

PPF and other small savings schemes set for interest rate cut

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PPF has fetched 8% interest rate since October

Senior Citizens Savings Scheme and Sukanya Samriddhi account may continue to fetch higher interest rates than other small savings schemes

The rate of interest on small savings schemes like PPF and other post office deposit schemes are set to see a downward revision. The government will soon announce interest rates for small savings schemes for July-September quarter. And in all likelihood, they are likely to see a cut in interest rate in the wake of a falling bond yields, say analysts. The interest rate on small savings schemes including PPF had seen a sharp hike in October-December quarter and since then they have remained steady.

“Interest rates and bond yields have been on downward trajectory in the backdrop of accommodative policies of global central banks. We can expect that interest rates on small saving schemes also to tag along that path,” said Jagannadham Thunuguntla, senior vice president and head of research at Centrum Broking.

However, he does not expect a big cut in small savings rate. “Considering the sensitivities involved in small saving schemes, we can expect balanced approach in rate cuts in these schemes,” he added.

Currently, interest rate on the [PPF](#) and the 5-year National Savings Certificate remain at 8% while the 5-year Monthly Income Scheme fetches 7.7%.

Schemes like Senior Citizens Savings Scheme and Sukanya Samriddhi account could continue to fetch higher interest rates than other small savings schemes given the social objectives of the schemes.

Currently, interest rate for the five-year Senior Citizens Savings Scheme fetches a higher rate of interest of 8.7% while the popular girl child savings scheme Sukanya Samriddhi 8.5%.

The yield of the benchmark 10-year bond has fallen below 7%, a sharp reversal from 8%-plus yields in September 2018. A drop in global prices, easing from other global banks have allowed

the Reserve Bank of India to cut rates three times so far this year amid subdued inflation. The central bank has also signaled that it will adopt policies to support growth.

This month top lenders such as ICICI Bank and Axis Bank have cut their interest rates on deposits. Generally, an interest rate cut in deposits is seen as a precursor to a lending rate cut.

Sanjiv Bhasin, executive vice president of IIFL Securities, says that a cut in small savings rate will also help [banks bring down deposits rates](#) further, thus lowering the overall interest rate in the financial system.