

## **Govt may announce new interest rates on small savings schemes soon**

The government is soon likely to announce rationalised interest rates on small savings schemes, enabling banks transmit the policy rate reduction by the Reserve Bank of India to borrowers.

According to sources, the finance ministry is seriously considering the suggestions made by various stakeholders, including banks and other ministries, and brought up during the pre- budget meetings with leading economists and experts, suggesting lower small savings rate.

Finance Minister Arun Jaitley had announced on September 29 that the Centre would review small savings schemes, rationalising and aligning their interest rates with the central bank's regime. This was the same day when RBI Governor Raghuram Rajan had cut policy rate by 50 basis points ( bps) from 7.25 per cent to 6.75 per cent, bringing it to a total cut of 125 basis points for the calendar year 2015.

Small savings schemes include initiatives such as the National Savings Scheme, Kisan Vikas Patra, post office deposits and Public Provident Fund. Interest rates for these schemes range between 8.4 per cent for one- year deposit and 9.3 per cent for five- year Senior Citizens Savings Scheme.

Banks have been reluctant in transmitting the entire policy rate cut to borrowers as they want to keep their deposit rates attractive to match with those in small savings schemes, popular among masses.

Despite the 125 basis points repo rate cut by RBI in 2015, banks have transmitted just 60 basis points cut in lending rates. Banks have argued that the high small savings rate makes fixed deposits of banks uncompetitive, hampering the transmission of repo rate to borrowers.

“The various suggestions are being examined and new interest rates for the small savings schemes will be announced soon,” said a senior official. The North Block may consider fixing the small savings rate at par with the five year government security yields. The alignment could be done on a quarterly basis to ensure that small savings rate does not become an impediment in the monetary transmission process.

Sources said the government is also considering the suggestions of differential interest rates on small savings according to age groups, similar to the benefits provided to senior citizens by banks. Banks normally pay 25- 50 basis points higher interest on senior citizens' deposits. The country's largest bank, State Bank of India, in its pre- budget recommendations, pointed out that a person in the age group of 30- 45 years primarily saves for tax purposes while a person above 45 years saves for social security.

RBI has also announced new guidelines to price loans from April 1 to make lending rates more receptive to policy rate changes.

*(Business Standard)*