

6.8 This sub-sector covers both life and general insurance. Data for the construction of flow-of-funds accounts for the sub-sector are available in the annual reports of the LIC and in the Indian Insurance Year Books. The latter publication by the Controller of Insurance brings forth on an annual basis the accounts of companies engaged in general insurance. The data relating to general insurance are on a calendar year basis and as such the flow-of-funds accounts have been constructed by adopting the data as they are on the assumption that the calendar year data holds good for fiscal year also. In the case of life insurance, however, another difficulty is encountered. Due to the nationalisation of life insurance business on 1st September, 1956, the accounts for 1956 cover only a period of 8 months i.e. upto the formation of LIC, while the accounts published in the first report of the LIC after the take-over of insurance relates to the period September, 1956 to December, 1957. In view of this it is only the latter data that have been utilised for the construction of flow-of-funds accounts of this sub-sector for 1957-58.

6.9 The accounts of non-financial flows have been built up by reclassifying the various items in the revenue account and the balance-sheets of LIC. For general insurance, as already stated the company accounts are available in the Indian Insurance Year Book and these have been reclassified for flow-of-funds purposes. In the case of life insurance the main source of income is provided by premium receipts and this appears in the revenue account. In a system of flow-of-funds accounts, life insurance premia are treated as financial flows since these lead to emergence of financial claims by the households on the insurance sector. The conceptual problem is whether the entire premium represents a financial claim or it is only the surrender value which should be reckoned for this purpose. The argument in favour of the latter is that insurance payment is partly a saving and partly a payment against risk insured. For the purpose of this Report, the entire premium is treated as a

financial flow with the result that non-financial flows of life insurance sub-sector diverge markedly in classification from the published accounts of the LIC. In the case of general insurance the premium is simply a payment for insurance against risk and is treated as a non-financial flow. Data relating to life and non-life insurance as reclassified for flow-of-funds purposes are presented in Table 6.2 :-

TABLE 6.2: NON-FINANCIAL FLOWS: INSURANCE SECTOR, 1957-58

(Rs. crores)			
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. interest, dividends etc.	19.6	1. pay roll	32.8
		2. claims (non life)	13.1
		3. interest & dividends	0.7
2. insurance premium	29.7	4. durable goods	2.1
		5. non-durable goods & services	4.3
3. others	1.3	6. compensation payment	14.5
		7. taxes	1.1
		8. others	0.8
4. total	<u>50.6</u>	9. total	<u>69.4</u>

6.10 The sector 'other financial institutions' should also include transactions of provident fund, etc. The office of the Provident Fund Commissioner publishes an annual report on "The Working of Employees' Provident Funds Scheme". However, from the point of view of non-financial flows, the operations of these transactions do not have much quantitative significance and their omission does not affect the main aggregates for this sector as presented in Table 6.3 below :

TABLE 6.3: NON-FINANCIAL FLOWS: FINANCIAL INSTITUTIONS*
OTHER THAN BANKS, 1957-58

(Rs. crores)			
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. interest, dividends etc.	28.0	1. pay roll	33.4
		2. claims (non-life)	13.1
		3. interest & dividends	5.5
2. insurance premium (non-life)	29.7	4. capital expenditure	2.9
		5. taxes	4.3
		6. compensation payment	14.5
3. others	2.2	7. others	5.9
4. total	<u>59.9</u>	8. total	<u>79.6</u>

*includes private financial and investment companies, government financial corporations and life and general insurance.

CHAPTER - 7

PRIVATE CORPORATE BUSINESS

7.1 The private corporate business sector covers all private sector companies engaged in producing and selling goods and services; these comprise non-financial non-government public and private limited Indian joint stock companies, cooperative non-credit societies and branches of foreign companies operating in India. As regards co-operative non-credit societies, data relating

Scope and
Coverage

to their operations are not available in the required detail. A study on the finances of branches of foreign companies was recently published in the RBI Bulletin, March 1962, but the data therein in respect of sources and uses of funds relate to 1958 to 1960 from which construction of flow-of-funds accounts for the year 1957 is not feasible. Hence the data presented here relate to non-financial non-government public and private limited Indian joint stock companies only, which are drawn from the studies on company finances made by the RBI and published in their monthly bulletins from time to time. The following classification of transactions has been adopted in presenting the accounts for this sector.

Non-financial sources

1. sales and receipts from operations
2. others

Non-financial uses

1. pay roll
2. interest
3. taxes (other than profits tax)
4. managing agency remuneration
5. other operating uses not elsewhere classified
6. capital expenditure
7. change in inventory
8. profits tax
9. dividends

7.2 Conceptually, the accounts for any sector should be the 'consolidated accounts' obtained by eliminating all intra-sector flows. Thus, ideally, the accounts for the corporate

Conceptual
problems

sector should not include those transactions which take place between corporate enterprises. However, it is not possible to exclude these as

the accounts do not provide data on inter-corporate transactions and as such the data presented here relate to the 'combined accounts'.

7.3 Income-tax, super tax and wealth tax paid by joint stock companies ought to be shown in the accounts on actual payments basis rather than on the basis of accrual or provision. The published accounts of the companies give data on year to year provision for tax and a balance in taxation reserve. From these

data the annual tax payment of companies has been estimated by deducting the closing balance in the taxation reserve from the sum of opening balance and the current year's tax provision. This figure thus obtained would represent the actual tax paid during the year. Here the question arises as to how the change in income-tax advance should be treated; whether an increase in tax-advance should be treated as an increase in a purely financial claim and hence as a financial use or it should be regarded as a tax payment and hence a non-financial use. Evidently tax advance cannot be treated on par with other claims on government such as holdings of government securities. Moreover tax reserve is shown net of tax advance in the accounts of some companies. It has, therefore, been decided for the purpose of flow-of-funds accounts to treat increase in tax advance as tax payment and this is added to the figure of tax payment obtained as indicated above. In other words, total tax payment is taken as the sum of (i) tax provision less increase in tax reserve and (ii) the increase in tax advance. This process may not, however, yield the exact amount of tax paid as it does not consider the transfers effected from taxation reserve to other reserves and vice versa, and it is hoped that the transfers between taxation reserve and other reserve funds are negligible. In this connection it may be noted that the Taxation Enquiry Commission's Report shows that aggregate tax provision of joint stock companies was nearly equal to aggregate tax payments over the period 1946-51. Some refinement in the estimation of 'tax provision' for the year 1958 has also been made by eliminating from it the tax deducted at source on dividend income of shareholders in respect of companies which closed their accounts after 31st March, 1959.

7.4 Although it would be desirable to distinguish on the sources side the transactions involving rents, royalties, interests, dividends, branch profits, grants and donations, insurance benefits, tax refunds, etc., it has not been possible, due to non-availability of ready data, to show these transactions separately. Therefore, these have been clubbed together under the head 'other income' on the 'sources' side.

7.5 Moreover, a certain element of non-uniformity also arises from the fact that there is no common accounting year for all the joint stock companies. At present, the study year for the consolidation of company finances adopted by the RBI is the period July-June. For flow-of-funds purposes, the financial year has been recommended as the common accounting period. To secure maximum coverage of this period, it would be necessary to consider the period October-September as the study year. However, an empirical investigation of the accounting periods of a sample of companies indicated that the coverage of transactions taking place within the financial year cannot be increased substantially by such a change. Hence it does not appear worthwhile to revise the present procedure of consolidation of company finances.

7.6 The RBI analysis of accounts of public limited joint stock companies relates to 1001 units, covering about 78 per cent of the paid-up capital of the entire public limited companies

Method of compilation sector (excluding financial institutions) and that of the private limited companies is based on a sample of 333 companies which cover about 33 per cent of the paid-up capital of the private limited companies sector. The classification of various items of non-financial flows as are available in the RBI studies on company finances, is given below:-

Flow-of-funds classificationRBI classificationNon-financial sources:

- | | |
|---------------------------------------|----------------|
| 1. sales and receipts from operations | : sales |
| 2. others | : other income |

Non-financial uses

- | | |
|--------------------------------------|---|
| 1. pay roll | : salaries and wages and staff welfare expenses |
| 2. interest | : interest |
| 3. taxes (other than tax on profits) | : excise duty |
| 4. managing agency remuneration | : managing agents' remuneration |
| 5. purchase of goods and services | : raw materials consumed and manufacturing expenses
+ other expenses
- (closing stock of finished goods and work-in-progress
- opening stock of finished goods and work-in-progress) |
| 6. capital expenditure | : gross fixed assets formation |
| 7. change in inventory | : change in inventory |
| 8. tax on profits | : tax provision as given in profit and loss account + change in advance of income tax - change in taxation provision as given in balance sheet |
| 9. dividends | : dividends |

The aggregate transactions of these sectors have been worked out by blowing up the corresponding figures given in the analyses of company finances on the basis of paid-up capital and these accounts are presented in Table 7.1

7.7 The accounts for the years 1957 and 1958 are restricted only to non-financial Indian public limited and private limited joint stock companies. Transactions of Indian branches of foreign companies and non-credit co-operative societies have not been included in the accounts. Though the RBI studies on company finances are fairly comprehensive, there is scope for further

Limitations
of the data

improvement. For instance, in the RBI analysis, rents, royalties, interest received, dividends, branch profits, grants and donations, etc., are not shown separately but lumped together under the head 'other income' on the 'sources' side of the accounts. Similarly, information on actual tax payment is not available. It would be useful if the scope of the RBI analysis of company finances is widened to the extent possible, so as to meet the needs of flow-of-funds accounts.

7.8 In respect of public and private limited companies the RBI analysis covers only a sample of the larger units. Hence estimation from the combined accounts of this sample, using the ratio of paid-up capital, may not secure adequate representation of the transactions of smaller companies. The RBI has also completed the analysis of the finances of a sample of smaller companies for the years 1957 to 1960. However, in view of the limited coverage of these studies, no adjustments have been made on the global estimates to correct for under-representation of smaller companies.

7.9 The private limited companies analysed by the RBI at present account only for about one-third of the total paid-up capital of all private companies. The coverage of this sector by the RBI sample is likely to be increased in their future studies

7.10 The flow-of-funds accounts for the corporate business sector can be prepared and presented on an annual basis as they are compiled entirely from the annual analysis of company finances carried out by the RBI. It would be necessary, however, to extend the scope of these analyses so as to cover the entire corporate sector. For this purpose special studies of the finances of co-operative non-credit societies need to be taken up. The content and item coverage of the RBI analyses of company finances also need to be modified suitably to accommodate the needs of flow-of-funds accounts.

TABLE 7.1: NON-FINANCIAL FLOWS : PRIVATE CORPORATE BUSINESS*, 1957 AND 1958

sources		1957 1958		uses		1957 1958	
(1)		(2)	(3)	(4)		(5)	(6)
1. sales and receipts from operations		3313	3468	1. pay roll		510	539
				2. interest		42	47
2. others		42	47	3. taxes (other than tax on profits)		188	234
				4. managing agency remuneration		12	13
				5. other operating uses not elsewhere classified		2325	2370
				6. capital expenditure		258	218
				7. change in inventory		88	9
				8. tax on profits		96	99
				9. dividends		70	82
3. total		3355	3515	10. total		3589	3611

*Includes both private and public limited joint stock companies.

CHAPTER - 8

GOVERNMENT SECTOR

8.1 The government sector covers general government and government enterprises. The general government comprises government agencies, whether central, state or local bodies, which

Scope and coverage

undertake all forms of activity other than those performed by agencies included in the category of government enterprises, i.e. administration, education, defence and health services etc. Government enterprises here include both departmental and non-departmental commercial enterprises. The departmental enterprises include railways, communications, forests, irrigation schemes, industrial concerns and other departmental commercial enterprises such as quarries, mines, sales emporia, dairy and milk schemes, sale of opium, etc. The departmental enterprises thus include all public enterprises whose accounts are routed through the budget. The non-departmental enterprises include all commercial and industrial undertakings organised either as autonomous corporations or limited companies and in which governments' share participation is more than 50 per cent. These enterprises (for example Hindustan Steel, Sindri Fertilizers, Hindustan Machine Tools, etc.) maintain their independent accounts like the usual commercial firms. The accounts of (i) Reserve Bank of India, State Bank of India and its subsidiaries, and (ii) government financial corporations and Life Insurance Corporation, are not included in this sector but in the banking and other financial institutions sectors, respectively.

8.2 The accounts of general government are prepared on cash basis. For example, taxes are recorded when received by the government rather than at the time of accrual of the tax liability. The transactions in the public

Conceptual problems

undertakings are generally recorded on accrual basis. Thus, the accounts for this sector include both cash and accrual transactions and this raises the difficult problem of integration of these accounts.

8.3 Inter sub-sector transactions such as indirect taxes and interest payments paid by non-departmental undertakings to government should be eliminated. Similarly, sales and purchases of goods between these undertakings and governments have also to be eliminated. However, it is difficult at present to eliminate completely the transactions between these sub-sectors mainly because of absence of adequate details and differences in their timings.

8.4 The non-financial transactions of government sector have been compiled from the 'Estimates of National Income, 1948-49 to 1960-61' prepared by the CSO. Table 8.1 presents the non-finan-

cial flows of government administration (Central and State governments and local bodies) for 1957-58 and is based on the data as presented in the "Current Account of Public Authorities: Administration" and "Capital Account of Public Authorities: Administration and Enterprises combined" of the aforesaid CSO publication. The sources of non-financial flows of government administration include taxes and various fees, income from property (e.g. interest receipts) and net contributions of commercial enterprises and uses include pay roll, expenditure on purchase of commodities and services whether for current consumption or for capital acquisition, and transfer payments. The non-financial flows of the government departmental enterprises are presented in Table 8.2 and these have been prepared from the "Current Account of Public Authorities: Enterprises" as given in "Estimates of National Income". The non-financial flows of government companies and statutory corporations as presented in Table 8.3 have been compiled from the annual reports of these bodies. As in the case of all enterprises, uses of non-financial flows include pay roll, payment of taxes, interest and dividends and purchases of goods and services (these include manufacturing expenses as given in the profit and loss account as well as gross fixed capital acquisition and inventory changes as available in balance sheets); sources include income from sales and any other miscellaneous income. The internal transactions such as provision for maintenance and depreciation and transfer to funds which are of a book-keeping nature have been ignored in the presentation of these accounts. The inter-sub-sector flows have been shown separately in the various tables to the extent possible, and consolidated accounts are presented in Table 8.4. The excess of non-financial uses over sources of the government sector represents the magnitude of net indebtedness that the government sector had to incur during 1957-58.

