

## Govt hikes small savings rates by up to 40 basis pts


### Move May Boost Inflows Into Schemes Like PPF, NSC

TIMES NEWS NETWORK

**New Delhi:** Your investments in small savings schemes such as Public Provident Fund (PPF) and National Savings Certificate (NSC) will fetch higher returns from October 1 as the government has announced an increase in interest rates by up to 40 basis points (100 bps = 1 percentage point).

The hike is in line with the rising interest rate trend across the economy, with banks deposits and government securities fetching higher returns. A few years ago, the government had opted for a market-linked rate regime for small savings schemes, which were earlier under the administered rate mechanism.

The increase is expected to cheer up sections of the middle class complaining about the adverse impact of higher fuel prices, which are expected to push up inflation in the coming months. "There is some reason to cheer for those looking at sa-

<div> <div>REASON TO CHEER</div>  </div>			Instrument	Interest rate (%)	New rate (%)
<b>Post office</b>			1-yr deposits	6.6	6.9
			2-yr deposits	6.7	7
			3-yr deposits	6.9	7.2
			5-yr deposits	7.4	7.8
			5-yr RD	6.9	7.3
			Source: Govt		
			5-Yr Senior Citizen Savings Scheme	8.3	8.7
			5-Yr Monthly Income Account	7.3	7.7
			5-Yr NSC	7.6	8
			PPF	7.6	8
			KVP	7.3 (will mature in 118 months)	7.7 (will mature in 112 months)
			Sukanya Samriddhi	8.1	8.5

fer investment options such as PPF or senior citizens scheme. This will ensure some protection from inflation. But someone who is invested in equities should not switch because it will still offer higher returns in the long run," said financial analyst Surya Bhatia.

Along with the tax benefit available on some of the instru-

ments, returns will be higher than what is on offer. For instance, PPF deposits not only come with the advantage of getting you a tax exemption of up to Rs 1.5 lakh a year, but even the returns and the maturity value are exempted from tax. So, for someone in the 30% tax bracket, the returns would add up to 10.4% a year. At present, SBI of-

fers 6.85% on 5-10 year fixed deposits, with an additional half a percentage point for senior citizens. But it is less attractive as the interest earned is taxable.

With interest rates falling during the last few quarters, PPF and other instruments offered lower returns than earlier. Analysts expect a pickup in inflows into small savings schemes following the latest hike. "Increased rates will benefit small investors and it will push investments, especially in PPF, as it enjoys EEE (exempted at all stages) status under the income tax law," said Taxmann's Naveen Wadhwa. With interest rates expected to rise due to higher oil prices and a weaker rupee, small savings schemes will provide an attractive alternative to bank deposits in coming months, feels ICRA. This should help the government garner a higher net amount from the National Small Savings Fund (NSSF), than the budgeted Rs 1 lakh crore during the current financial year.