Financing of Development in India

Montek Singh Ahluwalia*

INRODUCTION

The objective of this paper is to present an analysis of broad trends in the financing of development in India. Development financing is usually interpreted to mean "investment financing" and the analysis therefore focuses on trends in investment and savings in the economy.

Savings, behaviour of the main sectors and trends in each are examined in some detail. The principal source of data used is the National Accounts, supplemented by budgetary data where relevant. The paper pays particular attention to the developments in recent years when the economy has had to adjust to a combination of unfavourable circumstances especially the second oil shock in 1979, the prolonged world recession, and the steady deterioration in the position regarding the availability of external resources. All these development imposed severe strains on the economy and a resource constraint.

The paper concludes with an assessment of the prospects facing India in the immediate future for financing investment and also for financing "development" more broadly defined. India was just completing the Five-Sixth year Plan, which covered the period 1980-1981 to 1984-1985 and was about to enter the Seventh Plan, which would cover the rest of this decade. On the whole, the country was able to manage the situation in the course of the Sixth Plan period fairly satisfactorily. The average annual rate of growth in the Sixth Plan period (1980-1981 to1984-85) was likely to be around 5 per cent per year and the balance of payments difficulties had been contained. However, problems of domestic and external resource mobilisation were likely to intensify in the years ahead.

I. THE MACRO-ECONOMIC PICTURE: AGGREGATE SAVINGS AND INVESTMENT

A. INVESTMENT TRENDS

Trends in aggregate investment and savings in the Indian economy are summarised in Table 1 which shows both gross domestic capital formation and gross domestic savings as a percentage of GDP at market prices. The table also shows foreign savings or the net foreign capital inflow, which is the difference between gross domestic capital formation and gross domestic savings.

Table 1 shows an impressive secular increase in the rate of investment over the past three decades. Measured in current prices the gross investment rate increased front about 10 per cent of GDP in the early fifties to about 18 per cent in 1970-1971. It continued to increase rapidly, though somewhat unevenly, during the seventies and by l983-1984 it had reached 24 per cent. This is a very high rate compared with rates compared with rates achieved in other low income developing countries. In fact it is comparable with investment rates achieved in the middle income developing countries with per capita incomes six to seven times higher than the level of per capita income in India.

The behaviour of the investment rate over the past ten years must be viewed in the background of the fact that the economy was subjected to two severe external shocks in this period arising from the sharp increase in oil prices and associated international developments, first in 1973 and again in 1979. These shocks clearly did have an effect upon investment behaviour as is evident from the yearly movement of investment rates. The secular uptrend in the investment rate was interrupted in the middle of the 1970s, immediately after the first oil shock. However this was soon overcome and the investment

* Economic Adviser, Department of Economic Affairs, Ministry of Finance, Government of India, New Delhi. The views expressed in this paper are the author's own.

rate rose again after 1977-1978. This pick up was interrupted by the second oil shock, the full impact of which was only felt after 1980-1981.The rate of investment had risen sharply from about 20 per cent in 1975-1976 to 24.6 per cent in 1980-1981. It stayed at about the same level in l98l-1982 after which it declined to about 24 per cent in 1982-1983 and 1983-1984.

Table 1. Saving and Investment, as Percentage of GDP at Market Prices

	Gross domestic capital formation [a]			
Year	At current prices	At 1970-71 prices	Gross domestic saving at current prices	Net capital inflow from abroad at current prices
Average				
1950-1951 to 1954-1955	9.9	11.7	9.6	0.3
1960-1961 to 1964-1965	16.4	16.2	13.9	2.5
1970-1971	17.8	17.3	16.8	1.0
1971-1972	18.4	18.3	17.3	1.1
1972-1973	16.9	17.3	16.2	0.7
1973-1974	20.0	21.4	19.3	0.7
1974-1975	19.1	19.3	18.2	0.9
1975-1976	19.9	18.1	20.0	-0.1
1976-1977	20.7	19.6	22.4	-1.7
1977-1978	20.4	19.5	22.1	-1.7
1978-1979	24.8	22.6	24.7	0.1
1979-1980	23.7	21.6	23.2	0.5
1980-1981	24.6	22.0	22.9	1.7
1981-1982	24.7	21.5	23.0	1.7
1982-1983	24.1	20.5	22.3	1.8
1983-1984 [b]	24.0	20.5 to 21	22.8	1.2

Source: Central Statistical Office, National Accounts Statistics, various issues.

[a] The items errors and omissions in the national account balance sheet equating domestic capital formation with savings plus net foreign inflow has been merged into the independent estimates for gross domestic capital formation.

[b] Author's estimate.

The difficulty in increasing the rate of investment in recent years is much more clearly revealed by considering the movement in the rate of investment measured in constant prices. An important feature of the secular behaviour of investment rates in India is that the rate of investment in constant prices has increased less than incurrent prices. This is true of the early period when the investment rate in constant prices shows an increase from an average 11.7 per cent in 1950-1951 - 1954-1955 to16.2 per cent in 1960-1961 - 1964-1965 where as the increase in current prices' in the same period is distinctly greater from 9.9 per cent to 16.4 per cent. It is even more true in the ten years after the first oil shock. Between 1970-1971 and 1973-1974 the investment ratio in constant prices increased somewhat more than in current prices. In 1974-1975 there was a decline in both ratios reflecting the squeeze on public investment following the first oil shock. Thereafter there has been a significant divergence between the two ratios. Whereas the ratio in current prices shows a sharp increase from 19.1 per cent in 1974-1975 to 24.1 per cent in 1982-1983, the increase in the constant price ratio between those years has been much more modest from 19.3 per cent in

1974-1975 to only 20.5 percent in 1982-1983. Trends in the constant price ratio show that the economy has suffered more heavily from the after effects of the second oil shock. The investment rate in constant prices has declined more in recent years than the investment rate in current prices.

The divergence obviously reflects the fact that the investment deflator has risen more rapidly than the GDP deflator, and the difference is important from the point of view of assessing the impact of investment rates, achieved on the potential rate of growth of the economy. An increase in the current price ratio which only reflects a more rapid rate of inflation in the investment deflator clearly does not translate into a higher growth rate in the same way as an increase in investment in real terms relative to GDP. However it must be recognised that in financing terms it imposes the same strain on resources. A faster rate of inflation in the investment deflator means that the same amount of real investment requires a larger volume of savings relative to income. This has been an important feature of India's experience in the past ten years. Although resources available for investment have expanded impressively raising the rate of investment in current terms very substantially, the rate of investment in constant prices has increased only marginally from average of 19.3 per cent in the three years 1972-1973 to 1974-1975 to about 21 per cent in the three years 1981-1982 to 1983-1984.

The difficulty in raising the aggregate investment rate in recent years finds its counterpart in the fact that Plan expenditure of the public sector in the Sixth Plan was likely to fall short of the original target in real terms[1]. Official estimates were not available but it was likely that the actual achievement of the public sector in terms of real expenditure in the Sixth Plan would be only about 85 per cent of the sixth Plan target.

B. DOMESTIC SAVINGS

Expansion of domestic savings has been the major source of financing for the rising investment ratio. As shown in Table 1 the gross savings rate averaged a little less than 10 per cent in the early 1950s and it had increased to 16.8 per cent in 1970-1971. It increased even more rapidly in the 1970s reaching a peak of 24.7 per cent in 1978-1979. Subsequently however the saving rate had declined somewhat, and for the recent five years it had fluctuated around 23 per cent.

The stickiness of the domestic savings rate for the past several years was a matter of concern, especially since a rapidly rising investment deflator relative to GDP means that a constant savings rate will finance a diminishing investment rate in real terms. Admittedly the trend of rising savings rates cannot be continued beyond a point, and India's existing rate of saving of about 23 per cent, was exceptionally high given the level of per capita income. However this was not the only factor. The rate of savings had reached 24.7 per cent in 1978-1979 and given the heavy needs of investment in infrastructure and productive sectors this rate of savings should have been maintained and perhaps even improved. On present performance the rate of savings was unlikely to reach 24 per cent even in 1984-1985.

An important reason for the shortfall in the savings rate was to be found in the impact of the terms of trade deterioration resulting from the sharp increase in oil prices which occurred in 1979. This deterioration in the terms of trade implied a real "income loss" for the economy, which in turn could be expected to result in a decline in the rate of savings out of income uncorrected for the effects of the terms of trade loss. Rough estimates indicate that the loss resulting from the deterioration in the terms of trade since 1973-1974 amounted, to about 2 per cent of GDP per year in the 1980s.[2]

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1 It should be noted that plan expenditure is not identical to investment. The Public Sector Plan includes a number of schemes which involves an element of current expenditure which is included in plan expenditure though not in the definition of investment used inn the National Accounts.

2 In other words, if unit values of India's exports were raised to restore the 1973-74 terms of trade the additional gain to India would be 2 per cent of GDP. It must be pointed out that these calculations are necessary mechanical because they assume all other factors remain unchanged.

