ECONOMY

'Small savings rates likely to be raised'

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Economists cite rising G-sec yields to which savings rates are tied

Households could get some relief this week as economists expect the government to raise the interest rates paid on small savings schemes for the July to September 2022 quarter, with the yields on government securities hitting a four-year high of 7.6% earlier this month.

The rates of interest on instruments such as the Public Provident Fund (PPF) and the National Savings Certificate (NSC), currently at 7.1% and 6.8%, respectively, have not been changed for eight quarters since a reduction was effected in the first quarter of 2020-21.

Retail inflation too had hovered above 7% in April and May, squeezing household budgets. Raising rates on small savings could also help the government reduce its reliance on market borrowings this year.

"There are chances of small savings rate being increased in upcoming review for July-September, in line with the higher policy repo rate," CARE Ratings chief economist Rajani Sinha told *The Hindu*, noting that banks had also started revising deposit rates upwards. The government will announce the rates for the next quarter on June 30.

"While the Reserve Bank of India (RBI) has hiked the policy interest rate by 90 basis points (bps) in the last two meetings, we expect further increase of at least 100 bps increase in FY23. This implies that yields on government securities (G-Secs) will continue to increase in the next few months," Ms. Sinha said. One basis point is equal to 0.01%.

Aditi Nayar, chief economist at rating agency ICRA, said she too expected interest rates on small savings instruments (SSIs) to be increased, given the sharp rise in the G-Sec yields of various maturities, to which such rates are linked.

"In view of the increase in the G-Sec yields in recent months, the excess of the announced interest rates on SSIs over the respective formula-based rates moderated to 9-118 bps for Q1: 2022-23 from 42-168 bps in Q4 2021-22," the RBI had noted in April.

The average G-Sec yield, based on which the quarterly rate on the 15-year PPF is pegged, was 6.76% between December 2021 and February 2022, resulting in a formula-based rate of 7.01% for the April to June quarter. The 7.1% rate for the quarter, was thus nine bps higher than the formula then.

"The average month-end G-Sec yields for one-year, two-year and five-year bonds have increased substantially to 5.26%, 5.65% and 6.79%, respectively, between March and May 2022, from 3.88%, 4.72% and 6%, respectively, in the previous three months," Ms. Nayar

"Increasing the SSI rates could lead to higher flows and limit the need for additional dated market borrowings to absorb any potential overshooting of the Government of India's fiscal deficit, and also lessen the nervousness of the bond market, while helping cap G-sec yields," she averred, adding that the 10 year G-sec yield could rise to as much as 7.75%-8% in the upcoming quarter.

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