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Government Cuts Interest Rates on NSC, PPF

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Why in News

Recently, the Government of India **slashed interest rates on small savings schemes**, including National Savings Certificate and Public Provident Fund **to counter the economic fallout of the coronavirus pandemic**.

- **The move by the government has followed the Reserve Bank of India's (RBI) recent 75 bps cut in its key interest rate.**
- Interest rates for small savings schemes are **notified on a quarterly basis**.

Key Points

- **In the case of the National Savings Certificate**, the government has brought down interest rates by 110 **basis points (bps) to 6.8%**.
- **Interest rates on Public Provident Funds (PPF)** for the quarter have been brought down by 80 bps to 7.1%.
- Interest rates for **Kisan Vikas Patra** have slashed by 70 bps to 6.9%.

Decoding the Rate Cuts

- The rate cut is in the line with RBI's recent move to slash key interest rates.
- Government's decision is the **part of the Fiscal Policy which is a sister strategy to monetary policy (decided by the Central Bank)** used in different combinations to achieve the country's economic goal.
- **Small savings schemes are attractive because of higher interest rates and tax benefits**, and that hurts the mobilisation of bank deposits.
- **It also affects the transmission of policy rate cuts**, which is why the RBI also advocated **rate rationalisation** on small saving.
- The move will lead the nation into a **low-interest rate regime**.

Small Saving Scheme

- The small savings scheme basket comprises 12 instruments.
- It includes - National Saving Certificate (NSC), Public Provident Fund (PPF), Kisan Vikas Patra (KVP) and Sukanya Samriddhi Scheme.
- It also includes Saving Deposit, Monthly Income Deposit, several time and recurring deposits.
- The rates for small saving schemes are **announced quarterly**.
- Theoretically the rate changes is based on yields of government securities of corresponding maturity. However, political factors also influence the rate change.
- The **Shyamala Gopinath panel** constituted on the Small Saving Scheme had suggested a market-linked interest rate system for small savings schemes.

Source The Hindu