It is interesting to note that declines in aggregate domestic savings have been witnessed after 1980 in most developing countries as shown by the weighted average savings rates for different country groupings. For low-income countries, the saving rates declined from 7 to 5 per cent of GDP and for middle-income countries they declined from 25 to 21 per cent between 1980 and 1982.[3]

C. FOREIGN SAVINGS

Compared with most developing countries, especially low income countries, India's reliance on foreign savings has been extremely modest, more so in the 1970s. Inflows of foreign savings were as high as 2.5 Per cent of GDP or about 15 per cent of total investment in the early 1960s, but by 1970-1971 this had declined to 1 per cent. of GDP or 6 per cent of total investment. The contribution of foreign savings continued to decline through the 1970s and for three years, 1975-1976 to 1977-1978, there was in fact a net foreign outflow. These were years in which the country experienced a surplus in the current account. Net foreign assistance inflows continued in this period and even showed normal growth with the result that there was a substantial built up in foreign reserves. Between the end of 1975-1976 and the end of 1977-1978 foreign reserves increased by Rs.3000 crores[4] amounting to a reserve build up at an annual rate of about 2 per cent of GDP per year.

The phenomenon of an oil importing developing country experiencing a current account surplus so soon after a major external shock was somewhat anomalous and calls for some explanation. It occurred because the economy adjusted surprisingly quickly to the first oil shock, with a strong expansion in merchandise exports and also service exports. This strong adjustment in the trade account in the mid-1970s was accompanied by a very rapid growth in private transfers so that the current account position net foreign inflow turned into a surplus (see Table 1). With continuing net inflows of foreign assistance in support of public sector investment there was a large accumulation of reserves.

In retrospect the question arises whether these inflows could have been used to support a higher investment rate than was actually achieved in the period after 1975-1976. There was certainly scope for raising the rate of investment by investing in critical infrastructure sectors, especially energy and transport, which were later to impose severe supply constraints on the functioning of the economy. The main reason why this did not happen is that there was considerable uncertainty about whether these private transfers represented a continuing source of foreign exchange which could therefore provide the basis for an expanded programme of investment. The perception that these inflows, were likely to continue became more firmly in established by 1978-1979 and conscious efforts were made in that year to expand investment, with public investment taking the lead. Import policy was also liberalized at that time to allow more effective use of available foreign exchange in support of expansionary domestic policy.

The external environment again changed dramatically in the course of 1979 with the second oil price shock, the full impact of which was evident in 1980-1981, the current account went into deficit and net foreign capital inflows increased to 1.7 per cent of GDP. This was almost twice as high (as a proportion of GDP) as in 1974-1975 net foreign capita inflows were 0.9 per cent of GDP. The percentage of investment financed by net foreign capital inflows also increased to 6.9 per cent in 1980-1981 compared with 4.7 per cent in 1974-1975.

D. EMERGING PROBLEMS

A major problem in the years ahead is that continued reliance upon net foreign capital inflows even on the present modest scale will not be possible. India was able to finance the expanded current account deficits of the past few years because of substantial recourse to IMF resources[5]. However this constituted short to medium term financing, and most of it fell

[3] World Bank, World Development Report, 1983 and 1984.

[4] A crore is 10 million.

[5] In 1980-1981 India obtained Rs. 545 crores (SDRs 529 million) from the Trust Fund and Rs. 274

due for repayment in the coming five years. At the same time the environment for concessional flows appeared highly unfavourable. India could borrow from the commercial markets and had already begun to do so to a limited extent, but the scope for such borrowing was strictly limited if the debt service ratio was to be contained within prudent limits. All this meant that the current account deficit, which was about 1.4 per cent or GDP in 1983-1984 may have to be reduced to a little below 1 per cent of GDP, by 1989-90. At the same time the investment rate needed to be increased by a few percentage points if the economy waste make the very substantial investments in infrastructure (energy and transport) that were needed even to maintain 5 per cent growth. The Sixth Five-Year Plan had projected that the investment rate (in 1979-1980 prices) should reach 25.1 per cent by 1984-1985 and rise modestly thereafter to reach 26.9 per cent in 1994-1995. If the investment rate was to rise while the net foreign inflow declined as a percentage of GDP then the rate of savings have to be increased faster than the increase in the investment rate. This would be a distinct break with recent experience. This underscores the problem of resource mobilisation.

II. SECTORAL PATTERNS OF SAVINGS AND INVESTMENT

A. AN OVERVIEW

In this section, a disaggregated analysis of is trends in savings and investment is undertaken. The three broad sectors for which separate estimates of savings and investment were available in the national accounts are as follows: Private households (including all unorganized sector business units), private corporate sector including cooperatives), and the public sector which includes the Central and State Governments, local authorities and public enterprises. An analysis of trends in savings and investment for each of these sectors throws light on emerging constraints and help to identify likely problems in the years ahead.

The sectoral breakdown of savings in current prices is shown in Table 2 and savings by each sector expressed as a percentage of GDP shown in Table 3. It is clear that the very substantial increase in the gross domestic savings rate from 12.1 per cent in 1970-1971 to GDP over the period, which is a faster increase in proportional terms. Private corporate savings as a percentage of GDP do not show any sustained trend.

In the period after 1978-1979 household savings declined as a percentage of GDP from the peak of 18.1 per cent in 1978-1979 to an estimated 16 per cent in 1983-1984. Public sector savings dipped to a low 3 of 3.6 percent in1980-1981 but then recovered substantially reaching an estimated 5 percent of GDP in 1983-1984. Thus over the period as a whole both private household savings and public sector savings increased as a percentage of GDP while corporate sector remained at the same level. The particular factors accounting for these developments are discussed in greater detail later in this paper.

It is instructive to compare the trends in savings of individual sectors with the trends in investment in each sector, thus revealing the net surplus or deficit position in each sector (Table 4). The trends in the investment rate in each sector (with investment in each expressed as a percentage of GDP) are shown in Table 5.

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crores (SDRs 266 million) from the CFF. In November 1981 India entered into an Extended Arrangement with the Fund under which India could draw upto SDRs 5 billion over a three-year period. The arrangement was terminated in May 1984, after India had drawn SDRs 3.9 billion, in recognition of the improvement in the current account positioning 1983-1984.

Table 2. Gross Domestic Saving by Sector (Rs crores)

	Private saving			Public sector saving	Total gross domestic saving	GDP at current market prices
	Household sector	Private corporate sector [a]	Total			
1970-1971	4,873	657	5,530	1,253	6,783	40,263
1971-1972	5,466	754	6,220	1,278	7,498	43,356
1972-1973	5,649	787	6,436	1,333	7,769	47,865
1973-1974	8,522	1,063	9,585	1,807	11,392	58,940
1974-1975	8,537	1,440	9,977	2,676	12,653	69,595
1975-1976	10,452	1,055	11,507	3,339	14,846	74,084
1976-1977	12,592	1,128	13,720	4,185	17,905	79,997
1977-1978	14,267	1,327	15,594	4,168	19,762	89,583
1978-1979	17,694	1,606	19,300	4,781	24,081	97,580
1979-1980	17,623	2,249	19,872	4,967	24,839	107,162
1980-1981	22,030	2,544	24,574	4,640	29,214	127,489
1981-1982	23,936	2,771	26,707	7,439	34,146	148,678
1982-1983	26,344	2,895	29,239	7,431	36,670	164,406
1983-1984 [b]	30,250	3,400	33,650	9,450	43,100	189,067

Table 3. Gross Domestic Saving by Sector (As percentage of GDP)

	Private saving			Public sector saving	Total gross domestic saving
	Household sector	Private corporate sector [a]	Total		
Average					
1950-1951 to 1954-1955	n.a	n.a	7.9	1.7	9.6
1960-1961 to 1964-1965	8.7	1.9	10.6	3.3	13.9
1970-1971	12.1	1.6	13.7	3.1	16.8
1971-1972	12.6	1.7	14.3	3.0	17.3
1972-1973	11.8	1.6	13.4	2.8	16.2
1973-1974	14.4	1.8	16.2	3.1	19.3
1974-1975	12.3	2.1	14.4	3.8	18.2
1975-1976	14.1	1.4	15.5	4.5	20.0
1976-1977	15.8	1.4	17.2	5.2	22.4
1977-1978	15.9	1.5	17.4	4.7	22.1
1978-1979	18.1	1.7	19.8	4.9	24.7
1979-1980	16.5	2.1	18.6	4.6	23.2
1980-1981	17.3	2.0	19.3	3.6	22.9
1981-1982	16.1	1.9	18.0	5.0	23.0
1982-1983	16.0	1.8	17.8	4.5	22.3
1983-1984 [b]	16.0	1.8	17.8	5.0	22.8

Source: Central Statistical Office, National Accounts Statistics, various issues.
[a] Including Co-operative sector.
[b] Author's estimates.

