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Reduction In Small Savings Interest Rates: Middle Class Suffers (A Critical Review Of Small Savings Schemes Of India)

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***Abstract:** Indian middle class segment is mainly depended on the small saving schemes comprises of risk free investments. Such investment schemes are generally issued by Government of India, such as PPF, KVP, Sukanya Samridddhi schemes and many more. But recently the Government of India reduces the interest rates on such small savings schemes which adversely affect on the middle class savings and their investments portfolio.*

The present paper is an effort to critically examine the policy of government and further indicating that why government of India is reducing or discouraging the small saving schemes especially for the middle class. The first part of the paper discussed about the small savings schemes in India, the second part critically examine the reduction in the interest rates in such small savings and consequently their impact on the returns for the middle class investment portfolio. The last part of the paper outlines the recommendations, suggestions and the conclusions.

***Keywords:** Middle class families, small saving schemes, interest rate, risk free investments*

I. INTRODUCTION

In India the middle class families are mainly dependent on their income earned through jobs or services rendered by them in the governmental or nongovernmental organizations. For such families the investment portfolio is mainly consisting of small savings schemes because middle class families have comparatively low income in comparison to business class families. The government of India launch many small saving schemes from time to time to encourage the habit of invest for such class of society. But recently, the government (formed by BJP) has announced the reduction in the interest rates of small savings schemes. In India the middle class families are mainly interested in the investments which are "risk –free rate of returns". The risk-free rate of return is the theoretical rate of return of an investment with zero risk. The middle class portfolio of non marketable financial assets are majorly consists of National Saving schemes (NSS) , National Saving certificates(NSC), Public Provident fund(PPF),Post office saving schemes, Fixed deposits in banks and many more small schemes.

II. SMALL SAVINGS AND MIDDLE CLASS FAMILIES

In India mainly marketable financial assets and non marketable financial assets are the major ways for the investments. The major small saving schemes lie under the non marketable financial assets. The small saving schemes were targeted by government and the theory behind the reduction in the interest rate simply implied that such fund should be diversified to corporate houses in marketable securities such as in mutual fund schemes. The major small savings schemes are highlighted as follows-

- ✓ *KISAN VIKAS PATRA (KVP):* Kisan Vikas Patra is saving scheme which is invested by citizen of India in which the amount is doubled in the 8years and 7 months, but currently, the amount is doubled in the 9 years and 4 months. It consist of simple mechanism that revenue mobilized by this scheme will be used by the Government of India in welfare schemes for farmers. The business entities, HUF (Hindu Undivided family business) and NRI's cannot invest in KVP. These documents can be purchased from any post office in India. These are available in the denominations of Rs 1000, 10,000, 50,000 with no limit.
- ✓ *PUBLIC PROVIDENT FUND ACCOUNT (PPF):* PPF is a scheme of central government for long term small

savings, framed under the PPF Act of 1968. Individuals who are the resident of India can open this account. The deposits can be made in lump sum or in 12 installments. The maturity period is 15 years. The minimum amount of INR 100 for opening the account and minimum deposit in one year is INR 500 and maximum INR 1, 50,000 in a financial year. The current interest rate is 8 % per annum.

- ✓ *NATIONAL SAVING CERTIFICATES:* It is commonly known as NSC and it is framed mainly for the government employees, businessman, and other salaried person who are the income tax assesses. There is no maximum limit for investment.
- ✓ *SAVING DEPOSITS:* These are the very popular among the small saving schemes. These are mainly operated by banks and the post offices also. It mainly consists of saving accounts, fixed deposits and the recurring deposits.
- ✓ *SENIOR CITIZEN SAVING SCHEMES (SCSS ACCOUNT):* This account is opened by an individual of the age of 60 years or more than 60 years. The maturity period is 5 years. Investment under these schemes qualifies for the benefit of section 80 C of the Income Tax 1961from the 1/4/2007.
- ✓ *MONTHLY INCOME ACCOUNT SCHEMES (MIS):* An Individual can open the account by cash/ cheque in the post office. It can be opened by jointly by 2 or 3 adults. The maturity period is 5 years from the 1/12/2011. The account can be opened by the single person with minimum deposit of INR1500 and maximum with INR 4.5 lacs and in case of joint account minimum is INR 1500 and maximum is 9 lacs.
- ✓ *SUKANYA SAMRIDDHI ACCOUNT SCHEME:* This scheme is basically design for the girl child in India in order to give support to the parents of weaker section of the society. Under this scheme a legal guardian can open account in the name of girl child .The maximum account can be opened by one guardian is two for the two separate girl child. The account can be opened only up to the age of 10 years from the date of birth. Under this scheme the account can be closed after completion of 21 years and have a facility of normal premature closure will be allowed after completion of 18 years provided that girl is married.

