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## Interest rates on Public Provident Fund, Kisan Vikas Patra slashed

ET Bureau | Updated: Mar 19, 2016, 01.14 PM IST

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NEW DELHI: Small savings scheme such as PPF, NSC and [Kisan Vikas Patra](#) will offer lower returns beginning April 1 that may pinch the small savers but help shift towards lower rates which could in turn stimulate the sluggish economy.

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The govt today slashed interest rates payable on small savings including PPF and Kisan Vikas Patra (KVP) in a bid to align them closer to market rates.

The government has lowered the rate of interest of small saving schemes from April 1 in line with the lower market rates, cutting returns on some of the schemes over 100 basis points. The popular [Public Provident Fund](#) (PPF) will yield 8.1% from April 1 compared with 8.7% at present. The Kisan Vikas Patra will fetch 7.8% against 8.7% now while five-year National Savings Certificate (NSC) will offer an annual return of 8.1% against 8.5%.

"On the basis of the decisions of the government, interest rates for small savings schemes are to be notified on quarterly basis," the order said announcing the rates for the first quarter of fiscal 2016-17. The reduction in rates would provide further comfort to the Reserve Bank of India to cut rates in its monetary policy review on April 5. One basis point is one hundredth of a percent. Rates of interest on small savings are reset at the beginning of every year in line with the yields on government securities of comparable maturity.

**Walking the Talk**

**Rate of interest on small savings**

Savings Schemes	Current rate	From April 1
PPF	8.7	8.1
Kisan Vikas Patra	8.7	7.8
Saksham Samkalpa	8.2	8.6
Postal Savings Deposit	4	4
5-year NSC	8.5	8.1
5-yr Senior Citizen	9.2	8.6
5-yr Monthly Income	8.4	7.8
Postal deposits		
1 year	8.4	7.1
2 year	8.4	7.2
3 year	8.4	7.4
5 year	8.5	7.9
5-yr Recurring Deposit	8.4	7.4

**Stimulating Economy**

Interest rates on these schemes are reset every year in line with the yields on govt securities

But now the rates will be reset every quarter to closely align them with market rates

The rates will now be reset every quarter to more closely align them with the market rates. These rates will be applicable till June 30 Even after the cut, investors will make real return of around 3% considering that retail inflation is about 5%. The rate of interest on small savings are currently much higher than those offered by banks, causing a distortion in the interest rate structure that is coming in the way of interest rates declining. "The government is examining linking small savings interest rates to market interest rates. These moves

should further help transmission of policy rates into lending rates," the RBI had said in its monetary policy review in December.

The central bank had blamed 'competition from small savings schemes where the interest rates are revised only once a year' as one of the reasons for banks not passing on its rate cuts to customers

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