8.5 One of the major limitations in the construction of accounts of financial flows for this sector is the considerable time lag in the availability of data in respect of some of the local bodies.

Limitations
of data

The data in respect of income and expenditure of the municipalities are at best available only for the year 1956-57 in the 'Statistical Abstract of India, 1961'. As such estimates for the year 1957-58 have been obtained by projecting data relating to earlier years on the basis of increases in government grants and loans to local bodies. However, the details presented in the Statistical Abstract are not adequate for the purpose of segregating the various non-financial flows. Apart from this the main problem in the compilation of non-financial flows of the government sector relates to the reclassification of various transactions in a form suitable for economic analysis. There is, however, a great wealth of data available in the accounts of government sector.

TABLE 8.1: NON - FINANCIAL FLOWS : GOVERNMENT ADMINISTRATION
(CENTRAL AND STATE GOVERNMENTS AND LOCAL BODIES), 1957-58

(Rs. crores)			
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. direct taxes	323	1. pay roll	656
2. indirect taxes	789	2. purchase of commodities and services	491
3. fees and miscellaneous receipts	148	3. subsidies	50
4. income from property	55	4. transfer payments	150
5. surplus of RBI to government	30	5. national debt interest	58
6. operating surplus from departmental undertakings	31		
7. total	1376	6. total	1405

Source : 'Estimates of National Income, 1948-49 to 1960-61', CSO.

TABLE 8.2: NON-FINANCIAL FLOWS : GOVERNMENT DEPARTMENTAL ENTERPRISES
(CENTRAL AND STATE GOVERNMENTS AND LOCAL BODIES), 1957-58

		(Rs. crores)	
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. sale of commodities and services	584	1. pay roll	403
		2. purchase of commodities and services	446
		3. interest payment through debt services	74
		4. operating surplus to government administration	31
2. total	584	5. total	954

Source : 'Estimates of National Income, 1948-49 to 1960-61', CSO.

TABLE.8.3: NON-FINANCIAL FLOWS : GOVERNMENT COMPANIES
AND STATUTORY CORPORATIONS* , 1957 - 58.

		(Rs. crores)	
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. sale of commodities and services	196	1. pay roll	46
2. interest income	1	2. purchase of commodities and services	316
3. subsidies	1	3. interest payment: to government administration	7
4. others	1	4. interest payment: to others	1
		5. dividends	1
		6. taxes : direct	1
		7. taxes : indirect	5
		8. others	1
5. total	199	9. total	378

*Accounts compiled on the basis of analysis carried out in the CSO.
Exclude LIC , RBI , State Bank of India and its subsidiaries,
Industrial Finance Corporation and State Financial Corporations.

TABLE 8.4: NON-FINANCIAL FLOWS : PUBLIC AUTHORITIES (GOVERNMENT ADMINISTRATION AND DEPARTMENTAL ENTERPRISES OF CENTRAL AND STATE GOVERNMENTS AND LOCAL BODIES), GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS*, 1957-58

(Rs. crores)			
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. direct taxes	322	1. pay roll	1105
2. indirect taxes	784	2. purchase of commodities and services	1253
3. fees and miscellaneous receipts	148	3. interest payment	133
4. sale of commodities and services	780	4. subsidies	49
5. income from property	49	5. transfer payments	150
6. surplus of RBI to government	30	6. dividends	1
7. others	1	7. others	1
8. total	2114	8. total	2692

*Excludes LIC, RBI , State Bank of India and its subsidiaries, Industrial Finance Corporation and State Financial Corporations.

Source : - 'Estimates of National Income, 1948-49 to 1960-61' and special study of accounts of government companies and statutory corporations.

CHAPTER - 9

REST OF THE WORLD

9.1 The flow-of-funds accounts for the rest of the world sector record transactions of foreign countries with domestic sectors of the economy effected through the medium of money and credit. These accounts are constructed mainly from the balance of payments statistics of India. The accounts presented here differ from the balance of payments statements in the following respects. The flows in the two accounts are in opposite directions since the flow-of-funds accounts record transactions from the point of view of the rest of the world while the balance of payments statements record the same transactions from the stand point of India. Unlike the balance of payments statements the flow-of-funds accounts cut across the current and capital accounts and balance the sum of both non-financial and financial receipts with corresponding sum of payments. The two accounts also differ not only in transaction coverage and classification but also in the extent of netting.

9.2 In line with the general structure of flow-of-funds accounts, accounts for the rest of the world sector are divided into non-financial and financial transactions under 'sources' and 'uses' sides of the accounts. The purchases and sales of goods and services including investment income and unilateral transfers belong to the non-financial category. Some of these transactions can be recorded on 'to whom-from whom' basis. While both cash and accrual measures are used in the flow-of-funds accounts, these two are not generally combined in any given transaction in order to maintain consistency.

9.3 The broad classification adopted for recording non-financial flows of the rest of the world sector is as given below:-

a. official account

1. services

- 1.1 investment income
- 1.2 donations
- 1.3 others

2. goods

b. private account

1. services

- 1.1 investment income
 - (i) dividends
 - (ii) profits
 - (iii) interest etc.
- 1.2 donations
- 1.3 others

2. goods

9.4 Accounts of non-financial flows of this sector on the basis of the classification given above are presented in Table 9.1. These relate to the years 1956-57 to 1958-59.

9.5 Since these accounts are compiled entirely on the basis of balance of payments statistics, the degree of reliability of the accounts for the rest of the world sector is the same as that of the balance of payments statements.

TABLE 9.1: NON-FINANCIAL FLOWS : REST OF THE WORLD, 1956-57 TO 1958-59

(Rs. crores)

sources				uses			
	1956-57	1957-58*	1958-59		1956-57	1957-58*	1958-59
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
a. official account				a. official account			
1. services				1. services			
1.1 investment income	4	5	9	1.1 investment income	27	16	9
1.2 donations	-	-	-	1.2 donations	40	34	36
1.3 others	13	14	15	1.3 others	19	28	40
2. goods	287	537	525	2. goods	2	8	8
b. private account				b. private account			
1. services				1. services			
1.1 investment income				1.1 investment income			
(i) dividends	6	7	8	(i) dividends	-	-	-
(ii) profits	9	13	6	(ii) profits	2	2	1
(iii) interest etc.	5	4	12	**(iii) interest etc.	4	5	6
1.2 donations	16	16	17	1.2 donations	64	62	57
1.3 others	59	57	60	1.3 others	108	106	104
2. goods	812	696	504	2. goods	633	587	569
total	1211	1349	1156	total	899	848	830

*excludes lend-lease silver repatriated to the USA (Rs. 74.4 crores)

**includes dividends which could not be separated and unclassified payments to India.

CHAPTER 10

CONSOLIDATED ACCOUNTS

10.1 The consolidated accounts of non-financial flows in the Indian economy for the year 1957-58 have been prepared from the accounts of various sectors as given in Chapters 4 through 9. The transaction classification adopted in the accounts is as below :-

- (1) pay roll
- (2) interest, dividends, rents and royalties, etc.
- (3) taxes and tax refunds
- (4) purchases and sales of goods and services
- (5) other items not elsewhere classified

10.2 The details about the scope and coverage, conceptual problems, sources of data & limitations of the accounts are discussed in the preceding Chapters and the consolidated accounts presented in Table 10.1. For each sector of the economy, the columns of the table record sources and uses of funds for various groups of non-financial transactions mentioned above. When read across, the table shows the participation of each sector in each group of transactions. The statistical discrepancy is shown in the last column of the table; this arises due to errors in data and the adjustments made in the currently available data for the purpose of compiling the accounts. The estimates are, therefore, subject to revision in the light of further improvements in the basic statistics.

TABLE 10.1: NON-FINANCIAL FLOWS IN THE INDIAN ECONOMY, 1957-58

(Rs. crores)

sector/transaction	sectors							
	households		banking		other financial institutions		private rate	corpo- business
	s	u	s	u	s	u	s	u
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. pay roll	1779	93	-	29	-	33	-	522
2. interest, dividends, rents, royalties etc.	596	129	121	35	28	6	-	112
3. taxes and tax refunds	-	129	-	6	-	4	-	284
4. purchases and sales of goods and services	-	1656	-	13	-	9	3313	2671
5. other items not elsewhere classified	196	-	-	31	32	28	42	-
6. total	2571	2007	121	114	60	80	3355	3589

TABLE 10.1: NON-FINANCIAL FLOWS IN THE INDIAN ECONOMY, 1957-58 (Contd.)

(Rs. crores)

sector/transaction (1)	government		sectors rest of the world		t o t a l		discre- pancy (16)
	s	u	s	u	s	u	
	(10)	(11)	(12)	(13)	(14)	(15)	
1. pay roll	-	1105	-	-	1779	1782	- 3
2. interest, dividends, rents, royalties etc.	49	134	29	23	823	439	+ 384
3. taxes and tax refunds	1106	-	-	-	1106	423	+ 683
4. purchases and sales of goods and services	780	1253	1233	595	5326	6197	- 871
5. other items not elsewhere classified	179	200	87	230	536	489	+ 47
6. total	2114	2692	1349	848	9570	9330	+ 240

s = sources

u = uses

SECTION-III

FINANCIAL FLOWS

CHAPTER - 11

HOUSEHOLDS

11.1 The financial flows accounts given here include not only consumer sector but also non-corporate non-farm business, farm business, non-profit organisations and sectors not covered elsewhere. The financial sources relate to net increase in liabilities regarding consumer credit, mortgages, loans etc., while their financial uses comprise net increase in

Scope and coverage

currency and deposits with banks, government securities, corporate securities, mortgages and other financial assets. The data available at present on personal income and expenditure from household surveys are neither adequate nor reliable enough for construction of the accounts. The accounts relating to the financial assets and liabilities of this sector, will, therefore, have to be obtained as a residual from the data relating to institutions. In such a procedure of assessing the aggregate changes in several financial assets and liabilities from institutional data, the claim or liability of the households sector is obtained as a residual after elimination of the claims of other sectors which could be compiled with fair degree of accuracy from the consolidated balance sheets of the respective sectors. The method of estimation of different items of financial sources and uses of funds for this sector is briefly described below.

11.2 Increase in Currency - Estimates of changes in total currency in the country are obtained by adding the changes in RBI notes in circulation and the increase in one rupee notes issued by the Government. From this are subtracted the figures of currency with the treasury and local authorities and the total cash in hand with all commercial banks and state co-operative banks to get the total currency outside the banking system and government. From this net figure of currency, the cash holdings of other financial institutions, corporate sector, etc., as given in their consolidated balance sheets (vide chapter 12 also for more details) have been deducted to get the variations in the currency holdings of the households sector.

11.3 Increase in Demand and Time Deposits - The results of the surveys of ownership of demand and time deposits conducted by the RBI have been made use of in deriving the households sector's holdings of commercial banks' deposits. The classification of the sectors adopted for these surveys was not similar to the sectoring followed for the flow-of-funds accounts and hence some reclassification was effected before using these results (for fuller details on this point vide Chapter 12). To these estimates of demand and time deposits of households sector with commercial banks are added the demand and time deposits of 'individuals and others' with the state co-operative banks to yield the total deposits of households sector with the banking system (other units of co-operative sub-sector are not covered for want of complete details). From these figures the changes in deposits are calculated.

11.4 Changes in bank advances and bills - As in the case of demand and time deposits, the data on sectorwise distribution of bank advances, thrown up by the surveys of advances (also conducted by the RBI) have been utilised in arriving at the net loans of the banking system to the households sector. Even in this case, the information available through these surveys was not in a form required for the purpose and some adjustments based on supplementary data available in the article 'Commercial bank finance to medium and small scale business units' published in June, 1959, issue of the RBI bulletin, have been made and the outstanding loans of households sector worked out (vide Chapter 12 for more details on the method of estimation). To these outstanding advances of commercial banks are added the figures of advances by state co-operative banks to 'individual and others'. From these figures, the changes in bank advances and bills to the households have been estimated.

11.5 Small Savings - Changes in government small savings are worked out from the data furnished by the Director General of Posts & Telegraphs. These savings figures which are inclusive of Post Office Savings Bank deposits are available in the RBI bulletin. The amount outstanding at the end of the year is adjusted for outstanding cash certificate figures. Changes in the total amount outstanding at the end of the year give savings during the year.

11.6 Insurance transactions - As regards insurance transactions of the households sector, an attempt has been made to estimate separately total life insurance (including endowments) premia payments, total claims receipts on this account, and loans raised on life insurance policies. The figures include all Indian life insurers, non-Indian life insurers operating in India, provident fund societies and postal life insurance. It is assumed that almost the entire life insurance transactions are carried out by the households sector. Where financial year figures are not available, corresponding calendar year figures have been used. The LIC figures for 1956-57 are based on the report for the period 1.1.1956 to 31.8.1956 and for 1957-58 on the report for the period 1.9.1956 to 31.12.1957.

11.7 Provident Fund Contributions - In the article on 'Estimates of Saving in the Indian Economy' appearing in the March 1960 issue of RBI bulletin, estimates of the provident fund contributions of the households sector are given and these have been used here. These estimates include the contributions of persons employed by (i) Reserve Bank of India, (ii) Central Government, (iii) State Governments, (iv) Non-financial corporate sector, (v) Scheduled and A class non-scheduled banks and (vi) Insurance companies. Items (i) to (iii) are net of loans and advances to employees against their provident funds whereas items (iv) to (vi) are gross contributions. However as indicated in the RBI article, the estimates of provident fund as obtained by adding the contributions of all the above sectors would still be an under-estimate as a result of the non-inclusion of interest earned on the corporate sector's provident fund

contributions and the non-inclusion of the provident fund contributions of several sectors like local authorities, government companies, private collectives such as universities and non-corporate business.

11.8 Changes in corporate shares and securities - The afore-said RBI article also provides estimates of changes in corporate shares and securities held by the households sector together with details of the method of estimation. Broadly the method is as follows : Changes in corporate shares and securities with the households sector are estimated by adding changes in paid-up capital estimated from the data given in "Quarterly statistics on the working of capital issues control" to the changes in capital issued under exemption order and deducting from this total, estimated changes in capital issued to non-residents and changes in corporate shares and securities held by the Central and State Governments, local authorities, the non-financial corporate sector, banks, insurance companies and other financial institutions.

