

Set small savings rates on quarterly basis, say bankers

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Want five-year G-secs to be the guiding instrument

New Delhi, Jan 13:

Bankers clearly do not want to be uncompetitive vis-à-vis small savings schemes when it comes to mobilising savings in the economy.

They have therefore pitched for a system whereby the Centre sets the interest rates on small savings schemes on a quarterly basis, instead of the current annual routine.

At their pre-Budget meeting with Finance Minister Arun Jaitley, some bankers suggested that small savings rates be fixed after reckoning five-year G-sec yields.

This should be done given maturities of most small savings schemes range from five to six years.

Such a regime would ensure small savings schemes rates do not become an impediment in the monetary transmission process, banking industry sources who attended the meeting said.

Currently, the small savings rates are controlled by the Central Government. The Centre reckons the 10-year G-sec yields before setting the small savings rates.

Level-playing field

Reacting to this suggestion, V Kannan, former Chairman and Managing Director of Vijaya Bank, later told *BusinessLine* this was a good recommendation as it would bring a level-playing field between banks and small savings schemes.

Another banker, who requested anonymity, said the government is always keen that public sector banks bring down lending rates in line with RBI's policy action of reduction in policy rates. However, banks find it difficult to reduce their base rate — the minimum rate at which they can lend — until the cost of borrowings (deposits) come down. Banks are often in a difficult situation to cut deposit rates when the administered small savings rates are much higher, this banker pointed out.

Banks always want to keep their deposit rates attractive to match those of small saving schemes, which are still popular among masses. As the rates re-setting happens only once a year, bankers feel this may encourage flight of deposits from banks to small savings in periods where interest rates traverse downwards in the economy.

Policy rate cut

For instance, the RBI had cut policy rates by a whopping 125 basis points in 2015. There was no commensurate changes in small savings rate, which remained in 8.75 per cent to 9.3 per cent levels. This, despite one-year fixed deposit rates coming down to 7.75-8 per cent levels.

With small saving deposits commanding a rate of 8.7-9.3 per cent, banks have been reluctant to transmit the entire policy rate reduction by the RBI to borrowers.

The Finance Ministry had in late September 2015 said it would review the small savings schemes, which includes PPF and post office deposits.

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