

## **Budget: SBI for differential interest rates on small savings**

Our Bureau

*Says rates must vary according to different age groups*

Mumbai, January 5:

The State Bank of India wants the Centre to consider differential interest rates on small savings according to age groups, similar to what banks are offering senior citizens.

Currently, banks pay 25-50 basis points higher interest on senior citizens' deposits. One basis point is equal to one-hundredth of a percentage point.

In a note on expectations from the upcoming Budget, India's largest bank said empirical studies suggest that a person in the age group of 30-45 primarily saves for tax purposes while a person above 45 years saves for social security.

This hypothesis is more prominent in the country, where social security is in a nascent stage.

The bank, in its research report State Bank Ecowatch, suggested that the small savings rate should be linked to bank deposits rate (average of the top five banks). This will create a level-playing field for banks in deposit mobilisation.

It reasoned that banks have been arguing for a long time that the transmission of monetary policy easing has not happened due to high interest rates for small savings.

The RBI has reduced rates by 125 basis points (bps) to a four-and-a-half-year low of 6.75 per cent while banks have transmitted only up to 70 bps in their base rate. This is because high rates on small savings schemes make banks' fixed deposits uncompetitive and in turn do not allow banks to reduce the cost of funds.

In an effort to incentivise public savings and wean away such savings from gold, SBI said the Centre should create a separate category of exempt-exempt-exempt (EEE) tax advantaged deposits. This will not only incentivise the general public to use bank channels for savings but will also increase the savings rate.

Over 70 per cent of the total domestic savings are household savings and bank deposits accounts for 53 per cent of the total household savings.

"We propose that fixed deposits with a maturity of more than three years can also be considered under the Section 80C limit and reduction of the compulsory lock-in period of five years to three years for tax saving fixed deposits," the note said.

To further incentivise household savings, the Centre may consider increasing the maximum limit of savings in PPF account to at least ₹ 2 lakh from ₹ 1.5 lakh.

"Our internal research shows that there was substantial growth in savings in PPF accounts when the limit was increased to ₹ 1.5 lakh earlier. The Government may also think to rationalise the rate of interest in PPF account gradually," it added.

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(This article was published in the Business Line print edition dated January 6, 2016)