11.9 Claims of the government - Changes in the households sector's claims on government are again taken from the RBI article. The figures are inclusive of government small savings but as such savings have been shown separately, they have been excluded from the estimates of claims of the government on households sector.

11.10 The financial flows accounts for households sector worked out as per the methods detailed earlier, are presented in Table 11.1 for the two years 1956-57 and 1957-58. Government loans to

households sector, loans on life insurance policies and increase in bank advances and bills are recorded on the 'sources' side. On the other hand, increase in currency, demand and time deposits, corporate shares and securities, government small savings, life insurance premia and provident fund contributions and decrease in bank advances and bills are recorded on the 'uses' side of the accounts.

11.11 The consolidated estimates are subject to all the limitations to which the individual figures are subject. The coverage and method of estimation of some of these transactions could, no doubt, be improved with the availability of more data. Hence the figures given for the households, sector cannot be regarded as sufficiently precise for all items.

TABLE 11.1: FINANCIAL FLOWS : HOUSEHOLDS, 1956-57 & 1957-58

(Rs. crores)					
sources	1956	1957--	uses	1956-	1957
	- 57	- 58		- 57	- 58
(1)	(2)	(3)	(4)	(5)	(6)
1. government loans	-2	19	1. increase in currency	45	49
2. loans on life insurance policies	40	39	2. increase in demand deposits	29	46

TABLE 11.1: FINANCIAL FLOWS: HOUSEHOLDS, 1956-57 & 1957-58(contd.)

(Rs. crores)					
sources	1956 - 57	1957 - 58	uses	1956 - 57	1957 - 58
(1)	(2)	(3)	(4)	(5)	(6)
3. increase in bank advances and bills	51	-	3. increase in time deposits	50	37
			4. decrease in bank advances and bills	-	6
			5. government small savings (net)	59	69
			6. life insurance premia (net)	23	55
			7. provident fund contributions	73	78
			8. increase in corporate shares and securities	67	41
4. total	89	58	9. total	346	381

CHAPTER - 12

BANKING SECTOR

12.1 The scope and coverage of the banking sector is the same as discussed in chapter 5 in Section II dealing with the non-financial flows of this sector; the sector comprises (i) Reserve Bank of India, (ii) commercial banks (including State Bank of India and its subsidiaries) and (iii) state co-operative banks but excludes other co-operative banks and credit societies.

Scope and coverage

The assets of the banking sector consist mainly of gold and other foreign assets, credit extended to public and private sectors, and holdings of government and other securities while the principal liabilities are the currency and deposits held by other sectors. The financial flows accounts for the banking sector and its sub-sectors are presented in Tables 12.1 to 12.4.

12.2 So far as financial flows are concerned, the consolidated balance sheets for each sub-sector constitute the primary source for the construction of the accounts. The changes in balance sheet items from year to year represent the sources and uses of funds resulting mainly from financial transactions, and the overall financial sources and uses

Sources and methodology

of funds statement for the entire sector is obtained by consolidating (after elimination of inter-sub-sector transactions) the accounts of component sub-sectors. Internal transactions such as allocation to reserves etc., which are of a book-keeping nature and which do not involve two separate economic units, have been excluded. The data in respect of the RBI and commercial banks are as on 31st March while those relating to co-operative sub-sector are as on last Friday of March. The method of estimation of different items of financial sources and uses and the limitations of the available data are described below in respect of each sub-sector.

(i) Reserve Bank of India

12.3 While the information available in the balance sheets of the RBI is fairly sufficient to construct the financial flows accounts, some of the items such as 'notes in circulation', 'other deposits' and 'other loans and advances', require further break-up for getting the sectoral holdings.

12.4 Notes in circulation - The sectoral break-down of the notes in circulation outside the banking system is generally arrived at by taking the net change in currency holdings of individual sectors as revealed by their consolidated balance sheets. For instance, the currency holdings of the corporate sector have been estimated by totalling the figures of cash in hand for public limited companies (obtained by blowing up the figures for 1001 companies available in the articles on company finances in the RBI bulletins), private limited companies (arrived at in a similar manner by blowing up the data for 333 companies) and

branches of foreign firms (derived from data regarding changes in their business investments in India available from the articles on 'Foreign Investments in India' in the September 1958 and June 1959 issues of the RBI bulletin). After obtaining the individual sectors' estimates, the currency holdings of the households sector have been obtained as a residue*. These estimates of currency holdings include both RBI notes and rupee coin which constitute the liability of the RBI and government sector respectively. A further break-up of the above figures into RBI notes and others is obtained by applying the ratio of notes in circulation to the total of notes in circulation plus rupee coin in circulation, to the currency holdings of each of the sectors.

12.5 Deposits The sector-wise ownership of the deposits of the RBI is available only in respect of government and banking sectors in the Statement of Affairs of the Reserve Bank of India. The residuary item 'other deposits' comprises several miscellaneous items like deposits of quasi-government institutions, Employees' Provident, Pension and Guarantee Funds, deposits of Reserve Bank of India Employees' Co-operative Credit Society and balances of foreign central banks and governments, the International Monetary Fund (IMF) and International Bank for Reconstruction & Development (IBRD), etc. Special data on these items have been collected and utilised in estimating the sectoral holdings.

12.6 Loans and advances Data on loans and advances to government sector are readily available in the balance sheet of the RBI. The item 'other loans and advances' in the balance sheet represents the loans and advances to scheduled banks, state co-operative banks and other financial institutions. Data on the RBI loans to scheduled and state co-operative banks are being separately collected and published in the Bank's bulletin and these figures have been used here and the loans to other financial institutions are obtained as a residual**.

12.7 Investments and 'other assets' The item 'investments' consists of not only rupee securities of the Central Government and State Governments but also other approved securities like shares of State Bank of India and the State Bank of Hyderabad, shares of state co-operative banks and state financial corporations, debentures of land mortgage banks, etc. It has not been possible to get a break-up of these items at this stage. The magnitude of the investments in approved securities is, however, negligible compared to those in government securities and hence the total figure of investment is shown here as investment in

* For more details, reference may be made to the article 'Estimates of Saving in the Indian Economy', RBI Bulletin, March, 1960.

** Separate figures of advances to scheduled banks, state co-operative banks and others are available in the balance sheet itself since July 13, 1962 when the form of the Weekly Statement of Affairs of Banking Department of the Reserve Bank of India, was revised.

government securities. 'Other assets' include physical assets like premises, furniture and financial assets like cheques in process of collection etc. Conceptually, physical assets and other property transactions should go under non-financial side but for want of detailed break-up, such a procedure could not be attempted.

(ii) Commercial banks

12.8 The Commercial banks in India comprise Indian scheduled banks, non-scheduled banks and branches of foreign banks operating in India. Balance sheet data as reported in Form XIII*, are utilised for constructing the financial flows accounts for this sector. The classification adopted in Form XIII was not adequate from the flow-of-funds point of view and hence recourse had to be taken to various banking surveys conducted by the RBI for getting the sectoral holdings of deposits, advances and investments. The scope and coverage of these surveys are slightly different from those of Form XIII and hence the proportions revealed by these surveys have been applied to the aggregates under Form XIII to derive the sectoral estimates. The method of estimation of the sector-wise break-up of these items is given below.

12.9 Demand deposits The classification adopted for the 'survey of ownership of deposits' was not in a form suitable for the flow-of-funds accounts. The survey classifies the deposits under the following broad categories viz., financial institutions, manufacturing concerns, trading concerns, government and quasi-government institutions, personal and others. In these surveys a further break up of financial institutions into banks and co-operative banks and societies and other financial institutions is also available. The deposits of banks and co-operative banks and societies being items of inter-bank nature are excluded and the deposits of other financial institutions only are considered here. Manufacturing concerns and trading concerns can be taken to constitute corporate sector but the survey classification of these two categories includes partnerships and individual proprietors which are to be considered as forming part of the households sector for flow-of-funds accounts. Similarly the deposits of government and quasi-government institutions given in the surveys include the balances of PL 480 funds which are to be considered as the deposits of the rest of the world sector. Thus readjustments to suit the flow-of-funds sectorisation have been made by making use of the detailed data available in these surveys supplemented by data on PL 480 balances collected from the records of RBI. By using the proportions of sectorwise holdings revealed by these surveys, the corresponding estimates of deposit holdings for Form XIII data are worked out and variations in these deposits arrived at.

*The Banking Companies Act 1949 prescribed that every banking company shall submit to the Reserve Bank of India a monthly return showing its assets and liabilities in India as at the close of business on the last Friday of the month. The form prescribed by the Act is Form XIII.

12.10 Time deposits The survey classification is almost similar to that of demand deposits with the exception that the break-up of manufacturing and trading concerns into 'companies' and partnerships and individual proprietors' is not available. Hence the deposits of manufacturing concerns are completely taken as representing the claim of corporate sector and those of trading concerns as the claim of households sector.

12.11 Bank advances and bills As in the case of deposits, the ratios obtained from the survey of advances conducted by RBI have been utilised to derive the sectorwise allocation of loans. A major difficulty experienced here too was that the classification adopted in this survey could not be taken directly without making some adjustments to suit the purpose. The survey classifies the advances into six categories : (i) industry, (ii) commerce, (iii) agriculture, (iv) personal, (v) professional and (vi) others. The adjustments made to use the data are briefly described below:-

12.12 An estimate of the advances to the corporate and non-corporate sectors under the first three categories (industry, commerce and agriculture) was first obtained by making use of the ratios obtained from "Commercial Bank Finance to Medium and Small Scale Business Units" - a study published in June 1959 issue of the RBI bulletin. From the estimates of corporate sector thus obtained, advances to joint stock banks - an inter-bank item - are subtracted and the net figure is taken as representing advances to corporate sector. Thus estimates of commercial bank advances are obtained separately for (i) corporate sector, (ii) co-operative banks, (iii) other financial institutions and (iv) households (including advances to non-corporate sector and advances under categories 'personal' and 'professional' and 'others'). The percentage distribution derived from this classification is applied to total commercial bank advances as on March, 31, to find out the actual outstandings of each sector; from these outstandings the variations have been worked out.

12.13 Investments Data on commercial banks' investments in government securities are available in the Form XIII. The results of the analysis of investments of scheduled banks carried out by the RBI have been used to derive the investments in other securities.

12.14 Foreign liabilities and assets For the flow-of-funds accounts the net claims on foreign branches in the case of Indian banks and on the head offices abroad in the case of foreign banks should be regarded as foreign assets or liabilities as the case may be. The data which the commercial banks are required to supply under Form XIII are supposed to pertain to their Indian liabilities and assets. However, in this return, the net credit balances in respect of branches or parent offices abroad are shown under 'other liabilities' while the debit balances in respect of these branches or head offices outside India, which are not assets in India, are excluded from the assets side. From this it would appear that the Indian assets and liabilities are defined in the legal sense (according to the place of enforceability i.e. whether

in India or abroad) and not in the economic sense. If this were so all foreign liabilities should be included but it is not clear whether all foreign liabilities are included or whether only those relating to branches and head offices abroad are included. For the present purpose, it has been assumed that only those foreign liabilities pertaining to transactions with branches or parent offices abroad are included under 'other liabilities' and this part has been obtained independently from the studies entitled "Indian Banks' Business Abroad" carried out by the RBI.

12.15 As mentioned earlier the data obtained from commercial banks in Form XIII relate only to their Indian business and hence the total liabilities and total assets do not tally. The difference between the total liabilities and total assets has been assumed to represent total foreign assets. Out of this, the portion ascribable to transactions with branches abroad of Indian banks and with head offices abroad of Indian branches of foreign banks has been estimated on the basis of the RBI study on "Indian Banks' Business Abroad" mentioned above and the residual figure is treated as the 'net foreign assets' of commercial banks.

(iii) State co-operative banks

12.16 Data obtained under Section 44 of the Reserve Bank of India Act are made use of for the construction of financial flows accounts for the state co-operative banks. The sectoral break-up of demand and time liabilities, investments and advances are derived by applying the ratios as revealed by the detailed break-up of these items as on 30th June available in the "Statistical statements relating to co-operative movement in India".

12.17 As stated earlier in chapter 5 an important limitation in respect of the accounts for the banking sector is the omission of a major segment of the co-operative sub-sector. Statistics pertaining to state co-operative banks only are included while other co-operative banks and credit societies could not be considered for want of data in the required form and detail.

Limitations

12.18 In the case of the RBI most of the difficulties have been obviated by the recent revision of the Weekly Statement of Affairs of the Banking Department of the RBI. This revision which has come into force from the week ended July 13, 1962 gives sectoral break-up of 'deposits' and 'advances' of RBI. The other items which require further detail are 'other liabilities' and 'other assets' of the RBI for which special arrangements need be made to collect the data in respect of their components.

12.19 As regards commercial banks the major deficiencies of the available data are (a) the difficulty of tallying inter-bank liabilities and assets, (b) discrepancy between the total liabilities and total assets of commercial banks as reported under Form XIII and (c) sectoring of commercial banks' deposits and advances. Attempts are being made to fill up most of the

lacunae in the statistics of this sector. The difficulties regarding the Form XIII data have mostly been obviated by revising Form XIII to provide complete break-up of inter-bank transactions, branch adjustments and foreign assets and liabilities* However, even the revised form does not provide a complete picture of foreign assets and liabilities. The designing of suitable schedules for the banking surveys on deposits, advances and investments so as also to suit the requirements of flow-of-funds accounts has already been taken up and these revisions in the schedules are likely to help fill-up most of the lacunae in the available data. Since the basic statistics for construction of the financial flows accounts of the banking sector are available on an annual basis, it should be possible to compile the accounts for this sector annually.

* The revised form is published in the Government of India Gazette dated March 12, 1960.

