Hike in Small Savings Interest Rates

Why in news?

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The Centre has announced increases of 30-50 basis points in rates of post office savings schemes for the upcoming October-December quarter.

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Why is the rates revision?

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- The Shyamala Gopinath panel was set up in 2010 to recommend, besides others, on ways to make small saving plans more market-linked.
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- Based on these recommendations, interest rates on small savings schemes are reviewed before the end of every quarter.
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- Accordingly, the new rates are announced for the next quarter.
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- The revised rates mean that fresh deposit between October 1 and December 31 will get higher interest.
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What were the key changes?

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- The rates are revised for Small saving schemes such as Public Provident Fund (PPF), National Savings Certificates and Post Office Deposit Scheme.
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- Rates on short-term deposits are increased by 30 bps (100 bps is 1 per cent).
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- Higher increases of 40 bps were reserved for special schemes such as the -

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i. Post Office Monthly Income Scheme
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ii. Sukanya Samridhhi
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iii. Kisan Vikas Patra
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iv. Public Provident Fund
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v. National Savings Certificates
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- Senior Citizen Savings Scheme (SCSS) saw an increase of 50 bps.
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How will it help?

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- **Banks** - Indian banks have always delayed passing on market interest rate increases to their depositors.
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- On the other hand, they transmit rate increases promptly to their borrowers.
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- Bank deposit rates have climbed by just 50 bps in the past year.
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- But government security yields have jumped by 100-140 bps.
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- Post office term deposits are now set to offer 6.9 to 7.8% for one- to five-year tenors.
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- This will make the banks raise their low deposit rates of 6.25-7.25 %.
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- Hence the move, essentially, realigns the returns to small savers with prevailing market interest rates.
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- **Savings** - The latest RBI Annual Report showed that in FY18, household savers halved their incremental deposits with banks.
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- But they doubled their holdings of hard currency and raised their equity and mutual fund bets fourfold.
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- So the higher rates on small savings schemes will hopefully discourage savers from hoarding cash.
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- This will also prevent them from taking uninformed bets on equity or hybrid mutual funds, without understanding the risks.
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- The move may mean increased borrowing costs for the Centre.
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- However, it sends out the right signals to the market as well as investors engaged, in reallocating their financial savings.
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Source: BusinessLine

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