Table 4. Savings-Investment Surpluses and Deficits by Sectors (Rs. Crores)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
I. Private Corporate Sector													
1.Gross Domestic Saving	657	754	787	1,063	1,440	1,055	1,128	1,327	1,606	2,249	2,544	2,771	2,895
2.Gross Domestic Investment	1,030	1,287	1,331	1,630	2,707	2,139	1,291	2,338	2,245	3,295	3,938	4,975	5,706
3.Gap (-) /Surplus	- 373	- 533	- 544	- 567	-1,267	-1,084	- 163	-1,011	- 639	-1,046	-1,394	-2,204	-2,811
II. Household Sector													
1.Gross Domestic Saving	4,873	5,466	5,649	8,522	8,537	10, 452	12,592	14,267	17,694	17, 623	22,030	23,936	26,344
2.Gross Domestic Investment	3,374	3,524	3,128	5,341	4,935	4,914	6, 79 3	8,509	12, 314	10, 307	13, 458	14,346	14,025
3.Gap (-) /Surplus (+)	1,499	1,942	2,521	3,181	3,602	5,538	5,799	5,758	5,380	7,316	8,572	9,590	12,319
III. Public Sector													
1.Gross Domestic Saving	1,253	1,278	1,333	1,807	2,676	3,339	4,185	4,168	4,781	4,967	4,640	7,439	7,431
2.Gross Domestic Investment	2,773	3,165	3,607	4,814	5,664	7,677	8,513	7,450	9,649	11,816	13,922	17,444	19,849
3.Gap (-) /Surplus (+)	-1,520	-1,887	-2,274	-3,007	-2,988	-4,338	4,328	-3,282	-4,868	-6,849	-9,282	-10,005	-12,418
IV. Total (I+II+III)													
1.Gross Domestic Saving	6,783	7,498	7,769	11,392	12,653	14,846	17,905	19,742	24,081	24,839	29,214	34,146	36,670
2.Gross Domestic Investment	7,177	7,976	8,066	11,784	13,306	14,729	16,596	18,297	24,209	25,419	31,318	36,764	39,580
3.Gap (-) /Surplus (+)= Net foreign inflow(-)	-394	-479	-297	-392	-653	+117	+1,309	+1,465	-128	-5,80	-2,104	-2,618	-2,910
Memo Items													
Percentage share of public sector in total surplus finance (II3+IV3)	**80.3**	**78.0**	**80.7**	**84.2**	**70.2**	**80.0**	**96.4**	**76.5**	**88.4**	**86.7**	**86.9**	**82.0**	**81.5**

Source: Central Statistical Office, *National Accounts Statistics,* various issues.

Table 5. Gross Investment as Percent of GDP

	Private corporate sector	Household sector	Public sector	Total
1970-1971	2.5	8.4	6.9	17.8
1971-1972	3.9	8.1	7.3	18.4
1972-1973	2.8	6.6	7.5	16.9
1973-1974	2.8	9.0	8.2	20.0
1974-1975	3.9	7.1	8.1	19.1
1975-1976	2.9	6.6	10.4	19.9
1976-1977	1.6	8.5	10.6	20.4
1977-1978	2.6	9.5	8.3	20.4
1978-1979	2.3	12.6	9.9	24.8
1979-1980	3.1	9.6	11.0	23.7
1980-1981	3.1	10.6	10.9	24.6
1981-1982	3.3	9.7	11.7	24.7
1982-1983	3.5	8.5	12.1	24.1
1983-1984				24.0

Source: Central Statistical Office, National Accounts Statistics. various issues.

The drifting trend is the increase in the rate of public investment achieved over the period, with the exception of temporary interruptions in the upward trend in 1974-1975 and in 1979-1980 when the rate of public investment declined as a percentage of GDP. Over the period as a whole however the rate of public investment increased substantially. Throughout the period, public investment always was much larger than public saving (Table 4) with the deficit being financed from the net surplus of the private household sector which, as in most countries, is a surplus sector, and also from the net foreign inflow.

The investment rate in the private corporate sector, which is also a deficit sector with its investment exceeding savings, behaved unevenly over the period. Its rate- of investment increased in the first half of the seventies and then decreased in the second half. More recently it begun to increase again.

In the sectoral breakdown shown in Table 4 the net surplus sectors are the household sector, and the rest of the world, which provided a net capital inflow in most of the years. This surplus available for investment has been shared between the public rector and the corporate sector with the public sector absorbing most of it. On the whole the share of the public sector in this net surplus has not changed much. It fluctuated around 80 per cent in the first half of the seventies with the exception of a few years. It is exceptionally low at 70 per cent in 1974-1975, when there was a squeeze on public investment and conceptionally high at 96.4 per cent in 1976-1977 where the data show a very short decline in private corporate investment.[6] There was a sharp

[6] The sharp decline in private corporate investment in 1976-1977 is not readily explicable. It is possible that this reflects data problems in complication of national accounts.

increase in the share of the public sector in 1978-79 when public sector investment was stepped up very significantly. The percentage remained high in the next two years as the rate of public investment (as a percentage of GDP) continued to rise while public savings as a percent of GDP declined. However, it has declined again from 1981-82 onwards reaching an estimated is level of 81.5 per cent in 1982-1983.

These trends suggest that an important aspect of the experience of recent years is that the larger net foreign inflow provided the public sector with significant investment-support. Had the current account deficit not increased as it did, public sector investment would have had to contract as a larger effort at domestic savings may not have been possible in fact, to the extent that the economy experienced a foreign exchange constraint arising from a terms of trade deterioration there was a situation in which mere availability of domestic savings would not have permitted financing of the same volume of real investment. Ability to finance a larger deficit was therefore a crucial factor in being able to achieve the level of investment that was achieved.

B. GOVERNMENT SECTOR SAVINGS

Trends in public sector savings with a dis-aggregation into Government savings (Centre, state and local authorities) and public enterprise saving as recorded in the national accounts are shown in Table 6. The table shows that whereas Government sector savings increased in the first half of the 1970s there was a distinct weakening in performance in recent years. The erosion of Government savings in recent years was made up by an improvement in the savings performance of the public enterprises but nevertheless it represents a disturbing development which needs to be corrected.

Government Savings increased steadily as a percentage of GDP reaching 2.8 per cent in 1975-1976. Thereafter Government savings performance weakened and in 1982-1983 Government savings contributed only 1.5 per cent of GDP which was almost the same as in 1970-1971. Estimates for 1983-1984 were not available but even if there were some improvement Government savings were unlikely to be much above 1.6 per cent of GDP.

Current receipts of the Government sector (Centre, States and local authorities) are shown in Table 7 and current expenditures in Table 8. It will be seen that in the earlier period current receipts rose faster than current expenditures though both increased faster than GDP. Total current receipts increased from 13.7 per cent of GDP in1970-1971 to 17.9 per cent of GDP in 1978-1979. Current expenditures increased less rapidly in this period rising from 12.3 per cent of GDP to 15.3 per cent of GDP. Government savings, which is the difference between these two items, increased from 1.4 per cent of GDP in 1970-1971 to 2.6 percent in 1978-1979 (Table 6). Current receipts continued to rise after 1978-1979 (with an interruption in 1980-1981) but there was a faster acceleration in current expenditures. Total current receipts as percentage of GDP increased from 17.9 per cent in l978-1979 to 19 per cent in 1982-1983 but current expenditures rose faster from 15-3 Per cent of GDP to 17.5 Per cent. As a result Government savings declined from 2.6 per cent of GDP In 1978-79 to 1.5 per cent in 1982-83.

Table 6. Structure of Public Sector Gross Saving
(Rs. Crores)

	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983
1. Government Administration	577	530	516	937	1,475	2,094	2,130	2,102	2,519	2,587	2,191	3,411	2,431
	(1.4)	(1.2)	(1.1)	(1.6)	(2.1)	(2.8)	(2.7)	(2.3)	(2.6)	(2.4)	(1.7)	(2.3)	(1.5)
2. Public Sector Enterprises	676	748	817	870	1,201	1,245	2,055	2 ,066	2,262	2,380	2449	4,028	5,000
	(1.7)	(1.7)	(1.7)	(1.5)	(1.7)	(1.7)	(2.6)	(2.3)	(2.3)	(2.2)	(1.92)	(2.7)	(3.04)
(a) Departmental	280	334	311	189	228	355	640	762	728	726	683	922	1,178
	(0.7)	(0.8)	(0.6)	(0.3)	(0.3)	(0.5)	(0.8)	(0.9)	(0.7)	(0.7)	(0.5)	(0.6)	(0.7)
(b) Non-departmental	396	414	506	681	973	890	1,415	1,304	1,534	1,654	1,766	3,106	3,822
	(1.0)	(1.0)	(1.1)	(1.2)	(1.4)	(1.2)	(1.8)	(1.5)	(1.6)	(1.5)	(1.4)	(2.1)	(2.3)
(i) financial	91	103	155	217	351	343	521	581	705	735	897	1,181	1,422 [a]
	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)	(0.5)	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)	(0.9)
(ii) Non-financial	305	311	351	464	622	547	894	723	829	919	869	1,926	2,400[a]
	(0.8)	(0.7)	(0.7)	(0.8)	(0.9)	(0.7)	(1.1)	(0.8)	(0.8)	(0.9)	(0.7)	(1.3)	(1.5)
3. Total Gross Saving (1+2)	1,253	1,278	1,333	1,807	2,676	3,339	4,185	4,168	4,781	4,967	4,640	7,439	7,43[a]
					Percentage distribution								
1. Government Administration	46.0	41.5	38.7	51.9	55.1	62.7	50.9	50.4	52.7	52.1	47.2	45.9	32.7
2. Public Sector Enterprises	54.0	58.5	61.3	48.1	44.9	37.3	49.1	49.6	47.3	47.9	52.8	54.1	67.3
3. Total Gross Saving (1+2)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100. 0	100.0	100 .0	100.0	100.0

Note: Figures in parentheses are percent of GDP.
[a] Author's estimate of the break-up of total non-departmental savings.