TABLE 12.1: FINANCIAL FLOWS : BANKING SECTOR, 1957-58 AND 1958-59

(Rs. crores)					
sources	1957-58	1958-59	uses	1957-58	1958-59
(1)	(2)	(3)	(4)	(5)	(6)
a. <u>increase in liabilities</u>	<u>372.2</u>	<u>382.8</u>	a. <u>decrease in liabilities</u>	<u>46.7</u>	<u>43.0</u>
1. <u>notes in circulation</u>	<u>58.7</u>	<u>125.5</u>	1. <u>notes in circulation</u>	<u>0.7</u>	<u>6.5</u>
1.1 other financial institutions	3.5	-	1.1 other financial institutions	-	2.6
1.2 corporate sector	4.2	-	1.2 corporate sector	-	3.9
1.3 treasury & local authorities	-	2.8	1.3 treasury & local authorities	0.7	-
1.4 others	51.0	122.7	1.4 others	-	-
2. <u>demand deposits</u>	<u>73.2</u>	<u>26.2</u>	2. <u>demand deposits</u>	<u>24.9</u>	<u>20.8</u>
2.1 other financial institutions	4.0	-	2.1 other financial institutions	-	3.7
2.2 corporate sector	-	-	2.2 corporate sector	12.0	7.9
2.3 government sector	-	20.3	2.3 government sector	12.9	-
2.4 rest of the world sector	22.8	5.9	2.4 rest of the world sector	-	-
2.5 others	46.4	-	2.5 others	-	9.2
3. <u>time deposits</u>	<u>219.2</u>	<u>219.0</u>	3. <u>time deposits</u>	<u>-</u>	<u>14.1</u>
3.1 other financial institutions	20.9	-	3.1 other financial institutions	-	14.1
3.2 corporate sector	29.3	3.8	3.2 corporate sector	-	-
3.3 government sector	15.4	23.5	3.3 government sector	-	-
3.4 rest of the world sector	116.5	80.5	3.4 rest of the world sector	-	-
3.5 others	37.1	111.2	3.5 others	-	-
4. <u>bills payable of RBI</u>	<u>7.0</u>	<u>-</u>	4. <u>bills payable of RBI</u>	<u>-</u>	<u>1.6</u>
5. <u>due to branches or parent offices abroad</u>	<u>-</u>	<u>1.6</u>	5. <u>due to branches or parent offices abroad</u>	<u>20.8</u>	<u>-</u>
6. <u>borrowings from government</u>	<u>-</u>	<u>0.1</u>	6. <u>borrowings from government</u>	<u>0.3</u>	<u>-</u>
7. <u>paid-up capital</u>	<u>2.6</u>	<u>3.3</u>	7. <u>paid-up capital</u>	<u>-</u>	<u>-</u>
8. <u>other liabilities</u>	<u>11.5</u>	<u>7.1</u>	8. <u>other liabilities</u>	<u>-</u>	<u>-</u>

(Contd.)

TABLE 12.1: FINANCIAL FLOWS : BANKING SECTOR, 1957-58 AND 1958-59 - (Contd.)

(Rs. crores)					
sources			uses		
	1957-58	1958-59		1957-58	1958-59
(1)	(2)	(3)	(4)	(5)	(6)
b. <u>decrease in assets</u>	<u>280.7</u>	<u>70.2</u>	b. <u>increase in assets</u>	<u>595.8</u>	<u>403.9</u>
1. <u>foreign assets of RBI</u>	<u>261.3</u>	<u>51.8</u>	1. <u>foreign assets of RBI</u>	<u>-</u>	<u>-</u>
2. <u>advances and bills</u>	<u>6.2</u>	<u>-</u>	2. <u>advances and bills</u>	<u>81.9</u>	<u>61.3</u>
2.1 other financial institutions	-	-	2.1 other financial institutions	1.5	2.7
2.2 corporate sector	-	-	2.2 corporate sector	65.2	43.2
2.3 government sector	-	-	2.3 government sector	15.2	3.9
2.4 others	6.2	-	2.4 others	-	11.5
3. <u>investments</u>	<u>2.8</u>	<u>-</u>	3. <u>investments</u>	<u>499.7</u>	<u>323.4</u>
3.1 government securities	-	-	3.1 government securities	497.2	316.5
3.2 other trustee securities	-	-	3.2 other trustee securities	2.5	3.4
3.3 shares and debentures of joint stock companies	0.9	-	3.3 shares and debentures of joint stock companies	-	1.2
3.4 others	1.9	-	3.4 others	-	2.3
4. <u>one rupee notes and coins</u>	<u>-</u>	<u>-</u>	4. <u>one rupee notes and coins</u>	<u>6.8</u>	<u>1.2</u>
5. <u>due from branches or parent offices abroad</u>	<u>-</u>	<u>6.4</u>	5. <u>due from branches or parent offices abroad</u>	<u>2.6</u>	<u>-</u>
6. <u>net foreign assets of commercial banks</u>	<u>10.4</u>	<u>12.0</u>	6. <u>net foreign assets of commercial banks</u>	<u>-</u>	<u>-</u>
7. <u>other assets</u>	<u>-</u>	<u>-</u>	7. <u>other assets</u>	<u>4.8</u>	<u>18.0</u>
c. <u>total</u>	<u>652.9</u>	<u>453.0</u>	c. <u>total</u>	<u>642.5</u>	<u>446.9</u>

TABLE 12.2: FINANCIAL FLOWS : RESERVE BANK OF INDIA, 1957-58 AND 1958-59

(Rs. crores)					
sources		1957-58 1958-59		uses	
(1)	(2)	(3)	(4)	(5)	(6)
<u>a. increase in liabilities</u>	<u>131.4</u>	<u>144.8</u>	<u>a. decrease in liabilities</u>	<u>1.9</u>	<u>16.1</u>
1. <u>notes in circulation</u>	<u>63.9</u>	<u>134.5</u>	1. <u>notes in circulation</u>	<u>0.7</u>	<u>6.5</u>
1.1 commercial banks	4.3	5.9	1.1 commercial banks	-	-
1.2 co-operative banks & societies	0.9	3.1	1.2 co-operative banks & societies	-	-
1.3 other financial institutions	3.5	-	1.3 other financial institutions	-	2.6
1.4 corporate sector	4.2	-	1.4 corporate sector	-	3.9
1.5 government sector	-	2.8	1.5 government sector	0.7	-
1.6 others	51.0	122.7	1.6 others	-	-
2. <u>deposits</u>	<u>53.6</u>	<u>7.4</u>	2. <u>deposits</u>	<u>1.2</u>	<u>8.0</u>
2.1 commercial banks	8.7	7.3	2.1 commercial banks	-	-
2.2 co-operative banks	0.6	0.1	2.2 co-operative banks	-	-
2.3 government sector	-	-	2.3 government sector	1.2	7.2
2.4 rest of the world sector	42.7	-	2.4 rest of the world sector	-	0.8
2.5 others	1.6	-	2.5 others	-	-
3. <u>bills payable</u>	<u>7.0</u>	<u>-</u>	3. <u>bills payable</u>	<u>-</u>	<u>1.6</u>
4. <u>other liabilities</u>	<u>6.9</u>	<u>2.9</u>	4. <u>other liabilities</u>	<u>-</u>	<u>-</u>
<u>b. decrease in assets</u>	<u>324.2</u>	<u>54.0</u>	<u>b. increase in assets</u>	<u>453.7</u>	<u>182.7</u>
1. <u>foreign assets</u>	<u>261.3</u>	<u>51.8</u>	1. <u>foreign assets</u>	<u>-</u>	<u>-</u>
2. <u>rupee coin</u>	<u>-</u>	<u>-</u>	2. <u>rupee coin</u>	<u>6.4</u>	<u>0.7</u>
3. <u>loans and advances</u>	<u>62.9</u>	<u>0.5</u>	3. <u>loans and advances</u>	<u>28.0</u>	<u>40.8</u>
3.1 commercial banks	62.1	-	3.1 commercial banks	-	22.6
3.2 co-operative banks	-	-	3.2 co-operative banks	12.8	14.3
3.3 government	-	-	3.3 government	15.2	3.9
3.4 others	0.8	0.5	3.4 others	-	-
4. <u>investments</u>	<u>-</u>	<u>-</u>	4. <u>investments</u>	<u>418.9</u>	<u>141.2</u>
5. <u>other assets</u>	<u>-</u>	<u>1.7</u>	5. <u>other assets</u>	<u>0.4</u>	<u>-</u>
<u>c. total</u>	<u>455.6</u>	<u>198.8</u>	<u>c. total</u>	<u>455.6</u>	<u>198.8</u>

TABLE 12.3: FINANCIAL FLOWS : ALL COMMERCIAL BANKS, 1957-58 AND 1958-59

(Rs. crores)					
sources	1957-58	1958-59	uses	1957-58	1958-59
(1)	(2)	(3)	(4)	(5)	(6)
<u>a. increase in liabilities</u>	<u>275.5</u>	<u>282.0</u>	<u>a. decrease in liabilities</u>	<u>127.1</u>	<u>34.8</u>
1. <u>demand deposits</u>	<u>50.6</u>	<u>34.2</u>	1. <u>demand deposits</u>	<u>43.6</u>	<u>20.7</u>
1.1 co-operative banks & societies	1.0	-	1.1 co-operative banks & societies	-	-
1.2 other financial institutions	4.0	-	1.2 other financial institutions	-	3.7
1.3 corporate sector	-	-	1.3 corporate sector	12.0	7.9
1.4 government sector	-	27.5	1.4 government sector	11.7	-
1.5 rest of the world sector	-	6.7	1.5 rest of the world sector	19.9	-
1.6 others	45.6	-	1.6 others	-	9.1
2. <u>time deposits</u>	<u>220.3</u>	<u>218.2</u>	2. <u>time deposits</u>	<u>-</u>	<u>14.1</u>
2.1 other financial institutions	20.9	-	2.1 other financial institutions	-	14.1
2.2 corporate sector	29.3	3.8	2.2 corporate sector	-	-
2.3 government sector	15.4	23.5	2.3 government sector	-	-
2.4 rest of the world sector	116.5	80.5	2.4 rest of the world sector	-	-
2.5 others	38.2	110.4	2.5 others	-	-
3. <u>due to Reserve Bank of India</u>	<u>-</u>	<u>22.6</u>	3. <u>due to Reserve Bank of India</u>	<u>62.1</u>	<u>-</u>
4. <u>due to branches or parent offices abroad</u>	<u>-</u>	<u>1.6</u>	4. <u>due to branches or parent offices abroad</u>	<u>20.8</u>	<u>-</u>
5. <u>paid-up capital</u>	<u>-</u>	<u>1.2</u>	5. <u>paid-up capital</u>	<u>0.6</u>	<u>-</u>
6. <u>other liabilities</u>	<u>4.6</u>	<u>4.2</u>	6. <u>other liabilities</u>	<u>-</u>	<u>-</u>

(Contd.)

TABLE 12.3: FINANCIAL FLOWS : ALL COMMERCIAL BANKS, 1957-58 AND 1958-59 - (Contd.)

(Rs. crores)					
sources	1957-58	1958-59	uses	1957-58	1958-59
(1)	(2)	(3)	(4)	(5)	(6)
<u>b. decrease in assets</u>	<u>18.8</u>	<u>20.0</u>	<u>b. increase in assets</u>	<u>166.8</u>	<u>267.4</u>
1. <u>cash in hand</u>	-	-	1. <u>cash in hand</u>	<u>4.7</u>	<u>6.4</u>
2. <u>balances with Reserve Bank of India</u>	-	-	2. <u>balances with Reserve Bank of India</u>	<u>6.2</u>	<u>7.9</u>
3. <u>advances and bills</u>	6.8	1.6	3. <u>advances and bills</u>	<u>69.2</u>	<u>58.1</u>
3.1 co-operative banks & societies	-	1.6	3.1 co-operative banks & societies	1.7	-
3.2 other financial institutions	-	-	3.2 other financial institutions	2.3	3.2
3.3 corporate sector	-	-	3.3 corporate sector	65.2	43.2
3.4 others	6.8	-	3.4 others	-	11.7
4. <u>investments</u>	<u>1.6</u>	-	4. <u>investments</u>	<u>80.7</u>	<u>177.7</u>
4.1 government securities	-	-	4.1 government securities	78.9	172.5
4.2 other trustee securities	-	-	4.2 other trustee securities	1.8	3.7
4.3 shares and debentures of joint stock companies	0.9	-	4.3 shares and debentures of joint stock companies	-	1.2
4.4 real estate and others	0.7	-	4.4 real estate and others	-	0.3
5. <u>foreign claims</u>	<u>10.4</u>	<u>18.4</u>	5. <u>foreign claims</u>	<u>2.6</u>	-
5.1 dues from branches or parent offices abroad	-	6.4	5.1 dues from branches or parent offices abroad	2.6	-
5.2 other foreign assets	10.4	12.0	5.2 other foreign assets	-	-
6. <u>other assets</u>	-	-	6. <u>other assets</u>	<u>3.4</u>	<u>17.3</u>
<u>c. un-accounted sources</u>	-	<u>0.2</u>	<u>c. un-accounted uses</u>	<u>0.4</u>	-
<u>d. total</u>	<u>294.3</u>	<u>302.2</u>	<u>d. total</u>	<u>294.3</u>	<u>302.2</u>

TABLE 12.4: FINANCIAL FLOWS : STATE CO-OPERATIVE BANKS*, 1957-58 AND 1958-59

(Rs. crores)					
sources	1957-58	1958-59	uses	1957-58	1958-59
(1)	(2)	(3)	(4)	(5)	(6)
a. <u>increase in liabilities</u>	<u>22.9</u>	<u>22.6</u>	a. <u>decrease in liabilities</u>	<u>2.2</u>	<u>1.1</u>
1. <u>demand liabilities</u>	<u>4.0</u>	<u>1.5</u>	1. <u>demand liabilities</u>	<u>0.8</u>	<u>1.0</u>
1.1 commercial banks	1.0	-	1.1 commercial banks	-	0.9
1.2 co-operative banks and societies	3.0	1.5	1.2 co-operative banks and societies	-	-
1.3 others	-	-	1.3 others	0.8	0.1
2. <u>time liabilities</u>	<u>3.0</u>	<u>4.2</u>	2. <u>time liabilities</u>	<u>1.1</u>	<u>0.1</u>
2.1 commercial banks	-	-	2.1 commercial banks	-	0.1
2.2 co-operative banks and societies	3.0	3.4	2.2 co-operative banks and societies	-	-
2.3 others	-	0.8	2.3 others	1.1	-
3. <u>borrowings</u>	<u>12.7</u>	<u>14.8</u>	3. <u>borrowings</u>	<u>0.3</u>	<u>-</u>
3.1 from government	-	0.1	3.1 from government	0.3	-
3.2 from Reserve Bank of India	12.7	14.7	3.2 from Reserve Bank of India	-	-
4. <u>paid-up capital</u>	<u>3.2</u>	<u>2.1</u>	4. <u>paid-up capital</u>	<u>-</u>	<u>-</u>
b. <u>decrease in assets</u>	<u>2.8</u>	<u>0.7</u>	b. <u>increase in assets</u>	<u>17.0</u>	<u>20.9</u>
1. <u>cash in hand</u>	<u>0.2</u>	<u>-</u>	1. <u>cash in hand</u>	<u>-</u>	<u>-</u>
2. <u>balances with Reserve Bank of India</u>	<u>-</u>	<u>-</u>	2. <u>balances with Reserve Bank of India</u>	<u>0.6</u>	<u>0.1</u>
3. <u>balances with commercial banks</u>	<u>0.8</u>	<u>0.2</u>	3. <u>balances with commercial banks</u>	<u>-</u>	<u>-</u>
4. <u>advances and bills</u>	<u>-</u>	<u>0.2</u>	4. <u>advances and bills</u>	<u>15.7</u>	<u>16.0</u>
4.1 co-operative banks & societies	-	-	4.1 co-operative banks & societies	15.1	16.0
4.2 others	-	0.2	4.2 others	0.6	-
5. <u>investments</u>	<u>1.8</u>	<u>0.3</u>	5. <u>investments</u>	<u>0.7</u>	<u>4.8</u>
5.1 government securities	0.6	-	5.1 government securities	-	2.8
5.2 other trustee securities	-	0.3	5.2 other trustee securities	0.7	-
5.3 others	1.2	-	5.3 others	-	2.0
c. <u>un-accounted sources</u>	<u>-</u>	<u>-</u>	c. <u>un-accounted uses</u>	<u>6.5</u>	<u>1.3</u>
d. <u>total</u>	<u>25.7</u>	<u>23.3</u>	d. <u>total</u>	<u>25.7</u>	<u>23.3</u>

*Maintaining Accounts with the Reserve Bank of India.

