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NO SMALL CHANGE: ON THE RAISING OF RETURNS ON SMALL SAVINGS SCHEMES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

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Indian households' financial surpluses parked in small savings schemes operated by banks and post offices got a significant fillip this quarter, with the government raising the returns on most such schemes by 0.1 to 0.7 percentage points. This constituted the third successive hike in the rates that are reset each quarter. However, the breadth of the schemes covered was wider than on the last two occasions. For October 2022 to December 2022, a mere 0.1 to 0.3 percentage hike was announced on just five of the dozen small savings schemes. The first quarter of 2023 saw another 0.2 to 1.1 percentage point hikes on eight schemes. These increases came after a long pause in rates since April 2020. As the central bank started rate hikes last year and government bond yields (to which small savings rates are linked) hardened, there was a widening gap between the extant rates and the rates prescribed by the formula recommended by the Shyamala Gopinath panel that was officially adopted in 2016. This gap stood at 44 to 77 basis points (bps) after the meagre hikes of October (one basis point equals 0.01%).

Now, that gap is zero or marginal on six schemes, but for five schemes, it is still at 5 bps to 82 bps. These include the Public Provident Fund (PPF), whose rates have been frozen at 7.1% for three years now and should have fetched 7.72% last October and 7.76% for this quarter as per the formula. Government mandarins indicate they are not inclined to hike the PPF rate as its returns are tax-free, unlike in the case of other schemes. If that is so, it must publicly restate its policy position. Yet, the returns on the Sukanya Samriddhi Account Scheme, which are also tax-free, were hiked to 8% this quarter. Its only ostensible difference with the 1960s-origin PPF is it was launched by the current government to encourage savings for the girl child. The General Provident Fund rate for government employees has also been retained at 7.1%, but their dearness allowance has been hiked and a review of their benefits under the New Pension Scheme is underway. While PPF savings are capped at 1.5 lakh a year, this Budget raised the limits on a couple of small savings schemes to multiple times of that. It is perhaps no coincidence that the last time small savings rates were hiked across the board was in January 2019, ahead of the Lok Sabha battle. That several States vote this year and the general election looms in 2024 may have influenced the latest hikes as a feel-good device. An even-handed and transparent policy approach rather than quinquennial bouts of relief for small savers, would inspire more confidence.

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