Government withdraws the cuts on interests of Small Saving Instruments

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The government had announced sharply slashed the rates of return on the Public Provident Fund down from 7.1% to 6.4% and effecting cuts ranging from 40 basis points (0.4%) to 110 basis points (1.1%).These interest rate cuts were in-line with overall interest rate movement in the financial system. When bank lending deposit rates fall sharply, small savings rates have to follow to align with the larger trend. The Centre has pulled back its decision to cut interest rates of small savings schemes announced just a day earlier.

In news: Government withdraws small savings scheme rate cut
Placing it in syllabus: Economy
Dimensions:

- What Are Small Saving Instruments?
- Their Importance
- Problems with Small Saving Instruments in India

What Are Small Saving Instruments?

- Saving schemes are instruments that help individuals achieve their financial goals over a particular period.
- These schemes are launched by the Government of India, public/private sector banks, and financial institutions.
- Savings made through these schemes can be used for emergencies, retirement, higher education, children's education, marriage, at the time of job loss, to reduce debts and more.

Broadly, the small savings schemes basket comprises 12 instruments and can be classified under three heads. They are:

Postal deposits

- Post Office Savings Account, Post Office Time Deposits (1,2,3 and 5 years), Post Office Recurring Deposits, Post Office Monthly Account
- Postal Deposits are popular in mostly rural areas and among retired people who live alone without children.

Savings certificates

- These include National Small Savings Certificate VIII (NSC) and Kisan Vikas Patra (KVP)

Social security schemes

- Schemes such as public provident fund (PPF), Sukanya Samriddhi Account. and Senior Citizens ‘Savings Scheme (SCSS), National Pension System (NPS), Atal Pension Yojana (APY)

Administration of Small Saving Schemes:

- All small savings collections are credited to this National Small Savings Fund (NSSF) in the Public Account of India.
- The NSSF is administered by the Government of India, Ministry of Finance under National Small Savings Fund Rules, 2001, which is derived from Article 283(1) of the Constitution.
- Funds collected under SSS are the liabilities of the Union government accounted for in the Public Accounts of India and the government acts like a banker or trustee.
- The interest rates are reset every quarter based on the G-Sec yields of the previous three months.
- A certain amount of NSSF is invested in the Central and State Government securities. The fund is administered by the Department of Economic Affairs under the Ministry of Finance.

Their Importance:

Saving schemes are important for every person in India and for its economy due to the following reasons:

- ***Social Support***: Small saving schemes help to support the social security objectives at the same time, helping as a tool of resource mobilization for the government. Several small saving schemes like Senior Citizens Savings Fund, Sukanya Samridhi Yojana and PPF are supporting social securities of different sections.
- ***Safety:*** Depositing your hard-earned excess money in saving schemes will help secure it for your future needs. Holding on to liquid money may not be safe.
- ***Retirement Funds:*** Periodically, depositing money in long-term saving schemes can help you build a retirement corpus..
- ***Tax Savings:*** Many saving schemes offer one or the other kind of tax benefits—may it be tax deductions, exemption, or both.
- ***Encourage Savings:*** When all the money is at hand, it may end up spending it on unwanted items.
- ***Mobilising Household Savings:*** Different small saving schemes have mobilized money from households and channelized it to the government so that the centre and states can finance a part of their expenditure.

Problems with Small Saving Instruments in India:

- The SSSs are similar to bank saving schemes and there is competition between the two. Hence, there is a need to align the interest rate of SSSs with that of bank savings.
- Government also gives a slightly higher interest rate for these schemes compared to the average interest in other financial instruments. Higher interest rates of SSS would make Government’s borrowings costly.

Mould your thought: What are Small Saving Schemes? How do they affect the financial system in India?

Approach to the answer:

- Introduction
- Define Small Saving Schemes and their categories
- Briefly discuss their administration in India
- Mention their advantages and problems
- Conclusion