CHAPTER - 13

OTHER FINANCIAL INSTITUTIONS

13.1 The scope and coverage of this sector have been discussed in detail in Chapter 6. The following paragraphs deal with each of the sub-sectors :-

(1) Private financial and investment companies and government financial corporations

13.2 Data for constructing the financial flows of private financial and investment companies have been obtained from the special study referred to in Chapter 6 relating to non-financial flows of this sub-sector. The following classification has been adopted in the presentation of financial flows in respect of financial and investment companies and also the financial corporations:-

<u>Flow-of-funds classification</u>	<u>RBI classification</u>
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<u>Financial sources</u>	
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1. bank loans	: increase in bank borrowings
2. trade debts	: increase in trade dues and other current liabilities
3. corporate securities	: increase in paid-up capital and debentures
4. miscellaneous liabilities	: increase in other borrowings and miscellaneous non-current liabilities

<u>Financial uses</u>	
-----------------------	--

1. currency and deposits	: increase in cash and bank balances
2. government and semi - government securities	: increase in government and semi - government securities
3. trade credit	: increase in receivables
4. corporate securities	: increase in industrial securities, shares of subsidiaries, debentures and inventory*
5. miscellaneous assets	: increase in miscellaneous assets

13.3 As explained in Chapter 6 the aggregates for this sub-sector have been derived by blowing up the information obtained in respect of the 98 companies in terms of their paid-up capital and by adding to this the data obtained for government financial corporations. Data regarding financial flows accounts of the

*The item inventory has been taken under corporate securities as it mainly consists of shares in companies held for purposes of trading by some of the financial companies.

sub-sector are given in Table 13.1 :

TABLE 13.1: FINANCIAL FLOWS : PRIVATE FINANCIAL AND INVESTMENT COMPANIES AND GOVERNMENT FINANCIAL CORPORATIONS, 1957

(Rs. lakhs)			
sources	1957	uses	1957
(1)	(2)	(3)	(4)
<u>Net increase in financial liabilities</u>	<u>1667</u>	<u>Net increase in financial assets</u>	<u>1565</u>
1. bank loans	-212	1. currency and deposits	1065
2. trade debts	227	2. government and semi - government securities	-760
3. corporate securities	755	3. trade credit	1281
4. miscellaneous liabilities	897	4. corporate securities	- 5
		5. miscellaneous uses	- 16

(11) Insurance :

13.4 This sub-sector covers both life and general insurance. Data for the construction of financial flows are available in the published reports of the LIC and Indian Insurance Year Books. The 1957-58 accounts for life insurance have been built by utilising the data given in LIC's report covering the period 1st September, 1956 to 31st December, 1957. For general insurance, the accounts for 1957 available in the Indian Insurance Year Book have been used by assuming that these correspond to the fiscal year accounts. Data on life and non-life business have been reclassified for flow-of-funds purposes and are presented in Table 13.2 :

TABLE 13.2: FINANCIAL FLOWS : LIFE AND GENERAL INSURANCE, 1957-58

(Rs. crores)			
sources	1957-58	uses	1957-58
(1)	(2)	(3)	(4)
1. insurance premia (life)	88.7	1. currency & deposits	9.6
2. trade debts	6.1	2. claims (life)	34.0
3. corporate securities	3.3	3. trade credit	1.4
4. other debts	4.9	4. <u>investments</u>	<u>38.6</u>
		4.1 government securities	25.7
		4.2 corporate securities	14.0
		4.3 foreign securities	5.6
		4.4 others	4.5
5. total	<u>103.0</u>	5. total	<u>83.6</u>

13.5 As stated earlier in Chapter 6, life insurance premium is treated as a source of financial flows in the life insurance sub-sector. In the households sector the corresponding treatment is that this item appears as a use of funds in financial flows. All other items in the above table show changes in total liabilities and total financial assets of the insurance sub-sector. Strictly speaking this sector (other financial institutions) should also include the transactions of provident fund, etc. Under non-financial flows for this sector, provident fund accounts were not covered and the assumption was that the magnitude involved was not large. For the purpose of financial flows, accounts relating to the Employees' Provident Fund as published by the office of the Provident Fund Commissioner have been analysed and are incorporated in the consolidated accounts. Table 13.3, therefore, shows not only sources and uses of financial flows of private financial and investment companies, government financial corporations and life and general insurance but also includes the financial transactions of the Employees Provident Fund Scheme.

TABLE 13.3: FINANCIAL FLOWS : FINANCIAL INSTITUTIONS OTHER THAN BANKS, 1957-58

(Rs. crores)			
sources	1957 58	uses	1957 - 58
(1)	(2)	(3)	(4)
1. bank loans	-2.1	1. currency and deposits	20.5
2. insurance premia (life)	88.7	2. claims (life and provident fund)	35.5
3. trade debts	8.4	3. trade credit	14.2
4. corporate securities	10.9	4. <u>investments</u>	<u>42.0</u>
5. others	14.1	4.1 government & semi - government securities	29.2
6. provident fund contributions	12.4	4.2 corporate securities	14.0
		4.3 foreign securities	-5.6
		4.4 others	4.4
		5. others	-0.1
7. total	<u>132.4</u>	6. total	<u>112.1</u>

CHAPTER - 14

PRIVATE CORPORATE BUSINESS

14.1 As stated in Chapter 7, the scope of the private corporate business sector also extends only to non-government non-financial Indian joint stock companies and does not cover branches of foreign companies and co-operative non-credit societies. Statistics of company finances published by the RBI from time to time, constitute the only source for constructing the financial flows accounts. The data presented in Table 14.1 cover the two years 1957 and 1958 and relate to the estimates for all non-government non-financial public and private limited companies worked out on the basis of the proportions of the paid-up capital of companies covered by the RBI analysis to that of all companies in the sector. The various transactions of financial flows for which data are separately available in the RBI study on company finances are given below :

Flow-of-funds classification

RBI classification

Financial sources

- | | |
|--|---|
| 1. bank loans including bank mortgages | : increase in bank borrowings |
| 2. trade debts | : increase in trade dues and other current liabilities |
| 3. corporate securities | : increase in paid-up capital and debentures |
| 4. mortgages | : increase in borrowings from industrial finance corporations and other mortgages |
| 5. miscellaneous liabilities | : increase in other borrowings and miscellaneous non-current liabilities |

Financial uses

- | | |
|-------------------------------|---|
| 1. currency and deposits | : increase in cash and bank balances |
| 2. government securities. | : increase in investments in government securities |
| 3. semi-government securities | : increase in investments in semi-government securities |
| 4. trade credit | : increase in receivables |
| 5. corporate securities | : increase in investments in industrial securities and shares of subsidiary companies |
| 6. miscellaneous assets | : increase in miscellaneous non-current assets |

14.2 Table 14.1 presents the financial flows accounts for the private corporate business sector for the two years 1957 and 1958.

TABLE 14.1: FINANCIAL FLOWS : PRIVATE CORPORATE BUSINESS, 1957 AND 1958

(Rs. crores)					
sources	1957	1958	uses	1957	1958
(1)	(2)	(3)	(4)	(5)	(6)
<u>net increase in liabilities</u>	<u>258</u>	<u>122</u>	<u>net increase in financial assets</u>	<u>18</u>	<u>26</u>
1. bank loans including bank mortgages	69	12	1. currency and deposits	-14	13
2. trade debts	73	36	2. government securities	-5	-2
3. corporate securities	41	40	3. semi-government securities	-	-
4. mortgages	63	32	4. trade credit	37	8
5. miscellaneous liabilities	12	2	5. corporate securities	6	6
			6. miscellaneous assets	-6	1

14.3 An examination of the available data reveals that the transactions of the corporate sector with the government and rest of the world are not available in adequate detail. As regards the transactions with government, viz., government advances and repayments of loans, there is no stipulation in the Companies Act to furnish separate figures under this head and thus the Act may have to be suitably amended to provide for this information. As in the case of non-financial flows, inter-company transactions could not be eliminated and hence the accounts for this sector are combined accounts and not consolidated ones.

CHAPTER -15

GOVERNMENT SECTOR

15.1 This sector covers the operations of the Central Government, State Governments and Central Government enterprises excluding financial corporations which are covered in the sector 'other financial institutions' in Chapter 13.

Scope and coverage

The accounts for this sector do not include the operations of the local authorities and the non-departmental undertakings of the State Governments, with the result that the coverage of the government sector in the financial flows accounts is not identical with that in non-financial accounts for this sector as presented in Chapter 8. However, a major part of the borrowings of local authorities are from the Central and State Governments and are thus reflected in the accounts of the latter. Further only a small portion of the borrowings of local authorities is from the market, and the lendings to other sectors are not of much quantitative significance. Regarding the non-inclusion of non-departmental enterprises of State Governments, it may be mentioned that the financial operations of these undertakings were not very significant during the years for which accounts have been presented.

15.2 Unlike in the case of non-financial flows, the financial flows of general government cannot be distinguished from the financial flows of the departmental enterprises of the government. The reason is that all borrowings of these enterprises are undertaken by

Limitations

the general government and as such these data are mixed up with the total borrowings of the government. As for non-departmental undertakings organised either as companies or as statutory corporations, it is possible to distinguish their sources and uses of funds from those of general government as separate accounts for these undertakings are available in their balance sheets.

15.3 The financial flows accounts for the government sector are presented in a consolidated form in Tables 15.1 and 15.2. Table 15.1 is the consolidated account of the financial sources and uses of funds of the Central Government, State Governments and the non-departmental commercial enterprises of the Central Government. In the consolidated accounts, internal transactions between sub-sectors are eliminated. Table 15.2 records the transactions of the government sector against other sectors on a double entry basis. Since the local authorities are not covered by the government sector, the former are shown under a separate head in this table. The other heads under which the financial flows of the government are presented are banking, other financial institutions, rest of the world and residuary. The residuary group includes enterprises, both corporate and non-corporate, and households etc. It will be noted that the totals of the sources and uses of funds in Tables 15.1 and 15.2 do not agree, the reason being that the sectorwise break-up of

transactions like government securities is based on institutional data which yield information on net rather than gross basis.

15.4 As will be seen from Tables 15.1 and 15.2 the principal sources of funds for the government sector are borrowings at home and abroad, small savings and provident fund contributions, while the principal uses are loans and advances and repayment of borrowings. In this sector, the problem of sector-wise break-up of the sources and uses of funds arises mainly in respect of government borrowings. For instance, small savings and provident fund contributions come primarily from the households sector, and loans and advances are mostly given to the enterprise sector (only a small part of government loans is intended for the households sector). The results of the RBI survey of "Absorption and pattern of ownership of government debt in India" published in February 1960 issue of the RBI bulletin relate to the years 1957 and 1958 and show the ownership pattern of the government securities by types of institutions holding them. However, since this survey gives year-end figures, this does not yield necessary information on changes in the ownership pattern of government securities on fiscal year basis. In the subsequent two surveys (these relate to the years 1959, 1960 and 1961) the RBI has shifted the data of surveys from year-end to March-end and this should enhance their usefulness for economic analysis, including flow-of-funds purposes. But for the years for which accounts are presented in this report, a very limited use could be made of the RBI survey. Thus, for the RBI, commercial banks and state co-operative banks, financial corporations, Industrial Finance Corporation (IFC), Industrial Credit and Investment Corporation of India (ICICI), National Industrial Development Corporation (NIDC) and insurance and Employees' Provident Fund, balance sheet data on investments in government securities have been used and it is only for the rest of the world and residuary sectors that ratios as revealed by the RBI's survey have been utilised to estimate sector-wise holdings of government securities. The investment data in respect of banks and provident fund are available as at the end of March, but in the case of life insurance the 1955 calendar year is taken as corresponding to the fiscal year 1955-56, accounts in 1956 upto the formation of LIC are taken to represent 1956-57 and accounts published in the LIC report for the period 1st September, 1956 to 31st December, 1957 are adopted for 1957-58. The accounts of companies engaged in general insurance are on a calendar year basis and these are treated as corresponding to the fiscal year. In the case of financial corporations, the accounting year varies; it is July-June for IFC, calendar year for ICICI and NIDC. Thus in view of the various limitations of the data, the methods of estimation, and the heterogeneous nature of the residuary sector the accounts presented here are tentative and are more in the nature of an illustrative frame-work to be improved in course of time.

15.5 Separate accounts for the Central Government sub-sector are given in Table 15.3. A broad classification of the Central Government's borrowing and lending operations is given in the

'Economic Classification of the Central Government Budget' published annually with the budget. The data contained therein have been largely drawn upon in constructing the accounts for the Central Government.

15.6 The financial flows accounts for the State Governments sub-sector are presented in Table 15.4. The Ministry of Finance have also extended the technique of economic classification of the Central Government budget to the budgets of State Governments for some years and these unpublished data have been utilised for the construction of financial flows accounts for State Governments.