Table 7. Current receipts of Government
(Central, State and Local Governments)

Tax Revenue				Income from Property [a]	Miscellaneous receipts	Total Current Receipt	
	Direct Taxes	Indirect Taxes	Total Tax Revenue			Amount	As percentage of GDP at current market prices
1970-1971	1,091	3,864	4,955	416	162	5,533	13.7
1971-1972	1,275	4,515	5,790	436	271	6,497	15.0
1972-1973	1,470	5,175	6,645	475	146	7,266	15.2
1973-1974	1,653	5,876	7,529	521	150	8,200	13.9
1974-1975	1,968	7,515	9,483	728	196	10,407	15.0
1975-1976	2,643	8,834	11,477	820	197	12,494	16.9
1976-1977	2,776	9,926	12,702	l,144	246	14,092	17.6
1977-1978	2,878	10,689	13,567	1,218	239	15,024	16.8
1978-1979	3,057	12,735	15,792	1,349	282	17, 423	17.9
1979-1980	3,387	14,709	18,096	1,527	282	19,905	18.6
1980-1981	3,574	16,744	20,318	1,817	303	22,438	17.6
1981-1982	4,471	20,092	24, 563	2,120	371	27,054	18.2
1982-1983	4,995	23,122	28,117	2,719	383	31,219	19.0
1983-1984 [b]	5,400	27,000	32,400	3,200	400	36,000	19.0

Source: Central Statistical Office, National Accounts Statistics, various issues.

[a] Includes Interest Receipts, but excludes profits of Railways and other departmental enterprises.

[b] Author's estimate.

Table 8. Current Expenditure of Administrative Departments: Central, States and Local Governments

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-1980	1980-81	1981-82	1982-83
TOTAL EXPENDITURE [a]	4,957	5,967	6,751	7,263	8,932	10,400	11,962	12,922	14,905	17,319	20,247	23,643	28,788
a) Consumption expenditure of which:	3,801	4,458	4,745	5,100	6,143	7, 351	8,206	8,667	9,624	11,025	3,033	15,292	18,186
(1) Defence	(1,231)	(1,575)	(1,698)	(1,741)	(2,169)	(2,577)	(2,687)	(2,744)	(2,918)	(3,506)	(4,044)	(4,793)	(5,550) [b]
b) Interest on public Debt	2 16	269	347	477	340	491	601	697	934	1,008	1,490	1,842	2, 643
c) Subsidies	337	422	551	708	1,183	1,120	1,393	1,772	2,201	2,525	2,639	3,161	3,864
d) Sub-Total (a (1)+b +c)	1,784	2,266	2,596	2,926	3,692	4,188	4,681	5,213	6,053	7, 039	8,373	9,796	2,057
e) Other current expenditure	603	818	1,108	978	1,266	1,438	1,762	1,786	2,146	2,761	2,885	3,343	4.095
MEMO ITEMS: **As % of GDP at current Market Prices**													
1. Total Current Expenditure	**12.3**	**13.8**	**14.1**	**12.3**	**12 .8**	**14. 0**	**15. 0**	**14.4**	**15.3**	**16.2**	**15.9**	**15.9**	**17.5**
2. Defence Expenditure, interest payment and subsidies)	**4.4**	**5.2**	**5.4**	**5.0**	**5.3**	**5.7**	**5.9**	**5.8**	**6.2**	**6.6**	**6.6**	**6.6**	**7.2**

[a] = Includes inter-government accounting adjustment

[b] =Provisional.

An important conclusion from the data in Table 7 and 8 is that the major area for action in bringing about improvements in Government savings performance is not so much the mobilisation of additional revenue receipts as the containment of current expenditure. As shown in Table 7 current receipts have been rising over time and accounted for 19 per cent of GDP in 1982-83. Tax revenues account for 90 per cent of current receipts and the tax ratio has also been rising. It exceeded 17 per cent of GDP which was high compared with most other developing countries with comparable per capita income levels.

1. Mobilization of resources through taxation

Broad trends in tax revenues in relation to GDP are shown in Table9. It is seen that there has been a steady increase in the ratio of indirect taxation to GDP over the period from 9.6 per cent of GDP in 1970-71 to 14.3 per cent in l983-1984. The trend in direct taxes is somewhat different. Direct taxes as a percentage of GDP rose upto the mid-seventies reaching a peek of-3.6 per cent of GDF in 1975-1976 but thereafter the percentage actually declined and was estimated to be only about 2.8 per cent of GDP in 1983-1984 almost the same percentage as in 1970-1971. The share of direct taxes in total tax revenues steadily declined from 22 per cent in 1970-1971 to less than 18 per cent in 1982-83. This development is contrary to the normal expectation that the share of direct taxes would increase with development. The imbalance between direct and indirect taxation is one point of criticism frequently levelled against the Indian tax structure.

Table 9. Tax Revenue as Percentage of GDP at Current Market Prices

	Direct taxes	Indirect, taxes	Total tax revenue
1970-1971	2.7	9.6	12.3
1971-1972	3.0	10. 4	13.4
1972-1973	3.1	10.8	13.9
1973-1974	2.8	10.0	12.8
1974-1975	2.8	10.8	13.6
1975-1976	3.6	11.9	15.5
1976-1977	3.5	12. 4	15.9
1977-1978	3.2	11.9	15.1
1978-1979	3.1	13.1	16.2
1979-1980	3.2	13.7	16.9
1980-1981	2.3	13.1	15.9
1981-1982	3.0	13.5	16.5
1982-1983	3.0	14.1	17.1
1983-1984 [a]	2.8	14.3	17.1

Source: Central Statistical Office, National Accounts Statistics, various issues.

[a] Author’s estimate.

The relatively low share of direct taxes in total tax revenue suggested that there was scope for mobilizing additional revenues through direct taxes. But there were quite severe institutional and organizational difficulties achieving this objective. The organisational difficulties in increasing revenues from direct taxation arise from the fact that a very large part of economic activity in India takes place in the unorganised sector where the limited spread of modern accounting practices makes enforcement of direct taxation extremely difficult. Furthermore, the constitution provides that taxation of agricultural income is a state-subject outside the purview of the Central Government. In practice this has meant that direct taxation of agriculture (mainly through land revenue) has been extremely light and diminishing in importance.

There was certainly scope for raising a larger volume of direct tax revenues by spreading the tax net to cover individuals and business units whish presently escape direct taxation to a very large extent. This was largely a matter of improving revenue administration and streamlining procedures. A number of steps have been taken towards this end in recent years. As far as personal income taxation was concerned the existing was to reduce the burden on the tax machinery arising from very large number of relatively low paid employees being within the tax net. Accordingly, the exemption limit which was Rs 10,000 prior to 1980-81, was raised to Rs 15,000 and it is estimated that this may have taken 1.5 million taxpayers, of a total of about 4.5 million, out of the tax net. Steps were also taken to tighten up lawn relating to charitable trusts which in the past served as vehicles for tax evasion. Furthermore all establishments with a gross turnover of over Rs. 4 million per year are now required to have their accounts audited, again with a view to minimising the scope for tax evasion.

All these measures aimed at increasing the effectiveness of direct tax laws have been combined with a reduction in marginal rates of taxation in order to promote greater voluntary compliance with direct taxation. The maximum marginal rate of income tax was as high as 97.7 per cent in the mid seventies. Such high rates encouraged evasion and for this reason the marginal rates were progressively reduced over time. Most recently in 1984-85 there has been a significant reduction of 5 percentage points in rates of tax applicable on all income slabs. The maximum marginal rate of taxation currently was 62 per cent.

The performance on revenue mobilisation through indirect taxes over the years was commendable and there was a steady increase in the indirect tax revenues as a percentage of GDP. This increase came mainly from excise and customs duties levied by the Centre with sales tax (levied by States) also showing healthy growth. A major problem with such heavy reliance upon indirect taxation was that the overall burden of indirect taxes could not be as progressive as if the same revenues were raised through direct income taxation.

Efforts have been made to differentiate to rate structure of indirect taxation by commodities so as to achieve a measure of progressivity but there are limits to what can be done in this respect. Studies of the incidence of indirect taxation based on the direct effect of taxes on final consumption goods have shown a reasonable degree of progressivity but more recent studies taking account of both the direct effect and the indirect effect of taxation on intermediate inputs traced through the input-output matrix have yielded different results[7]. These show that while a measure of progressivity in the total (direct and indirect) impact of indirect taxation was achieved at the very top income levels, the overall incidence on the general population was not progressive. This was probably because progressivity at the top was easily achieved by very high rates of tax on consumer durables and other luxuries but the direct, indirect burden of

[7] An example of the earlier type of study is R.J Chelliah and R. N. Lal "The Incidence of Indirect Taxes in India 1973-74," National Institute of Public Finance and Policy, New Delhi 1981. For a more recent study including both direct and indirect of facts see "Effective Taxes and Tax Reforms in India" by Enticham Ahmad and Nicholas Stern discussion paper no.25 DRRC, Vervic University.

indirect taxation on other income groups showed much less differentiation because a substantial proportion of indirect tax revenue came from intermediate inputs which feed into a wide variety of outputs. The incidence of this taxation was therefore spread on all consumption groups. These calculations could not be treated as definitive because of data problems and problems of aggregation, but they certainly pointed to a potential problem with continuing reliance on indirect taxation to increase the tax ratio.

Apart from the problem of lack of progressivity heavy reliance upon indirect taxation also has the effect that the cumulative burden of duties can sometimes be unduly high on particular commodities leading to unexpected distortions in the cost-price structure. There was increasing recognition of this problem and led to a strong demand for rationalisation either a by shifting to some sort of a value added taxation system, or if this was not administratively feasible, by shifting to a system of "set offs" for duties paid on inputs for selected products facing high rates-of duty. Similarly, there were pressures to reduce customs duties in some areas with a view to reducing domestic costs of production. All these rationalisations of the tax system were likely to involve some revenue loss. While this could be made up through other measures the basic conclusion remained that there was very limited scope for raising the ratio of indirect taxation to GDP without introducing distortions in the tax system.

