National Small Savings Fund

Why in news?

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- The Union Cabinet has given its approval to exclude State Governments States/UTs (with Legislature) except Arunachal Pradesh, Delhi, Kerala and Madhya Pradesh from NSSF investments from 01.04.2016.
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- It also approved providing a one-time loan of Rs. 45,000 crore from NSSF to Food Corporation of India (FCI) to meet its food subsidy requirements.
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What is NSSF?

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- Prior to April 1999, the disbursement of loans against small savings made to the States and repayment of such loans were recorded in the capital account of the Consolidated Fund of India.
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- The on-lending to States from the small savings collections was treated as part of Central Government's expenditure and added to Central Government's fiscal deficit.
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- Therefore an increase in small savings collections led to an increase in fiscal deficit.
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- Hence National Small Savings Fund (NSSF) in the Public Account of India was established with effect from 1999.
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- All small savings collections are credited to this Fund.
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- Similarly, all withdrawals under small savings schemes by the depositors are made out of the accumulations in this Fund.
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What is the issue?

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- The Fourteenth Finance Commission (FFC) recommended that State Governments be excluded from the investment operations of the NSSF.
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- The NSSF loans come at an extra cost to the State Government as the market rates are considerably lower.
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- The Union Cabinet has accepted that this recommendation will be examined in due course in consultation with various stake holders. Barring Arunachal Pradesh, Delhi, Kerala and Madhya Pradesh, the other State Governments/UTs expressed a desire to be excluded from NSSF investments.
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What is the current move?

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- The involvement of States which are excluded from operations of National Small Savings Fund with effect from 1.4.2016 would be limited solely to discharging the outstanding NSSF debt obligations as on 31.3.2016 (FFC Recommendation).
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- The loan contracted by States till 31.3.2016, from the National Small Savings Fund will stand completely repaid by the Financial Year 2038-39.
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- Exclusion of States/UTs (with Legislature) excepting Arunachal Pradesh, Kerala, Madhya Pradesh and Delhi from NSSF Investments. Arunachal Pradesh shall be given loans to the tune of 100% of NSSF collections within its territory, whereas Delhi, Kerala and Madhya Pradesh shall be provided 50% of collections.
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- NSSF in the future shall, with the approval of Finance Minister, invest on items the expenditure of which is ultimately borne by Government of India(GoI) and the repayment of principal and interest thereto would be borne from the Union budget.
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- The States except Arunachal Pradesh, Delhi, Kerala and Madhya Pradesh shall be excluded from NSSF investments from 01.04.2016.
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What is the effect?

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- Once states are excluded from NSSF investments, the investible funds of NSSF with Gol will increase.
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- Increased availability of the NSSF loan to GoI may reduce the GoI's market borrowings.
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- The States will however, see an increase in market borrowings.
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- Any increase in yields due to an increased demand for loanable funds in the market from Centre and States combined would be marginal.
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- The reduction of FCI's borrowing cost equivalent to the extent of the interest differential will be reflected in the GoI's savings on the Food Subsidy Bill.
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- Implementing the decision to exclude states from NSSF investments and extending the loan will entail no additional cost. Instead a reduction in the food subsidy bill of the GoI is anticipated.
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- Arunachal Pradesh, Delhi, Kerala and Madhya Pradesh will continue availing of NSSF loans, 26 other States and Puducherry who are eligible to borrow from the market have preferred to stop taking loans from the NSSF.
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Source: PIB

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