15.7 The items of transfers like the Central Government's loan to States, repayment of loans by States etc., as recorded in the Central Government and State Government budgets reveal some discrepancies. This is probably due to the non-recording of transactions in time or due to the fact that payments recorded in one place may be in the process of transit at the time of preparing the accounts. In the consolidated account only the Central Government's figures as recorded in the budget are taken and the State Governments' figures for corresponding items have been adjusted to the figures given by the Central Government. The difference arising out of this has been adjusted under 'other debts'.

15.8 The item 'sale of securities' shown (on net basis) in the accounts for State Governments refers to the sales or purchases out of the cash balance investment account as well as other funds like sinking fund, zamindari abolition fund, etc. In the accounts of the Central Government, this item refers to operations of cash balance investment account only. It may be mentioned here that in working out the figure of 'other debts', only the net transactions relating to advances, deposits and remittances are taken.

15.9 Table 15.5 gives the accounts of the non-departmental commercial undertakings of the Central Government excluding financial corporations. These undertakings are organised either as companies or as statutory corporations, and are those in which the Central Government's share participation is more than 50 per cent. The balance sheets of all these undertakings are analysed to fit into a flow-of-funds account. The integration of these accounts with the general government account, however, raises a serious difficulty viz., the integration of cash accounts of the government with the accrual accounts of the enterprises. In the accounts of the departmental undertakings, this difficulty is apparently resolved by introducing the suspense head in the budget. No such adjustments are, however, made to the accounts of the non-departmental undertakings as their accounts are not linked up with the budget. In the present case, the difficulty is overcome by treating the payables net of receivables as borrowing from other sectors. In the consolidated account for the government sector, this is adjusted under 'other debts'.

15.10 The construction of flow-of-funds accounts for the government sector on an annual basis should not present much difficulty. This is a sector for which adequate material is available in the publications of government and what is required is an effort to adapt these statistics for the requirements of flow-of-funds analysis. The available data on transactions of local authorities are highly inadequate and are available only with a considerable time lag. Some additional information on borrowings and investments of local authorities is contained in the RBI survey, results of which are published from time to time in their monthly Bulletins. However, a timely flow of data on local authorities in a form suitable for economic analysis will be necessary before the flow-of-funds accounts for the entire government sector can be placed on a sound annual basis.

TABLE 15.1: FINANCIAL FLOWS : CENTRAL AND STATE GOVERNMENTS AND NON-DEPARTMENTAL COMMERCIAL UNDERTAKINGS OF THE CENTRAL GOVERNMENT, 1955-56 TO 1957-58

				(Rs. crores)			
sources	1955-56	1956-57	1957-58	uses	1955-56	1956-57	1957-58
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. market borrowings	159	227	146	1. repayment of market borrowings	76	85	72
2. borrowings abroad	3	11	33	2. repayment of foreign borrowings	3	3	7
3. sterling pension annuities	5	5	5	3. loans and advances	128	115	173
4. repayment of loans	36	47	60	4. purchase of shares	5	8	9
5. small savings and provident fund	92	88	98	5. increase in cash balance	-	-	10
6. increase in floating debt	123	240	455				
7. ways and means advances	-	6	9				
8. sale of securities (net)	13	(-)51	24				
9. other debts (net)	39	30	32				
10. increase in rupee notes	5	5	5				
11. decrease in cash balances	14	10	-				
12. total	489	618	867	6. total	212	211	271

Note : Transfer items like the Central Government's loans to State Governments and Central Government's purchase of shares in autonomous enterprises as recorded in the budgets of Central and State Governments and the balance sheets of government companies reveal discrepancies. For the purpose of consolidation of accounts of these sub-sectors, only Central Government's figures as recorded in the budget are taken and adjustments are made under "other debts".

TABLE 15.2: FINANCIAL FLOWS : GOVERNMENT SECTOR*, 1955-56 TO 1957-58

(Rs. crores)

(1)	1955-56						1956-57					
	loans and investments		cash & issue of rupee notes		total		loans and investments		cash & issue of rupee notes		total	
	s	u	s	u	s	u	s	u	s	u	s	u
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. <u>government sector</u>	360.0	102.6	21.5	2.2	381.5	104.8	498.9	107.7	26.3	10.9	525.2	118.6
2. <u>local authorities</u>	20.8	-	-	-	20.8	-	11.0	-	-	-	11.0	-
3. <u>banking</u>	-	195.3	2.2	21.5	2.2	216.8	9.3	286.0	10.9	26.3	20.2	312.3
3.1 RBI	-	173.0	-	21.5	-	194.5	-	286.0	-	26.3	-	312.3
3.2 commercial and co-operative banks	-	22.3	2.2	-	2.2	22.3	9.3	-	10.9	-	20.2	-
4. <u>other financial institutions</u>	7.7	42.9	-	-	7.7	42.9	6.9	22.6	-	-	6.9	22.6
4.1 insurance	-	37.4	-	-	-	37.4	-	14.9	-	-	-	14.9
4.2 financial corporations	7.7	-	-	-	7.7	-	6.9	-	-	-	6.9	-
4.3 provident funds	-	5.5	-	-	-	5.5	-	7.7	-	-	-	7.7
5. <u>rest of the world</u>	0.1	5.3	-	-	0.1	5.3	0.1	12.9	-	-	0.1	12.9
6. <u>residuary</u> (including organised business, households and misc.)	74.0	116.5	-	-	74.0	116.5	80.4	177.4	-	-	80.4	177.4
7. <u>total</u>	462.6	462.6	23.7	23.7	486.3	486.3	606.6	606.6	37.2	37.2	643.8	643.8

*Includes Central and State Governments and Central Government (non-financial) enterprises.

s = sources

u = uses

(Contd.)

TABLE 15.2: FINANCIAL FLOWS : GOVERNMENT SECTOR*, 1955-56 TO 1957-58 - (Contd.)

(Rs. crores)

(1)	1957-58					
	loans and investments		cash & issue of rupee notes		total	
	s	u	s	u	s	u
(1)	(14)	(15)	(16)	(17)	(18)	(19)
1. <u>government sector</u>	<u>749.7</u>	<u>148.9</u>	<u>16.1</u>	<u>21.2</u>	<u>765.8</u>	<u>170.1</u>
2. <u>local authorities</u>	<u>4.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4.1</u>	<u>-</u>
3. <u>banking</u>	<u>-</u>	<u>497.0</u>	<u>21.2</u>	<u>16.1</u>	<u>21.2</u>	<u>513.1</u>
3.1 RBI	<u>-</u>	<u>419.0</u>	<u>-</u>	<u>16.1</u>	<u>-</u>	<u>435.1</u>
3.2 commercial and co-operative banks	<u>-</u>	<u>78.0</u>	<u>21.2</u>	<u>-</u>	<u>21.2</u>	<u>78.0</u>
4. <u>other financial institutions</u>	<u>10.6</u>	<u>38.7</u>	<u>-</u>	<u>-</u>	<u>10.6</u>	<u>38.7</u>
4.1 insurance	<u>-</u>	<u>27.6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27.6</u>
4.2 financial corporations	<u>10.6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10.6</u>	<u>-</u>
4.3 provident funds	<u>-</u>	<u>11.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11.1</u>
5. <u>rest of the world</u>	<u>15.1</u>	<u>34.2</u>	<u>-</u>	<u>-</u>	<u>15.1</u>	<u>34.2</u>
6. <u>residuary</u> (including organised business, households and misc.)	<u>119.1</u>	<u>179.8</u>	<u>-</u>	<u>-</u>	<u>119.1</u>	<u>179.8</u>
7. <u>total</u>	<u>898.6</u>	<u>898.6</u>	<u>37.3</u>	<u>37.3</u>	<u>935.9</u>	<u>935.9</u>

*Includes Central and State Governments and Central Government (non-financial) enterprises.

s = sources

u = uses

TABLE 15.3: FINANCIAL FLOWS : CENTRAL GOVERNMENT SUB-SECTOR, 1955-56 TO 1957-58

				(Rs. crores)			
sources	1955- 56	1956- 57	1957- 58	uses	1955- 56	1956- 57	1957- 58
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. market borrowings	103.7	157.7	136.2	1. repayment of market borrowings	69.0	79.9	67.4
2. borrowings abroad	2.7	10.8	32.5	2. repayment of foreign borrowings	3.3	3.2	7.2
3. sterling pension annuities	5.3	5.3	5.3	3. loans and advances	298.0	280.0	367.1
4. small savings and provident fund	83.4	77.8	89.9	4. investment in shares	3.4	28.4	146.6
5. repayment of loans and advances	34.1	37.1	69.2	5. increase in cash balance	-	55.7	0.9
6. increase in floating debt	123.4	240.4	454.6				
7. sale of securities (net)	20.5	(-)2.9	0.1				
8. other debts (net)	4.2	25.3	23.2				
9. increase in rupee notes	5.0	5.0	5.0				
10. decrease in cash balance	36.5	-	-				
11. total	418.8	556.5	816.0	6. total	373.7	447.2	589.2

TABLE 15.4: FINANCIAL FLOWS : STATE GOVERNMENTS SUB-SECTOR, 1955-56 TO 1957-58

(Rs. crores)							
sources	1955-56	1956-57	1957-58	uses	1955-56	1956-57	1957-58
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. market borrowings	55	69	10	1. repayment of market borrowings	7	5	5
2. borrowings from central government	262	214	279	2. repayment of loans to centre	28	39	61
3. repayment of loans	27	46	52	3. loans and advances	97	85	97
4. unfunded debt (net)	9	10	8	4. purchase of shares	8	10	11
5. ways and means advances	-	6	9	5. increase in cash balance	20	-	-
6. sale of securities (net)	(-) 8	(-) 48	24				
7. other debts (net)	34	20	(-) 12				
8. decrease in cash balance	-	77	12				
9. total	379	394	382	6. total	160	139	174

TABLE 15.5: FINANCIAL FLOWS : NON-DEPARTMENTAL COMMERCIAL UNDERTAKINGS OF THE CENTRAL GOVERNMENT, 1955-56 TO 1957-58

					(Rs. crores)		
sources	1955	1956	1957	uses	1955	1956	1957
	-56	-57	-58		-56	-57	-58
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. <u>issue of shares and investments</u>	<u>3.8</u>	<u>26.2</u>	<u>168.7</u>	1. <u>loans and advances</u>	(-)0.5	<u>18.4</u>	<u>33.5</u>
				1.1 to government	0.0	2.7	14.1
2. <u>borrowings</u>	<u>8.9</u>	<u>36.7</u>	<u>7.2</u>	1.2 to others	(-)0.5	15.7	19.4
2.1 from government	11.3	36.2	4.3				
2.2 from others	(-) 2.4	0.5	2.9	2. <u>increase in cash/ bank balances</u>	<u>2.2</u>	<u>10.9</u>	<u>21.2</u>
3. <u>other debts (including payables net of receivables)</u>	<u>1.6</u>	<u>8.7</u>	<u>39.7</u>				
3.1 from government	0.6	2.5	17.9				
3.2 from others	1.0	6.2	21.8				
4. <u>total</u>	<u>14.3</u>	<u>71.6</u>	<u>215.6</u>	3. <u>total</u>	<u>1.7</u>	<u>29.3</u>	<u>54.7</u>

Note: Excludes financial corporations. Based on an analysis of balance sheets of undertakings with Central Government ownership of more than 50%. The number of undertakings whose accounts have been analysed was 18 in 1955-56, 25 in 1956-57 and 31 in 1957-58. The coverage here is not exactly the same as used for the construction of non-financial flows of these undertakings in Section II of the Report.

CHAPTER - 16

REST OF THE WORLD

16.1 The scope and coverage of the rest of the world sector have been mentioned already in Chapter 9. The following classification has been adopted for the financial flows accounts of the rest of the world.

<u>Structure of accounts</u>	<u>the rest of the world.</u>
<u>sources</u>	<u>uses</u>
a. <u>decrease in assets</u>	a. <u>increase in assets</u>
1. repayment by India	1. borrowings by India
2. currency & deposits	2. currency & deposits
3. securities	3. securities
4. miscellaneous	4. miscellaneous
b. <u>increase in liabilities</u>	b. <u>decrease in liabilities</u>
1. borrowings from India	1. repayments to India
2. currency & deposits	2. currency & deposits
3. securities	3. securities
4. miscellaneous	4. miscellaneous

The division under financial sources and uses is made broadly into two heads : increase or decrease in (a) assets and (b) liabilities. But some accounts show them on a net basis either for want of data or for statistical convenience as also due to the fact that netting the increase against decrease in assets or liabilities may not hamper analysis to any significant extent. Thus these accounts show net changes in financial claims against a country. For instance loans will be shown net of repayments. But in the accounts presented here netting is avoided in so far as details are available on a gross basis. This procedure would not only make easy any reconciliation with existing data, but also would highlight data which would otherwise get merged. For instance, a gross figure of loans obtained and gross repayments would be more informative and useful for a country like India. The data presented here therefore record all capital transactions as gross while changes in assets and liabilities are shown separately.

16.2 The pattern of the sub-division of the account under assets and liabilities in the financial uses and sources is the same. Uniform terminology is used for brevity as well as convenience. The item 'debts' covers

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loans received by India on the assets side under uses and repayments made by India under sources (vide Table 16.1). Sources under liabilities comprise loans extended by India and uses, repayments to India. The item 'currency and deposits' represents on the assets side the foreign ownership of deposits etc., with the banking system in India. That is, the non-resident government, banks and individual rupee holdings would figure here. On the

other hand, Indian holdings abroad (of the government and banks) will find place under liabilities. Some flow-of-funds statements net these two categories. In the present accounts, however, the rupee liabilities to foreigners have been separated from the foreign exchange assets held abroad. The item 'investments' covers non-residents' holdings of Indian securities (both government securities and treasury bills and industrial shares and securities) on the assets side. Besides this, the investment or dis-investment of oil companies also figures here. The liabilities cover Indian holdings abroad of foreign securities. The 'miscellaneous' item is a mixture of a variety of transactions on private, banking and official accounts. All the above groups when sub-divided into government, banking and private would be immensely helpful for analysis, for this procedure would not only show the changes in the claims of the rest of the world purpose-wise but also reveal these changes in respect of each of these three major sectors. Further, the sector-wise breakdown would be more useful as the usual presentation of the balance of payments is now on the same pattern.