2. <u>Containment of current expenditure</u>

In view of the limited scope for raising the tax ratio to GDP for the reasons discussed above, much of the scope for increasing Government savings in future must lie in the containment of growth in current expenditure. It is useful in this context to examine the components of current expenditure in order to determine areas where reductions can be contemplated.

One point needs to be clarified in this connection. While reductions in current expenditure will add to public savings and to that extent help to finance investment it should not be assumed that all current expenditure is wasteful. On the contrary, much of current expenditure is actually developmental expenditure. The breakdown of current expenditure shown in Table 10 reveals that education, health and economic services accounted for 52 per cent of total current expenditure in 1981-1982. This proportion rose over time from 46 per cent in 1975-1976. The proportion accounted for by general public services and defence declined from 46 per cent in 1975-1976 to about 40 per cent in 1981-1982. Nevertheless, there was room for economising by containing growth in expenditure while maintaining quality of services through improvements in efficiency.

An important aspect of growth in current expenditure was the growth in interest payments. Table 8 presents a different breakdown of the total current expenditure of the Government sector. It shows that whereas most other items increased at a rate close to the total of current expenditures, the item interest payments increased very rapidly indeed. This growth in interest payments was the cumulative result of the increased reliance of the Government upon borrowing to meet its rapidly growing investment financing needs. As pointed out earlier the public sector is a deficit sector and it investment greatly exceeds its own savings. This led to heavy resort to borrowing over the years. Table11 presents the relative importance or borrowed funds (domestic and external) in the consolidated budgetary transactions of the Centre, States and Union territories. It will be seen that borrowed resources (including the budget deficit) increased substantially relative to total expenditures and also GDP. In 1975-1976 borrowing resources were 24 per cent of total expenditure and 4.5 percent of GDP. By 1984-1985 they increased to per cent respectively. This increase rising interest rates, is reflected in the rapidly rising level of interest payments.

Table 10. Functional classification of current expenditure of administrative departments (excluding local authorities)

(Rs crores)

		1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982
1.	General Public Services	1,655	1,913	2,028	2,226	2,493	3,049	3,606
2.	Defence	2,580	2,694	2,755	2,928	3,517	4,056	4, 806
3.	Education	1,987	2,207	2,499	2,832	3,167	3,768	4,315
4.	Health	404	493	562	645	738	854	996
5.	Social Security and Welfare Service	269	375	313	371	437	603	714
6.	Housing and other / Community amenities	214	246	261	291	304	407	464
7.	Cultural, recreational and religious services	79	95	101	129	127	161	198
8.	Economic Services of which:	1,850	2,525	3,090	3,803	4,394	5,072	5,810
	a) Agriculture, forestry, fishing and hunting	921	1,394	1,743	2,033	2,242	2,577	2,660
	b) Mining, manufacturing and construction	165	188	276	386	642	580	950
	c)Transport and communication	248	283	313	406	458	558	656
9.	Other services	198	256	258	219	340	272	356
10.	Total	9,236	10,804	11,867	11,862	15,517	18,242	21,265

Source: Central Statistical Office, National Accounts Statistics, various issues.

Table 11. Consolidated budgetary transactions of the central and state governments and union territories

(Rs crores)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1. Total Revenue Receipts	5820	6700	7766	8775	10919	13244	14773	15902	18348	20559	23147	28160	32367	37095	41648
2. Total Expenditure [a]	7634	9116	10179	11170	13817	16954	19364	20653	24347	28151	34321	39062	45416	539 08	59525
3. Gap	1816	2416	2 413	2395	2898	3710	4 591	4751	5999	7592	11174	10902	13049	16813	17877
Financed by:															
i)Domestic capital Receipts (net) of which Budgetary Deficit	1434	2038 [b]	2128 [b]	1899	2140	1953	3198	4050	5287	6702	9504	9601	11458	14990	15866
	(419)	(735)	(855)	(503)	(751)	(350)	(133)	(1016)	(6.3)	(2654)	(3450)	(2519)	(2345)	(2421)	(2339)
ii)External Capital Receipts (net)	382	378	28 5	496	758	1757	1393	701	712	890	1670	1301	1591	1823	2011
Memo Items															
Total Borrowing (i) +(ii)															
a) As % of Total Expenditure	23.8	26.5	23.7	21.4	21.0	21.9	23.7	23. 0	24.6	27.0	32.6	27.9	28.7	31.2	30.0
b) As % of G.D.P.	4.5	5.6	5.0	4.1	4.2	5.0	5.7	5.3	6.1	7.1	8.8	7.3	7.9	8.9 [c]	8.4 [c]
Budgetary Deficit as % GDP	1.0	1.7	1.8	0.9	1.1	0 5	0.2	1.1	0.6	2.5	2.7	1.7	14	1.3	1.1

Source; Ministry of Finance, Indian Economic Statistics (Public Finance), various issues.

[a] = Net of repayment of loans and advances.

[b] = Includes Rs. 133 crores in 1971-72 and Rs. 14 crores in 1972-73 of external assistance for refugees from Bangladesh.

[c] = Author 's estimates based on G.D.P. growth of 15 percent on 1983-84 and 13 per cent in 1984-85 in current prices.

3. <u>Some consequences of public borrowing</u>

A major question regarding the increased resort to borrowing by the public sector is whether it led to excessive monetary expansion in the economy. This depends upon the form of borrowing. If Government borrowing takes the form of large budget deficits financed by the expansion of high powered money there is clearly a danger of excessive monetary expansion, which would in turn fuel inflation.

As shown in Table 11 the increasing resort of the Centre and States to net borrowing as a means of financing the gap between revenues and expenditures mainly reflected rapid growth in domestic borrowing. Much of this borrowing consisted of small savings and provident funds which constituted non-inflationary mobilization of the community's resources. A large part of this borrowing also consisted of "market borrowing", mainly investment by the commercial banks in Government securities.

Market borrowing from the commercial banks may also be treated as non-inflationary in Indian institutional conditions. These resources are mobilized under the provision that a fixed percentage of the demand and time liabilities of the commercial banks should be invested in Government securities or Government approved securities. This is essentially a device for allocating the savings of the community mobilized by the banking system between the private sector and the public sector. In view of the fact that the banks remain the most important financial intermediaries in India, and also in view of the fact that deposit mobilisation by the banks is actively encouraged by fiscal concessions, it is reasonable that a share of these resources be diverted to the public sector. This is especially so when the public sector bears an extremely heavy burden of providing resources for investment in infrastructure sectors such as power, coal and railways. The percentage of demand and time liabilities to be invested in Government and Government approved securities has been steadily increased. It was 33 per cent in 1975-1976, and was raised to 34 per cent in 1977-1978, 35 per cent in 1981-1982 and finally to 36 per cent in 1984-1985.

The main potentially inflationary component of Government borrowing is the budgetary deficit which leads to a direct expansion in high powered money or the monetary base. As shown in Table 12 this component has varied over time. It was fairly high as a percentage of GDP in the early years of the seventies, then declined in 1975-1976 and 1976-1977 and rose sharply again in 1979-1980 and 1980-1981. Subsequently it declined again. It must be emphasised however that it is difficult to evaluate the appropriativeness of any given level of budgetary deficit isolated from other monetary and financial developments. For example, in the period after 1980-1981 part of the expansionary impulse of high powered money creation through deficit financing of the period 1980-1981 and 1981-1982 was offset by a reduction in net foreign assets of the banking system as foreign reserves declined. In this case credit creation was not inflationary since it was offset by leakage of demand abroad financed by reduced reserves.

It is perhaps more appropriate to judge the monetary consequences of Government borrowing directly in terms of the end result of monetary expansion. Table 12 presents the growth rate of various definitions of money supply. It will be seen that although the rate of growth of high powered money increased considerably, the rate of growth of broad money (m3) in recent years varied around an average of 16 per cent. This was probably consistent with a growth rate of 5 per cent in real GDP and inflation of around 8 per cent per year. Thus the increased overall recourse to borrowing by government in recent years took place in a framework in which monetary stability was maintained. This was reflected in the relatively moderate rates of inflation in India shown in Table 13. Inflation had accelerated considerably in 1975-1976 and again in 1979-1980 and 1980-1981. In both cases the upsurge was due to a combination of poor agricultural performance and a sharp rise in import prices. Apart from these episodes the average rate of inflation has not been too high though inflationary pressure has been greater in the 1980s than in the mid-1970s.

Table 12. Rate of Growth of Money Supply
(Percentages)

	Narrow Money M1	Broad Money M3	High Powered Money
1970-1971	11.2	13.2	8.5
1971-1972	12.9	15.2	11.6
1972-1973	16.6	18.3	12.1
1973-1974	15.5	17.4	20.6
1974-1975	6.9	10.9	4.6
1975-1976	11.3	15.0	2.7
1976-1977	20.3	23.6	20.5
1977-1978	[a]	18.4	11.7
1978-1979	20.2	21.9	28.7
1979-1980	15.7	17.7	17.7
1980-1981	17.1	18.1	17.4
1981-1982	6.5	12.5	7.0
1982-1983	14.4	16.1	10.1
1983-1984 [b]	15.7	17.4	24.6

Notes: R.B.I Data are on the basis of closure of Govt. accounts from 31 March 1971 onwards. Therefore, the growth rates given for 1970-1971 have been worked out from the earlier series which was not adjusted for the closure of Govt. accounts.

