Government's Small Savings Rate

Why in news?

The Central Government kept interest rates on small savings schemes, unchanged for the July to September quarter of FY23.

What are Small Savings Schemes?

- **SSS**-Small Savings Schemes are a set of savings instruments managed by the central government with an aim to encourage citizens to save regularly irrespective of their age.
- These schemes are launched by the government, banks, and public sector financial institutions.
- Since 2016, the Finance Ministry has been reviewing the interest rates on small savings schemes on a quarterly basis.
- All deposits received under various small savings schemes are pooled in the **National Small Savings Fund (NSSF)** which is used by the central government to finance its fiscal deficit.
- **Classification**- The schemes can be grouped under three heads - Post office deposits, savings certificates and social security schemes.
  - **Post Office Deposits**- It includes savings deposit, recurring deposit and time deposits with 1, 2, 3 and 5 year maturities and the monthly income account.
  - **Savings Certificates**- It includes National Savings Certificate and the Kisan Vikas Patra.
  - **Social security schemes**- It includes Public Provident Fund, Sukanya Samriddhi Account and Senior Citizens Savings Scheme.
- **Benefits**
  - Provide returns that are generally higher than bank fixed deposits
  - Has a sovereign guarantee and tax benefits
  - Highly reliable as they are backed by the government
  - Not subject to stock market movement
  - Inculcate the saving habit among individuals

National Small Saving Fund (NSSF) was established in 1999 within the Public Account of India. It is administered by the Ministry of Finance, under the National Small Savings Fund (Custody and Investment) Rules, 2001, derived from Article 283(1) of the Constitution.

What about the government's decision on small savings rates?

- **Determination of small savings rate**- Small savings rates are linked to yields on benchmark government bonds.
- But despite the movement in G-Sec (government securities) yields, the government has not

reduced the interest rates in the last two years.

- **Current decision**- The government has decided to keep interest rates on small savings instruments unchanged.
- As per the recent decision, schemes like Public Provident Fund (PPF) and the National Savings Certificate (NSC) will continue to carry an annual interest rate of 7.1% and 6.8%, respectively.
- Term deposits of 1-5 years will fetch a rate in the range of 5.5-6.7% while five-year recurring deposits will earn a higher interest of 5.8%.

What does it mean for banks and savers?

- **Negative real rate of return**- The decision comes at a time when the inflation is ruling over 7% and bond yields have risen over 7.4%.
- The decision may result in negative real rate of return after adjusting for inflation for savers and pensioners.
- Technically, negative real rates discourage savings and boost consumption which in turn may fuel more inflation and lead to even more negative real rates.
- **Slow down the deposit rate hike**- Banks are now unlikely to go for a major hike in deposit rates.

References

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