16.3 The data for the rest of the world sector accounts are prepared and presented for the three sectors and by four purposes. However, there are some differences between the usual breakdown and the present one. They mainly relate to the following. The usual official account covers RBI and rupee liabilities to foreign private sector, the latter being treated as miscellaneous item. In the present classification, RBI is placed under 'banking' and the liabilities to foreign private sector under 'private'. Similarly, the loans received by the private sector from the IBRD are classified under 'private'. Changes in P.L. 480 and P.L. 665 balances held with the State Bank of India (the latter, presumably) are included under 'banking'. The financial flows accounts for the rest of the world sector are given in Table 16.1.

TABLE 16.1: FINANCIAL FLOWS : REST OF THE WORLD, 1956-57 TO 1958-59

				(Rs. crores)			
sources	1956	1957	1958	uses	1956	1957	1958
	-57	-58	-59		-57	-58	-59
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
a. <u>financial assets</u>	<u>56.8</u>	<u>29.4</u>	<u>75.1</u>	a. <u>financial assets</u>	<u>139.1</u>	<u>285.7</u>	<u>340.8</u>
1. <u>official account</u>	<u>4.8</u>	<u>5.9</u>	<u>12.9</u>	1. <u>official account</u>	<u>14.8</u>	<u>81.4</u>	<u>207.2</u>
1.1 <u>debts</u>	<u>3.2</u>	<u>4.6</u>	<u>6.9</u>	1.1 <u>debts</u>	<u>14.8</u>	<u>78.2</u>	<u>202.6</u>
(i) foreign currency	3.2	4.6	6.9	(i) foreign currency	3.0	61.4	184.2
(ii) rupee currency	-	-	-	(ii) rupee currency	11.8	16.8	18.4
1.2 currency & deposits	-	-	3.4	1.2 currency & deposits	-	3.2	0.2
1.3 investments	1.3	1.2	2.5	1.3 investments	-	-	4.3
1.4 miscellaneous	0.3	0.1	0.1	1.4 miscellaneous	-	-	0.1
2. <u>private account</u>	<u>43.8</u>	<u>22.6</u>	<u>48.8</u>	2. <u>private account</u>	<u>37.6</u>	<u>64.8</u>	<u>41.9</u>
2.1 debts	3.1	2.5	1.7	2.1 debts	20.2	41.0	19.5
2.2 currency & deposits	1.0	-	8.2	2.2 currency & deposits	-	0.7	11.7
2.3 investments	22.1	9.8	27.8	2.3 investments	14.1	20.0	9.2
2.4 miscellaneous	17.6	10.3	11.1	2.4 miscellaneous	3.3	2.1	1.5
3. <u>banking account</u>	<u>8.2</u>	<u>10.9</u>	<u>13.4</u>	3. <u>banking account</u>	<u>86.7</u>	<u>140.5</u>	<u>91.7</u>
3.1 <u>RBI</u>	<u>7.4</u>	<u>-</u>	<u>4.3</u>	3.1 <u>RBI</u>	<u>60.7</u>	<u>40.3</u>	<u>0.5</u>
(i) debts*	6.0	-	-	(i) debts**	60.7	34.5	-
(ii) currency & deposits	1.4	-	4.3	(ii) currency & deposits	-	5.8	0.5
(iii) investments	-	-	-	(iii) investments	-	-	-
(iv) miscellaneous	-	-	-	(iv) miscellaneous	-	-	-

*repurchase of rupees by India from the IMF

**purchase of dollars from the IMF

(Contd.)

TABLE 16.1: FINANCIAL FLOWS & REST OF THE WORLD, 1956-57 TO 1958-59 - (Contd.)

				(Rs. crores)			
sources	1956	1957	1958	uses	1956	1957	1958
	-57	-58	-59		-57	-58	-59
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
3.2 <u>other banks</u>	0.8	0.9	9.1	3.2 <u>other banks</u>	26.0	100.2	91.2
(i) <u>debts</u>	0.8	0.9	-	(i) <u>debts</u>	-	-	-
(a) foreign currency	0.8	0.9	-	(a) foreign currency	-	-	-
(b) rupee currency	-	-	-	(b) rupee currency	-	-	-
(ii) currency & deposits	-	-	9.1	(ii) currency & deposits	26.0	100.2	91.2
(iii) investments	-	-	-	(iii) investments	-	-	-
(iv) miscellaneous	-	-	-	(iv) miscellaneous	-	-	-
b. <u>financial liabilities</u>	37.2	18.8	21.5	b. <u>financial liabilities</u>	265.5	273.6	105.8
1. <u>official account</u>	9.0	15.6	9.2	1. <u>official account</u>	10.1	8.4	38.9
1.1 <u>debts</u>	9.0	15.6	0.1	1.1 <u>debts</u>	8.2	8.3	35.1
(i) foreign currency	-	-	-	(i) foreign currency	6.2	5.9	35.1
(ii) rupee currency	9.0	15.6	0.1	(ii) rupee currency	2.0	2.4	-
1.2 currency & deposits	-	-	8.4	1.2 currency & deposits	1.9	0.1	2.4
1.3 investments	-	-	-	1.3 investments	-	-	1.4
1.4 miscellaneous	-	-	0.7	1.4 miscellaneous	-	-	-

(Contd.)

TABLE 16.1: FINANCIAL FLOWS & REST OF THE WORLD, 1956-57 TO 1958-59 - (Contd.)

				(Rs. crores)			
sources	1956	1957	1958	uses	1956	1957	1958
	-57	-58	-59		-57	-58	-59
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2. <u>private account</u>	<u>1.1</u>	<u>1.7</u>	<u>3.2</u>	2. <u>private account</u>	<u>6.2</u>	<u>5.0</u>	<u>6.8</u>
2.1 debts	-	-	0.6	2.1 debts	0.7	0.5	0.7
2.2 currency & deposits	-	0.5	1.3	2.2 currency & deposits	0.4	-	2.9
2.3 investments	1.0	1.1	1.3	2.3 investments	0.7	0.6	0.2
2.4 miscellaneous	0.1	0.1	-	2.4 miscellaneous	4.4	3.9	3.0
3. <u>banking account</u>	<u>27.1</u>	<u>1.5</u>	<u>9.1</u>	3. <u>banking account</u>	<u>249.2</u>	<u>260.2</u>	<u>60.1</u>
3.1 <u>RBI</u>	<u>24.6</u>	<u>0.7</u>	<u>3.3</u>	3.1 <u>RBI</u>	<u>249.2</u>	<u>260.1</u>	<u>51.7</u>
(i) debts	-	-	-	(i) debts	-	-	-
(ii) currency & deposits	24.6	-	3.3	(ii) currency & deposits	-	18.4	-
(iii) investments*	-	-	-	(iii) investments**	243.9	241.7	51.7
(iv) miscellaneous	-	0.7	-	(iv) miscellaneous	5.3	-	-
3.2 <u>other banks</u>	<u>2.5</u>	<u>0.8</u>	<u>5.8</u>	3.2 <u>other banks</u>	<u>-</u>	<u>0.1</u>	<u>8.4</u>
(i) <u>debts</u>	<u>-</u>	<u>-</u>	<u>-</u>	(i) <u>debts</u>	<u>-</u>	<u>0.1</u>	<u>-</u>
(a) foreign currency	-	-	-	(a) foreign currency	-	0.1	-
(b) rupee currency	-	-	-	(b) rupee currency	-	-	-
(ii) currency & deposits	2.4	0.8	5.8	(ii) currency & deposits	-	-	8.4
(iii) investments	0.1	-	-	(iii) investments	-	-	-
(iv) miscellaneous	-	-	-	(iv) miscellaneous	-	-	-
c. <u>total</u>	<u>94.0</u>	<u>48.2</u>	<u>96.6</u>	c. <u>total</u>	<u>404.6</u>	<u>559.3</u>	<u>446.6</u>

CHAPTER - 17

CONSOLIDATED ACCOUNTS

17.1 The consolidated accounts of financial flows in the Indian economy for the year 1957-58 have been prepared from the accounts of various sectors as given in Chapters 11 through 16. The transaction classification adopted in the accounts is as below :-

1. currency and deposits
2. investments in
 - 2.1 government securities
 - 2.2 others
3. loans and borrowings
4. small savings
5. life insurance premia
6. trade debt or credit
7. foreign claims not covered elsewhere
8. other items not elsewhere classified

17.2 The details about the scope and coverage, conceptual problems, sources of data and limitations of the accounts for bringing out the financial flows are discussed in the preceding chapters and the consolidated accounts presented in Table 17.1. For each sector of the economy the columns of the table record sources and uses of funds for various groups of financial transactions mentioned above.

TABLE 17.1: FINANCIAL FLOWS IN THE INDIAN ECONOMY, 1957-58

sector/transaction	(Rs. crores)							
	households		banking		other financial institutions		private corporate business	
	s	u	s	u	s	u	s	u
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. currency and deposits	-	132	325	7	-	28 ⁽¹⁾	-	22 ⁽²⁾
2. investments in								
2.1 government securities	-	-	-	497	-	29	5	-
2.2 others	-	41	264	-	11	13	41	6
3. loans & borrowings	58	6	-	76	-	2	132	-
4. small savings	-	69	-	-	-	-	-	-
5. life insurance premia	-	55	-	-	55	-	-	-
6. trade debt or credit	-	36 ⁽³⁾	-	-	8	14	73	37
7. foreign claims not covered elsewhere	-	-	10	23	-	-	-	-
8. other items not elsewhere classified	-	78 ⁽⁴⁾	18	5	27 ⁽⁵⁾	-	18	-
9. total	58	417	617	608	101	86	269	65

Note: (1) & (2) : figures are taken from Table 12.1 (Financial flows of banking sector) since these are comparatively better estimates. (Contd.)

(3) : the difference between the trade debt and trade credit of the private corporate business sector has been assumed to be mostly the claim of unincorporated enterprises sector, and hence given as a use of the households sector; this figure, however, does not appear in the financial flows accounts (Table 11.1) of the households sector.

(4) : represents the provident fund contributions of the households sector.

(5) : includes the provident fund contributions received by the Employees' Provident Fund scheme.

TABLE 17.1: FINANCIAL FLOWS IN THE INDIAN ECONOMY, 1957-58 - (Contd.)

sector/transaction	(Rs. crores)						discrepancy: (14) - (15)
	government		rest of the world		total		
	s	u	s	u	s	u	
(1)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1. currency and deposits	-	5	-	139 ⁽¹⁾	325	333	- 8
2. investments in							
2.1 government securities	548	-	-	-	553	526	+ 27
2.2 others	5	9	12	262	333	331	+ 2
3. loans & borrowings	45	113	24	163	259	360	-101
4. small savings	69	-	-	-	69	69	-
5. life insurance premia	-	-	-	-	55	55	-
6. trade debt or credit	22	-	-	-	103	87	+ 16
7. foreign claims not covered elsewhere	5	-	12	25	27	48	- 21
8. other items not elsewhere classified	29 ⁽²⁾	-	-	-	92	83	+ 9
9. total	723	127	48	589	1816	1892	- 76

Note (1) : figures are taken from Table 12.1 (Financial flows of banking sector) since these are comparatively better estimates.

(2) : represents the portion relating to the provident fund of the employees of the government sector (item 5 Table 15.1)

S E C T I O N - IV

CHAPTER - 18

LIMITATIONS OF THE ACCOUNTS AND RECOMMENDATIONS

18.1 In the preceding sections of this Report, a broad conceptual frame-work of the flow-of-funds system of accounts has been provided and an attempt has been made to test the feasibility of fitting the available data on the Indian economy into such a system of accounts. The accounts presented here are essentially for illustrative purposes and relate mostly to the year 1957-58. This exercise has enabled the Working Group to locate lacunae in the available data for purposes of flow-of-funds analysis and to suggest the lines on which further work for improvement of flow-of-funds accounts may be necessary.

18.2 The available data at present for compilation of flow-of-funds system of accounts are quite inadequate for many sectors and have to be supplemented by ad hoc studies and surveys. Even in sectors like government, banking, corporate enterprises and rest of the world where there is a large volume of fairly reliable statistics to permit the construction of annual accounts, there is scope for considerable improvement both as regards coverage and technique. In Sections II and III, major limitations of accounts for different sectors have been indicated.

1. Households sector

18.3 A system of national income and product accounts is the starting point for construction of flow-of-funds system of accounts for this sector. The National Income Committee in their first report suggested a framework for social accounts which would be adequate for our purposes. However, completion of this task would depend on the availability of reliable estimates of net fixed capital formation and net changes in inventories. The available data are still inadequate particularly in respect of certain basic statistics on construction, trade and transport margins, production of capital goods in the small enterprises sector, stocks held in the private non-corporate sector and valuation of machinery and building materials. It would be seen that the accounts of the households sector can be improved. Further data on cash factor incomes, cash consumption expenditures, cash transactions in land and buildings and statistics of inventories in trade etc. are also needed.

2. Banking

18.4 The coverage of the banking sector in the present accounts is not complete. For instance, co-operative banks (other than state co-operative banks) and co-operative credit societies are not covered. It is suggested that suitable surveys may be initiated, if necessary on a sample basis, to collect the required data relating to these institutions.

3. Corporate enterprises

18.5 It would be necessary to extend the scope of the analysis of company finances conducted by the RBI so as to cover the entire corporate sector. For this purpose, special studies of the finances of co-operative non-credit societies may have to be taken up. Also the coverage of joint stock companies may have to be enlarged. The content and item coverage of the RBI analysis of company finances may also have to be modified suitably to accommodate the needs of flow-of-funds system of accounts. The RBI has initiated some preliminary steps in these directions.

4. Other financial institutions

18.6 As in the case of corporate enterprises, it would be necessary to improve the coverage of the RBI's analysis of private financial and investment companies. Moreover, the RBI's study of government financial corporations is confined only to IFC and State Financial Corporations and it may be necessary to extend the scope of analysis to other government financial corporations as well. Likewise efforts may also be made to improve the scope and contents of the analysis of data relating to insurance and provident funds, etc.