[a] Data on demand and time deposits with scheduled commercial banks from 31 March 1978 to 31 March 1980 have been reworked on a uniform basis of classification of their savings bank deposits. Growth rate for 1977-1978 cannot be computed because of the break in the series. However, if there had not been a reclassification of demand and time deposit in 1978, it would have registered a positive growth of 14.7 per cent in 1977-73.

[b] Refers to growth rates computed from 31st March 1983 upto last Friday of March 1984.

C. PUBLIC ENTERPRISE SAVINGS

Internal generation of resources within the public sector assumes special importance in an economy such as India's in which substantial proportion if investment takes place in the public sector and these high proportions are expected to continue. The savings performance of the public sector enterprises as shown in Table 6 is not very impressive especially considering the very large volume of investment in the public sector.

There was little or no improvement in the volume of savings generated by the departmental enterprises (mainly railways and Post & Telegraphs in the Central Government and irrigations in the States), the figure having fluctuated around 0.7 per cent of GDP over the period 1970-1971 to 1982-1983. There was a modest upward trend in the volume of savings generated by the non-departmental financial institutions (which includes part of the profits of the Reserve Bank). The performance of the non-departmental non-financial institutions appeared quite poor upto 1980-1981 with gross savings as a percentage GDP fluctuating around 0.8 per cent. There was a significant improvement in1981-1982 and 1981-1983. This increase was partly a reflection of the impact of the increase in the prices of domestic crude oil affected in 1981 whereby the price of domestic crude was raised from Rs.324.41 per ton for onshore crude and Rs.452.65 per tonne for offshore crude to Rs 1,182 per ton. This was expected to raise additional resources of Rs 1,100 crores per year.

Table 13. Annual Rate of Inflation and Interest Rate

	Inflation rate over previous year	Inflation rate over previous 3 years	3-year interest rate on bank deposits [a]	Inflation rate over previous 5 years	5- year interest rate on bank deposits [a]
1975-1976	25.2	14.2	9	11.6	10
1976-1977	1.0	8.1	9	10.8	10
1977-1978	2.1	2.0	9.8/7.5	9.8	10/9
1978-1979	0.0	2.4	7.5	5.9	9
1979- 1980	17.1	7.2	7.5/8.5	4.5	9/10
1980-1981	18.2	11.5	8. 5/10.0	8.3	10
1981-1982	9.3	14.8	10.0	9.8	10.0
1982-1983	2.5	9.8	10.0	9.2	10/11
1983-1984	9.4	6.9	10.0	11.1	11.0
1984-1985 (expected)	8.0	6.5	10. 0	9.3	11.0

[a] When the interest rate for deposits of 3 year and 1 month is higher than 3 year deposit the former has been taken. The same practice has been adopted for five year deposits.

The national accounts data on which Table 6 is based does not provide a disaggregation of the performance of public enterprises owned by the Central Government and those of the States. The distinction is important because of the very different nature of the enterprises in each category and their associated problems of management. Trends in gross savings of each group are analysed below on the basis of information available from the Economic Survey, the plan documents and other publications.

1. Central Government Public Enterprise

Trends in gross savings of the non-departmental non-financial enterprises of the Central Government can be assessed from the reports of the Bureau of Public Enterprises. The trends in the gross internal resources generated by these enterprises in recent years (commercial profits after taxes plus depreciation) are summarized in Table 14 with internal resources of the petroleum sector shown separately. There was a very marked improvement in recent years in the total internal resources generated, which corresponds roughly to gross savings. Taking all enterprises together the net profits after taxes were negative (a net loss) in 1978-1979, 1979-1980 and 1980-1981. However when depreciation is included, as it should be for measuring gross savings, the total resources generated 1982 were positive. In 1981-1982 there was a very substantial increase in gross internal resource generation due to both larger depreciation provisions and a conversion of the aggregate losses of public sector enterprises into net profits after tax. A large part of the improvement was obviously due to the resource generation by the petroleum companies. Internal resources generated by other enterprise also increased substantially in 1981-1982 and 1982-1983 but this was mainly because of depreciation provisions.

Non-petroleum enterprises as a group continued to make losses in commercial terms. This is mainly because of large losses in some enterprises especially coal and steel. Figures for 1983-1984 were not available but a deterioration in was likely performance of the public sector enterprises because two important sectors coal and steel, faced severe problems. In the case of coal, an increase in coal prices which was overdue because of rising costs of operation and a costly wage settlement was delayed until January 1984. Steel also suffered because of low off take reflecting poor demand in 1983-1984 and rising costs.

Table 14. Gross Internal Resources of Centre's Non-Financial Enterprises

	All Enterprises			Petroleum Companies			Other Enterprises		
	DRE and Depreciation [a]	Net Profits Total after tax	Total [b]	DRE and Depreciation [a]	Net Profits after tax	Total [b]	DRE and Depreciation[a]	Net Profits after tax	Total[a]
1978-79	695	-40	655	181	139	320	514	-179	335
	(0.7)	(neg.)	(0.7)	(0.2)	(0.1)	(0.3)	(0.5)	(-0.2)	(0.4)
1979-80	826	-74	752	223	132	355	603	-206	397
	(0.8)	(-0.1)	(0.7)	(0.2)	(0.1)	(0.3)	(0.6)	(-0.2)	(0.4)
1980-81	983	-203	780	313	75	388	670	-278	392
	(0.8)	(-0.2)	(0.6)	(0.2)	(0.1)	(0.3)	(0.5)	(-0.2)	(0.3)
1981-82	1,358	446	1,804	499	538	1,037	859	-92	767
	(0.9)	(0.3)	(1.2)	(0.3)	(0.4)	(0.7)	(0.6)	(-0.1)	(0.5)
1982-83	1,720	618	2,338	685	870	1,555	1,035	-252	783
	(1.0)	(0.4)	(1.4)	(0.4)	(0.5)	(0.9)	(0.6)	(-0.1)	(0.5)

Note: Figures in parentheses are percentage of GDP.

[a] DRE refers to deferred revenue expenditure which may be included as a resources.

[b] Includes Dividends declared.

The need to mobilise additional resources from the public sector enterprises has been repeatedly emphasied in Plan documents and was becoming increasingly urgent as the economy approached the limits of raising the tax ratio and also the rate of private savings. The total capital invested in the Central Public sector enterprises as of 1 April 1983 was about Rs 30,000 crores (at historical cost) of which about half was in the form of equity. If this was to yield profits after tax of even 10 per cent of the book value of capital invested, the total profits of public sector enterprises would be about Rs 1,500 crores per year. This compares with realization of Rs 618 crores in 1982-1983, which was again largely due to the increase in petroleum prices. It is obviously difficult to establish norms for public sector profitability taking account of the many special factors which characterize public sector profitability taking account of the many special factors which characterize public sector operations. Nevertheless it appeared that there was a large between the actual-performance of the public sector and a normative level of p0erformance. This gap could well be of the order pf 0.5 per cent of GDP in terms of its potential contribution to public savings.

2. State Government Public Enterprises

The major no-departmental public enterprises in the States Electricity Boards (the electricity utilities) and the State Road Transport Corporations. The financial performance of both, aggregated for all States, during the Sixth Plan period indicated commercial losses as shown below:

	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	Sixth Plan Total
State Electricity Boards	-521	-656	-678	-760	-679	-3294
State Road Transport	-186	-200	-165	-149	-146	-846
Total	**-707**	**-856**	**-843**	**-909**	**-825**	**-4140**

Over the Sixth Plan period as a whole the total commercial losses of the State Electricity Boards and the State Road Transport Corporations amounted to Rs 4,140 crores.

At the time of formulation regarding resources generation from the State Electricity Boards and the State Electricity Boards and the State Road Transport Corporations was as follows.8 The State Electricity Boards were expected to make commercial losses (after providing for depreciation of Rs 4,400 crores at the prevailing levels of tariffs (assuming constant prices for inputs also). However with depreciation provisions at Rs 3,872 crores, the resources contribution at 1979-1980 rates of tariff was Rs- crores. The Sixth Plan envisaged that additional efforts would be made to reduce the projected losses to no more than Rs 900 crores in 1979-1980 prices in the Sixth Plan period. The actual performance presented above) should cumulative losses of Rs 3,294 crores in current prices! The total investment in the State Electricity Boards was almost Rs 40,000 crores all of which took the form of loans. The average interest at which these loans are to be serviced is quite low (about 7 per cent) and therefore the prevalence of losses reflects an inability to earn even a modest return on total capital invested. If the norm for financial performance were fixed at a profit of 2 per cent on capital invested after servicing the relatively low interest loans, the annual profit should be Rs 800 crores instead of annual losses of about Rs 650 crores. In other words the shortfall in resource mobilization compared to a modest norm in this sector was Rs 1,45O crores corresponding to about 0.75 per cent of GDP.

The performance of the Road Transport Corporations is also is appointing. The Sixth Plan had projected total losses in 1980-1981 to 1984-1985 of Rs 1,340 crores which, with depreciation included, yielded gross resources of Rs.506 crores. The objective was to take additional measures to wipe out the commercial losses entirely. Actual performance however showed annual losses of about Rs150 crores.

The problems of resource mobilisation in these two sectors are partly problems of pricing and partly problem of management. Both have to be tackled simultaneously. Because both types of activity are in the nature of public utilities, there is strong resistance to raising prices. However, there is no alternative to making the necessary adjustment especially in the interest of rational energy use in the economy. Existing electricity prices were below marginal cost of generation and though prices have been continuously raised to cover rising prices of inputs, electricity remained somewhat underpriced. Much of the problem however arises from operational inefficiency in these sectors which also needs to be attacked directly.

To summarise, the savings performance of the Central and State owned public enterprises needed to be greatly improved in order to increase surplus generation in this sector. There was also a role for graduated price adjustments where prices may have got out of line. Rough calculations suggested that an increase of about 1.3 percentage point in public savings as a per cent of GDP could be achieved over time with appropriate action on this front.

D. HOUSEHOLD SAVINGS BEHAVIOUR

As noted earlier, growth of private household savings has been the major factor behind the growth of gross domestic savings in India. This expansion in private savings cannot be explained solely by the growth in income per head. Between 1970-1971 and 1978-1979 per capita income increased by only 13 per cent but the rate of private savings as a percentage of GDP increased from 12 per cent in 1970-1971 to 18 per cent in 1978-1979. Clearly there were other factors at work. There is considerable measure of agreement among analysis that the remarkable growth in private savings was the result of a conscious policy of encouraging the development of financial institutions capable of mobilizing private savings combined with

[8] Government of India, Planning Commission, Sixth Five Plan, 1980-1985.

appropriate interest rate policy and fiscal incentives. This policy paid handsome dividends in that it succeeded not only in raising the level of private savings but also chan elling an increasing proportion of savings through financial intermediaries, which was an added advantage since it helped to direct additional savings towards preferred areas of investments in line with development objectives.

1. <u>Changing Structure of Private Savings</u>

The structure of private household savings in terms of dis-aggregation into different categories of savings instruments is shown in Table 15 . The table reveals a major structural change in the composition of household savings with a steadily rising share of financial savings in total savings. In 1970-1971, when private household saving was only 12 per cent of GDP, the share of financial saving in this total was only 25 per cent. By 1982-1983 when private savings 16 per cent of GDP the share of financial savings had increased to 40 per cent.

There was a steady decline in the proportion of private savings taking the form of direct investment in physical assets with a rising share for financial instruments. There was a sharp increase in the share of bank deposits from 10.1 per cent in the period 1971-1972 to 1972-1973 to 16.5 per cent in the period 1976-1977 to 1978-1979. Thereafter there was a decline in this item in favour of net claims on Government (mainly small savings certificates issued by the Government). The share of bank deposits and Government securities together increased dramatically from 7.3 per cent in the period 1970-1971 to 1972-1973 to 17.1 per cent in 1979-1980 to 1981-1982. The share of private savings invested of shares and debentures, though small, has also increased in recent years.

2. <u>Policy incentives for private savings</u>

The success in mobilizing increasing volumes of private household savings through the financial system is the result of a conscious policy of developing and expanding the institutional base for financial intermediation by encouraging the development of a variety of financial instruments, offering attractive interest rates for private savers through the nationalised banks and Government securities, and providing fiscal incentives In support of financial savings. These are discussed in detail below:

(a) <u>Expansion of banking infrastructure and small savings scheme</u>

Expansion of banking services and facilities was given high priority especially after the nationalisation of commercial banks in 1969. The number of bank branches on 30 June, 1969 was only 8262. It had increased to 18,730 on 30 June 1975 and reached 44,000 on 30 June, 1983. A major effort has been made to extend banking into the rural areas to channel credit to those areas and also to mobilize financial surpluses emerging in rural areas in the wake of rising agricultural incomes. The number of rural branches increased from 1832 on 20 June 1969 to 6,806 on 30 June 1975 and 22,618 on 30 June1983. Parallel with the expansion of bank branches a major effort has been made to promote small savings schemes whereby individual savers could purchase interest purchase interest paying small savings certificates from post offices.

(b) <u>Interest rate policy</u>

The rate of interest available to savers is a major instrument for promoting private savings and government policy thought to ensure that interest rates variety of financial instruments art attractive. A commonly held view regarding the use of interest rate policy for this purpose is that it should provide a positive real return to the saver. Interest rates offered on a variety of financial instruments ensured this.

Table 15. Structure or Gross Private Saving (Rs. Crores)

	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983
I. Household Sector	4,873	5,466	5,649	8,522	8,537	10,452	12,592	14,267	17,694	17,623	22,030	23,936	26,344
(a) Financial Savings	1,371	1,555	2,128	3,612	2,374	3,918	4,783	5,728	6,746	6,619	8,572	9,727	11,663
1. Currency	345	380	616	812	17	321	1,131	714	1,486	1,322	1,638	984	
2. Net Deposits	265	574	773	1,260	1,017	1,131	1,841	2,731	2,795	2,049	3,042	3,114	
3. Shares and Debentures	94	61	26	44	137	115	78	247	234	375	513	705	
4. Net claims on Govt.	(-) 12	(-)243	(-)196	434	(-) 95	742	95	172	3	460	480	1,569	
5. Life Insurance Funds	189	216	262	326	322	385	480	559	648	738	850	969	
6. Provident & Pension funds	490	567	647	736	976	1,224	1,158	1,305	1,580	1,675	2,049	2,386	
(b) Saving in physical Assets	3,502	3,911	3,521	4,910	6,163	6,534	7, 809	8,539	10,948	11,004	13,458	I4,209	14,681
II. Private Corporate Sector [a]	657	754	787	1,063	1,440	1,055	1,128	1,327	1,606	2,249	2,544	2,771	2,895
III. Total Private Saving (I+II)	5,530	6,220	6,436	9,585	9,977	11,507	13720	15,594	19,300	19,872	24,574	26,707	29,239
	Percentage distribution												
I. Household Sector	88.1	87.9	87.8	88.9	85.6	90.8	91.8	91.5	91.7	89.7	89.6	89.6	90.1
a) Financial saving	24.8	25. 0	33.1	37.7	23.8	34.0	34.9	36.7	35.0	33.3	34.9	36.4	39.9
b) Saving in Physical Assets	63.3	62.9	54.7	51.2	61.8	56.8	56.9	54.8	56.7	55.4	54.7	53.2	50.2
II. Private Corporate Sectors [a]	11.9	12.1	12.2	11.1	14.4	9.2	8.2	8.5	8.3	11.3	10.4	10.4	9.9
III. Total Private Saving (I+II)	100.0	100.0	100.0	100.0	100.0	100.0	100. 0	100.0	100.0	100.0	100.0	100.0	100.0

[a] Including cooperative sector

Bank deposits remained the principal savings instrument used by rates savers and interest rates on term deposits were fixed at levels which provided a positive real return. Table 13 compares for each year the annual rate of inflation experienced over the previous three years and over the previous five years with corresponding rate of interest in that years for three year and five year fixed deposit in commercial banks. For three-year deposits, inflation rate was higher than the interest rate in 1975-1976 but thereafter, upto 1980-1981 interest rates were higher. The three year interest rate fell below the three-year inflation was lower thereafter. As far as five-year deposits were concerned, the interest rates were consistently above the average annual rate of inflation over the five years after 1975-1976.

Although interest rates on bank deposits of three years and above generally provided a positive return to savers, this was not the case with small savings certificates until recently. Until 1980-1981 National Savings Certificates provided a return of 6.5 percent for seven-year maturity and though seven-year inflation rate was around for in 1981-1982 a new Notional Savings Certificate (NSC VI & VII) was issued with maturity of 6 years and interest rate of 12 per cent (compound).These certificates are eligible for early encashment, with a 9 per cent interest rate payable after 3 years. This provided a strong positive expected return to savers. The results were evident from the mobilization of saving under the small savings scheme which increased very sharply from a level of Rs 1,105 crores in 1979/80 to Rs 2,200 crores in 1983/84 (revised estimates) and to Rs 2,400 crores in 1984/85 (budget estimates).

Until 1979-1980 the rate of interest payable on debentures issued by the corporate sector (seven year maturities) was limited to a maximum of 10.5 per cent. In 1980-1981 this was raised to 13.5 per cent. In 1982-1983 the ceiling of 13.5 per cent was applied only to convertible debentures (a new instrument which includes the option of converting a part of the value of the debenture within a specified period into equity at a fixed , usually discounted price). The ceiling on non-convertible debentures was raised to 15 per cent.

These developments substantially raised the rate of interest available to private to private savers in the past few years with a base level positive return ensured for highly secure and safe three year investment, with higher returns available as the term of maturity or degree of risk increases.

(c) Introduction of new savings instruments by Government

A number of new and innovative savings instruments have been created in recent years to provide a variety of assets available to individual savers. Three new Government instruments have been introduced apart from the 12 per cent six-year National Savings Certificates mentioned above.

In December 1980 Govt. issued a series of **Special Bearer Bonds** which were made available for a limited period. These bonds were not normal savings instruments being designed specifically to unearth "unaccounted wealth" which scalped the tax net and circulated in what is called "the black economy". The Bonds were freely transferable and free of both wealth tax and gift tax. The holder was also exempted from enquiry by the income tax authorities regarding the source of funds used for acquisition of the Bonds. Against this the Bonds carried an interest rate of only 2 per cent for a 10-year period. The low interest rate was an implicit tax on bringing unaccounted wealth into the open and holding it in the form of financial savings thus encouraging a flow of unaccounted wealth into the exchequer. This instrument raised Rs.1,000 crores within the period one year.