5. Government

18.7 In the case of this sector, adequate material is being collected and published in the various government documents. The problem is to explore the possibility of adapting these statistics to the requirements of flow-of-funds analysis. In this connection, the CSO's analysis of data relating to government in the 'Estimates of National Income' and "An Economic Classification of the budget of the Central Government" done by the Ministry of Finance every year, help to provide that basic information which can be used for multiplicity of analytical purposes. An extension of the scope of economic classification of the budgets of all public authorities and transactions of autonomous government enterprises would fill in a major gap in the construction of flow-of-funds accounts for the government sector. The present attempt to construct accounts for this sector has also revealed some other statistical deficiencies. This includes the extreme inadequacy of data relating to the local authorities. The timely collection of these data by a suitable agency and their compilation in a form meaningful for economic analysis are also of primary importance for construction of comprehensive flow-of-funds accounts for the entire government sector.

18.8 The above review indicates that a considerable amount of data are available for construction of financial flows accounts on an annual basis. This work may be continued. In the non-financial flows, there are gaps particularly in the households sector. Continued efforts have to be made to improve the data on non-financial flows specially in the households sector so that the work is put on a systematic basis thus making it possible to prepare consolidated accounts.

APPENDIX

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FLOW OF FUNDS

Three systems of social accounts pertaining to the aggregate economy of a country, namely, National Income, Input-output analysis and Money flows have been extensively developed during the post World War II period as aids to economic analysis. 'These three systems present different aspects of the economy; no one of them presents a complete picture and each of them can be used for analytical purposes for which the others are inadequate'. The National Income accounts deal mainly with the current output of goods and services for the economy; hence they deal with final products and their distribution. The emphasis in input-output analysis is on the inter-relationship between the different sectors whereas the flow of funds system provides an economic record of all the transactions in the economy which involve the use of money and credit instruments. In the capital reconciliation account of National Income statistics, the national wealth increments in the form of fixed assets and inventories as well as the net additions to claims on the rest of the world are set against the savings of individual sectors. This disregards the monetary processes resulting in the changes in claims and liabilities of the individual sectors. Hence to estimate real wealth formation, it has to be supplemented by financial accounts from which it is possible to see the various methods of financing investment, namely, savings, borrowings or financial reserves of different sectors. The publication 'Flow of Funds in U.S.A.' by the Federal Reserve Board based on the earlier pioneering work of Prof. Morris Copeland 'A study of money flows in U.S.A.' can be said to be the starting point for this new field of work in the post-war period; in some countries including Netherlands and Scandinavian countries some efforts were made earlier in this direction but were, however, not seriously followed later. Reports of the work in this field have been published in Japan, W. Germany and France and to some extent in the U.K. also. When I went to Tokyo in 1960 to attend the International Statistical Conference, I acquainted myself with the work in the Bank of Japan and during my recent trip abroad to attend the Conference of the International Association for Research in Income and Wealth I could study the work done so far in W. Germany, France and the U.K.

W. Germany

All the analytical work in this field is done in the Deutsche Bundesbank. The data are obtained partly from the C.S.O. in Wesden; the Statistical section of the Bank processes data relating to capital markets, banking and balance of payments. The main feature of the work is the integration of financial flows with National Income statistic. The available data are not adequate to prepare the detailed tables of sources and uses of funds as published by the U.S.A. or for integrating them with commodity flows and secondary distribution. Savings are estimated from the production and appropriation accounts of the National Income statistics. For the national economy as a whole savings are equal to investment. But in any individual sector, one or the other is greater thereby recording financial surplus or deficit in that sector. This is reflected in the counterpart of financial accounts where net financial assets or liabilities is greater. By definition, a surplus on current account of any sector (i.e. saving) should be equal to investment plus the financial surplus (i.e. increase in financial assets less increase in liabilities) of that sector. Financial surplus can be estimated either directly from financial flows accounts or as the excess of saving over investment. If these two sets of estimates are made independently there are likely to be discrepancies due to errors of estimation and omissions, etc. and efforts have to be made to reduce such discrepancies by improving the data.

The Deutsche Bundesbank of West Germany has been publishing annual data relating to the formation of wealth and its financing since 1955. A single aggregate table for each year is given, in one of the monthly reports of the Bank. For calculating wealth formation and saving, all the transactions are divided into two main groups, namely, current and capital transactions and the latter alone are relevant for the present purpose. These include investment in fixed assets and inventories, housing and other constructions, and income transactions, chiefly savings, resulting in changes of financial assets. Some difficulties arise in border cases in regard to current and capital transfers which may be unrequitted. The decision is made according to whether the transfer

current income or wealth. The economy of W.Germany excluding W. Berlin is divided into four economic sectors, namely, (1) private households, (2) enterprise, (3) Government which is sub-divided into territorial authorities and social insurance funds and (4) rest of the world. For political reasons W.Berlin is made an entirely independent sector; it is not grouped in rest of the world sector because the national currency is the same for W.Germany and W.Berlin whereas foreign countries mainly cover transactions in foreign currencies, and this factor is specially significant in financial accounts. There are three sub-divisions in financial sector, namely, insurance companies, banking and loan associations and banks, which are further sub-divided into Deutsche Bundesbank and credit institutions. The delimitation of sectors is according to usual practices except that there is a very important assumption that all domestic capital formation takes place either in the enterprise sector or in the Government sector only. Hence any capital formation in consumer sector or financial sector is transferred to enterprise sector, thus sub-dividing the accounts of these sectors into institutional and functional parts. This appears to have been found necessary on account of the fact that capital formation is estimated by the flow of goods method from which it is difficult to get a sectoral break-up. However, an elaborate justification for this is given in their notes on methods of calculating wealth formation and its financing. Naturally, savings of the enterprise part of these sectors also goes to the corresponding sector. This does not create serious difficulties in the household sector, as the share of household enterprise by way of cottage and small scale industries to the total enterprise sector in their economy is very small and they have been making efforts to estimate the capital formation in financial sector independently.

The net investment in each sector is obtained by subtracting depreciation from gross investment. The difference between this and savings adjusted for capital transfers gives net financial surplus or deficit. These data are obtained from the Central Statistical Organisation and are given under wealth formation and savings in the table. The function of the financial accounts is to show the movement of individual

sectors' monetary assets and liabilities in a specified period, namely an year in the present case. Assets as well as liabilities are divided into 15 sub-groups based on the degree of liquidity, term or period, security provided, object, institutional character etc.

They are: (1) notes and coin, and sight deposits, (2) time deposits, (3) savings deposits, (4) other funds placed with banks (5) monies placed with building and loan associations, (6) monies placed with insurance companies, (7) acquisition of money-market paper, (8)(a) acquisition of fixed interest securities, (b) acquisition of shares, (9) gold and exchange holdings of Bundesbank, (10) short-term bank credit, (11) medium and long-term bank credit, (12) loans of building and loan associations, (13) loans of insurance companies, (14) other assets and (15) intra-sectoral claims. The balance of the movement of assets and liabilities is identical with the financial balance of capital formation account and hence forms the link with that accounts. Thus it represents a kind of "movement balance sheet" from which the change in combined items of overall balance sheets at the two ends of the year can be seen. The main problem here is the estimation of the break-downs for each sub-group for the different sectors. These estimates are based on appropriate assumptions. I find that the resulting estimates are not as accurate as they appear on paper, but they indicate trends quite satisfactorily. At the bottom of the table the net changes in assets or liabilities (with the appropriate +ve or -ve sign) are given. This figure tallies with the difference between wealth formation and savings figures.

The main use of the flow of funds table is to highlight the important sources for monetary wealth formation and facilitate the study of their trends over time. These are studied for individual sectors to throw light on the extent of financial deficit or surplus and examine how they are met or used respectively. But the German data so far do not provide information relating to "from whom to whom" sector flows in creditor-debtor cross classification. This requires further refinement in the break-down of data relating to several credit instruments which are not easily available.

France

Work on financial flows has been going on in the Finance Ministry of France for several years, but the Bank of France started compilation of financial transactions only two years back; they co-operate with the Treasury in integrating their work with the investment data of the National Income Unit.

French economy is divided into five economic sectors namely, (1) households, (2) non-financial enterprises, (3) non-profit making local institutions, (4) non-metropolitan France and (5) rest of the world and into three financial sectors namely, (1) banking system, (2) other credit institutions and (3) Treasury or Government. Credit instruments are sub-divided into 9 groups, namely, term deposits and special savings credits, short-term bills, long-term bonds, shares, short-term loans, medium-term loans, long-term loans, gold and foreign assets and finally deposits, bills and loans between financial intermediaries. Except where intra-sectoral flows are unimportant for changes in assets as well as liabilities, combined and not consolidated accounts are given. Except in the case of long-term loans, net changes in assets or liabilities only are given and for the long-term loans, both issues during the year as well as repayments are shown. The main feature of French system is the classification of the assets and liabilities of credit instruments into the different sectors either as owner or debtor so that one can relate the flows from different sectors to the corresponding sectors. Such breakdowns were found to be difficult in the form of "from whom to whom" in the case of non-financial enterprises, consumers and non-Government administrative bodies. Transactions in kind are not taken into account as financial account is not affected. The necessary adjustments are made in National Income accounts when capital formation and financial flows are integrated.

Use in short-term forecasts

For the forecasts of financial requirements one has to consider three sets of balances, (1) production of goods and services and labour forces, (2) earnings and expenditure and (3) lendings and borrowings.

The first two aspects are studied by input-output and national income accounts and the last by the financial flows. In this the central point is the balance between savings and investment in the plan. Short-term forecasts of deposits, loans, capital formation, etc. require the collaboration of a larger number of persons and even then they are not precise. However, they find some advantages in checking the consistency of different estimates from the institutional as different from functional point of view because if we are interested only in behaviouristic patterns, such forecasts are easier. For each sector prospects for future are projected on the basis of past behaviouristic patterns. For example borrowings of consumers are mostly for consumer credit or construction of houses which are estimated by previous experience. In the rest of the world accounts, trends of exports and imports have to be estimated by well known methods. Capital flows are very difficult to forecast. Then we come to the financial system, capital markets and financial intermediaries. Here forecasts of uses of funds depend upon the usual distribution between different kinds of assets. If it is found that financial institutions cannot meet the demand, other systems with necessary resources have to be devised or changes have to be effected in monetary policy to achieve the target. During 1962 short-term debt increased in France by about 20% and credit controls had to be imposed which were, however, not very successful. I understand that though most of the savings by households are in the form of short-term deposits, Government channelise them into middle and long-term loans by special institutional devices.

Planning on the physical side starts with the assumption of

~~rates of growth and the required investments estimated from capital~~
 output ratios of previous year. Public expenditure and rest of the world accounts are projected on past experience and the balance is allotted to private investments. Final demand of consumers is estimated on the basis of past elasticities of demand and G.N.P. projections. The balance between value of goods and services and labour force is checked with the help of input-output tables. The viability of the estimated physical production is compared with the financial capacity through overall

economic tables. It is understood that projections in this field are very shaky and are based on past behaviours. If the gap is too big, adjustments are made either in the physical or financial sectors.

However, more stress is laid on growth even at the risk of impact on prices. In fact in France an annual increase in prices upto 5% is not taken seriously provided growth rate is maintained at a higher level.

In this connection efforts made in O.E.C.D. with headquarters in Paris may be of some interest. Members of the O.E.C.D. have been considering the possibility of drawing up standard tables for the use of all the members. But the financial problems and practices vary considerably from country to country and they have so far not been able to arrive at an organised system of accounts. An earlier system was oriented to a study of the problems of the stability of capital markets and it had to be revised considerably. Last May the Conference of European Statisticians discussed this problem and came to some broad agreement. The documents are still in a confidential stage and I expect a copy in the next few months.

The U.K.

In the quarterly Bulletin of the Bank of England, two tables on the financial surplus of the combined private and banking sector are published. This is only a partial system. However, in co-operation with their C.S.O. they have been trying to work out the full system during the past few years. In fact a draft of the full system was ready for publication in their last June (1963) issue but it was held up because discrepancies (due to errors and omissions) between national income accounts and financial accounts appeared to be unduly large. In the U.K. system ~~also published in the quarterly Bulletin of the Bank of England~~ instruments are almost similar to those in Germany and France depending mainly on the availability of data. The details of sub-divisions of sectors and instruments will be available when they publish their new accounts in September.

The object of the accounts in the U.K. is mainly to highlight the effect of changes in monetary policies on financial flows and hence they are oriented to this requirement. One striking difference between the presentation of accounts in the U.K. and the other two countries

is that the net difference of assets and liabilities only are presented. Another interesting feature is that the assets and liabilities of the Issue Department of the Bank of England are merged with those of Government Treasury and those of the Banking Department with the public corporation. Joint stock companies accept a good lot of loans apart from banking sector and hence financial sector is not functionally separate. Distribution of credit instruments between different sectors is found to be very difficult and certain arbitrary assumptions are made. As pointed out above, the main object in preparing these accounts is to study the effects of monetary policies. So these credit instruments are broadly classified into two groups, namely, those which reflect the results of policy changes, and those which are not amenable. The latter have to be studied in relation to fiscal and other non-monetary policies of the Government. A clearer picture will be available only after the latest study of the Bank of England is published. There is actual co-operation between the Bank of England, Treasury, the C.S.O. and the Board of Trade in the compilation of these statistics and the work is supervised by a Committee of Statisticians representing the different interests.

From the above description, we find that the structure of accounts is about the same in all countries with appropriate differences due to institutional functions and practices. The presentation of the accounts depends to a large extent on the uses to which they are put. In W. Germany the main use is to find the surpluses and deficits in different sectors in relation to wealth formation. The details relating to subsectors are not considered important. The accounts are oriented to this purpose and the debtor-creditor cross classification is not given. In the U.K. the emphasis is on instruments amenable to monetary discipline; here assets and liabilities are netted and they are broadly classified into two groups, those which are amenable to monetary discipline and those which are not. Integration with national accounts follows the same line. In France the accounts are freely used for planning purposes. Hence they are integrated not only with income accounts of final demands but also with intermediate flows of input-output analysis. This enables them to check internal consistencies in a finer

manner; the financial surplus and deficit of sectors and sub-sectors are reflected in the matter of debtor-creditor relationship and more refined analysis of financial problems is rendered possible. In fact during the post-war inflationary period, these accounts were of great help to the policy makers in several ways.

With the available statistics in India, we have been trying to follow the German model. By re-grouping our credit instruments, we can prepare tables for studying liquidity of different sectors as also the results of some of our monetary policies. However, our household sector forms a much bigger part and is much more heterogeneous; hence the results of analysis will not be as sharp and clear as that of the advanced economies mentioned above. A beginning has to be made and with persistent efforts at the improvement of statistics, the sectors can be made more homogeneous to give better results than at present.

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