In 1982 a- **Social Security Certificate** was introduced which combined savings with an clement of insurance aimed at low income individuals. Individuals between 18 and 45 years of age could invest in the certificates upto a maximum of Rs. 5000. The certificate would be redeemable at three times its face value in ten years (compound interest rate of 11.6 percent) with the additional benefit that in the event of death of the holder at any time during this period the certificate could be redeemed at full maturity value. Estimates of resources mobilised under this head were not available.

In 1983 Government issued a new **Capita1 Investment Bond** with a maturity period of 10 years and an interest rate of 7 per cent. Interest income from this bond is fully exempt from tax and the bond is also free of wealth tax and gift tax for gifts upto Rs l million. This instrument was designed to appeal to high income savers subjected to the cumulative incidence of both income tax and wealth tax. This instrument raised Rs. 60 crores in 1983-84.

In 1984 the Government introduced a new National Deposit Scheme. These deposits have a normal 4-year maturity carrying 10.5 per cent interest with the facility of early encashment at rates equal to the fixed interest payable on bank deposits of corresponding maturity (i.e. 7 percent for 1 year encashment; 9 per cent for 2-year encashment and 10 per cent for three year encashment). In effect this instrument encourages lengthening of maturities of investment for individual savers who might otherwise have a preference for shorter maturities in view of uncertainties of their liquidity needs.

(d) New instruments of the corporate sector

Apart from Government securities there have also been innovative developments in the private capital markets. A particularly successful new instrument used effectively in recent years was the convertible debenture. This is a fixed interest corporate bond with a seven year maturity but with the provision for conversion within a specific period or a part or the value into equity at a pre-determined rate. This instrument provided an easy way for small savers, initially seeding secure investment with high interest rates, to achieve the transition into equity investment with its inevitably greater uncertainty but higher expected return.

(e) Fiscal incentives to savings

An important factor behind the rapid growth of financial savings by households is the conscious use of fiscal incentives to promote financial savings. The Indian fiscal system contains three major incentives for financial savings each of which has bean strengthened, in recent years.

First, interest/dividend income from certain types of financial assets (banks deposits, government securities including small savings, dividends from India companies and income from shares (units) of the Unit Trust of India) are exempt from income tax upto some specified limit. This increases the post tax return on these instruments compared with other savings instruments. In 1975-1976 the aggregate amount of exemption that could be claimed for such income (with sub-ceilings for certain types of assets) was Rs 5,000 per year. This was raised to Rs 9000 in 1982-1983 and most recently to Rs 12,000.

Secondly, the initial investment in certain types of financial assets is deductible from income for computation of taxable income upto a specified limit or investment per year. The assets eligible for this deduction were earlier limited to contributions to provident funds and Life Insurance contributions. The amount of deduction allowed in 1975-1976 was 100 per cent of the first Rs 4,000 of investment, 50 per cent of the next Rs.6000 and 40 per cent of the balance upto a maximum of Rs 20,000. These limits have been marginally adjusted on several occasions. Recently they stood at 100 per cent of the first 6000, 50 per cent of the next 6,000 and 40 per cent of the balance subject to a maximum of Rs 40,000. Besides, the list of eligible assets under this provision has been widened to include the new 6 year 12 per cent National Saving Certificate. This is a major liberalisation considering that this certificate is a highly attractive instrument on its own.

A similar incentive for financial investment is the provision for deduction from income of 50 per cent of the cost of acquisition of shares in new companies subject to a limit. This limit was raised from Rs. 10,000 to Rs. 20,000 in 1982-1983.

Finally wealth held in the form of approved financial assets is exempted from wealth tax upto a specified limit. This limit for al1 eligible financial assets was Rs.175 thousand in 1975-1976. It was raised in 1984-1985 to Rs 325 thousand (Rs.265 thousand for banks deposits, equity shares, and Govt. securities with a separate exemption of Rs 35,000 for units of the Unit Trust of India and Rs. 25,000 for the new National Deposits).

It is extremely difficult to quantify the impact of these fiscal concessions upon the total volume of private savings. One view is that such concessions for eligible financial assets, do not affect the total savings rate but only help to channelise savings towards eligible assets. This is perhaps an exaggeration. An attractive return on financial assets is likely at the margin to discourage investment in consumer inventories and also to discourage postponement of purchases of consumer durables before they are really needed. To the extent that it raises the cost of capital generally it would also discourage inventory holding in the economy thus releasing resources for productive investment. Even if the only effect is to divert savings into preferred financial channels there is an advantage since it enables greater direction of investment into desirable channels. In view of these considerations it is reasonable to conclude that the combined effect of higher interest rates available to savers on financial assets and fiscal incentives to savings which increase the effective return on these assets, has probably helped to increase the rate of savings to some limited extent and has certainly helped to direct the flow of savings into desirable directions.

There are however some weaknesses in the system of incentives. Fiscal incentives necessarily provide a larger incentive to higher income individuals because the marginal rate of tax on ,the exempted income is higher. Another criticism of the incentive that it is not based on the net increase in total financial saving or even on the net increase in the eligible financial assets but only on gross investments. This encourages "churning" of assets i.e. using the proceeds of maturing assets to reinvest and claim the benefit for that year even though no additional or even additional diversion of resources into preferred channels has taken place. This is a legitimate criticism and suggests that incentives should be linked to the net increase in the total amount of eligible assets held. This would be administratively more difficult but it is worth exploring.

III. PROSPECTS FOR THE FUTURE

The trends in resource mobilisation in India reviewed above highlight the nature of resource constraints facing the economy during the rest of the 1980s. The investment needs of the economy are very large and the prospects for external resource mobilisation are extremely limited. India has traditionally depended heavily upon multilateral sources, especially the IDA, for concessional assistance. The recent decision fixing the size of IDA VII at $9 billion combined with the entry of China as an eligible IDA borrower means that India's share of IDA in absolute terms will be significantly reduced. Annual commitments of IDA funds are likely to decline from around $1200 million per year to about $700 million. Part of this will be made up by World Bank lending but this will imply a larger debt service burden because of the difference in terms between IDA end IBRD loans. Other aid flows are also severely constrained.

In the years ahead India faces substantial repayments obligations arising out of the repayment of IMF drawings under the extended arrangement with the IMF and also out of the increasing resort to external commercial borrowing in the past few years. In view of the constraints on external assistance flows and the need to limit external commercial borrowings in order to keep the debt service ratio within reasonable limits, the overall net availability of external financial inflows will have to decline as a percentage of GNP. It is estimated that net foreign inflows, which are about 1.4 per cent of GNP, may have to decline to about 0.7 per cent of GNP by the end of the decade. At the same time the investment rate will have to increase from the present level in view of heavy investment requirements in oil exploration, power, coal, transport and also irrigation. A medium term perspective on future investment requirements was being prepared for the Seventh Plan period (1985-1986 to 1989-1990). The investment rate may have to be raised by 2 to 2.5 percentage points from its existing level over the Seventh Plan period. With an expected reduction in the net reduction in the net foreign capital inflow by about 0.7 percentage points this mean that domestic savings would have to be raised from around 23 per cent at present to around 26 per cent of GDP. The Approach to the Seventh Plan recently published contained somewhat higher target of an average 26 per cent savings rate over the entire seventh Plan period.

Thus, the requirement in the years ahead is to raise the rate of savings by between 3 to 4 percentage points. This will not be easy to achieve especially in view of the stickiness a of the savings rate in the past four years.

The task of raising domestic savings will to be shared between the public and the private sector. There is scope for increasing the contributions of the public enterprises to gross domestic savings about 2.0 per cent of GDP as estimates in this paper. This will required combination of improvement in operational efficiency.

With selective increased in prices in some sectors. In addition, it will also be necessary to raise the rate of Government savings by about 0.5 per cent of GDP. This can be done by some improvement in tax collections combined with restraint in the growth of current expenditure.

Taken together the public enterprises sector and the Government sector could aim at a maximum increase in its contribution to domestic savings of about 2.5 percentage points of GDP. As this involves a massive improvement in the Performance of public sector enterprises, especially those which are in the nature of public utilities it would be more realistic to consider a maximum feasible increase of say 1.5 percentage points of GDP in public sector savings by the end of the Seventh Plan. This would take public sector savings from about 5 per cent of GDP in 1983-1984 to say 6.5 per cent by 1989-1990.

With this improvement private sector savings would have to increase to 19.5 per cent from the present level of just under 18 per cent. This will not be easy. Although rate of 19.8 per cent was achieved in 1978-1979 this was because of a number of exceptional factors operating in that year. It was year of high growth in the economy (5.8 per cent) following an earlier high growth year (8.8 per cent). Even more important it was a period when remittances from abroad had been rising rapidly for a few years and consumption had probably not fully adjusted to the flow of remittances. For instance it is quite likely that in the first a few years after the growth of foreign remittances began in 1974-1975, these remittances were used to finance investments (house-building, tractors, pump-sets, etc.) whereas at the later stages continuing remittances were used primarily for consumption.

For all these reasons it may prove quite difficult to raise private savings to 19.5 per cent in the years ahead. However the basic strategy in bringing about this increase must be a continuation of what has already been attempted with some success.