OBJECTIVE OF THE STUDY

The main objective of the study is to critically examine the policy of government and further indicating that why government of India is reducing or discouraging the small saving schemes especially for the middle class of the society.

III. REVIEW OF LITERATURE

The efforts has made from the time to time by the different academicians to highlight the issues regarding the small savings as follows-

R Nandhini, Dr. Rathnamani, in their paper "A Study on the performance of Monthly saving schemes offered by banking and non banking institutions" aims to study the performance system investment plan offered by Mutual fund and recurring deposits offered by banking and non banking financial institutions.

A N Dureja in his book "Post office small saving schemes" Part-5 pointed out a ready beckoner for the benefit of saving bank/saving certificate branch of the post office.

Dr. D Jain, R. Kothari in their paper "Investor attitude towards post office deposits scheme- empirical study in Udaipur district, Rajasthan", focused on the awareness, preferences, problems and attitudes of investors towards various deposit schemes offered by the post office among the selected sample areas.

Dean Karlan, A.L Ratan, J Zinman, in their paper "Saving by and the poor: A research review and agenda" highlight that use of the formal and informal instrument that have high risk, high cost, and limited functionality.

Elaine Kempson and Andrea Finney in their publication of report "Saving in lower income households: A review of the evidence" discussed the overview of the existing evidence on non retirement savings among lower income household and is intended to help the task force identity the potential for increasing levels of savings among these and improving take up of saving products from regulated providers.

Kasilingam; R, Jayabal G, in their paper "Fund mobilization in small saving schemes: A critical Review" focused on small saving schemes are an important source of revenue.

As argued by *Alok Ray (Professor of Economic –IIM Calcutta)* in his article published in the Hindu business line dated 7th April 2016 "An unkind cut for senior citizens" pointed out that in a democracy the electoral power of citizens (whose number is increasing with rising longevity) cannot be ignored . He has pointed out the main logic behind the reduction in such postal saving schemes as "What is the basic argument for bringing down interest rates for small savings instruments in line with bank interest rates? One major reason why banks fail to pass on the rate cuts to customers is that the effective interest rates on postal savings instruments, Senior Citizen Saving Scheme (SCSS) and PPF (especially if the tax benefits from PPF savings are taken into account) are significantly higher than those offered by bank FDs. As a result, even if the RBI reduces the repo rate, banks cannot afford to reduce the interest rates on FDs which, in turn, restricts their ability to lower interest rates to borrowers. So, in the interest of more efficient transmission of monetary policy, the RBI has announced substantial cuts in interest rates on postal savings schemes, SCSS and PPF. Most economists would agree with the arguments advanced up to his point. The trouble arises because, in India (as in most developing countries), the interest rate instrument is used to promote more than one policy objective".

From the above review of literature, it depicts that there is a need of efforts to be made on the small savings and for the middle class families and their behavior towards such investments. In India major part of the contribution towards the small savings investments preferred by middle class families. There is a need of research carried out based on behavioral aspect for the middle class families.

IV. GOVERNMENT POLICIES

The government of India always encourages the middle class of the society for the savings and investing money in the small savings schemes in India. But after later nineties, the rates in such small savings retarded from time to time.

Previously, the main goal of Government was to provide the risk free investments to middle class families to safe guard their money and timely redemption of it without any risk. This increased the faith of middle class segment in such small saving investments. But unfortunately the present Government has cut the interest rate on such small savings. The resolution was passed and the new rates implemented from 1st April 2016. The government reduced the interest rates on small savings schemes across the board including on Public provident fund (PPF), senior citizen schemes and implemented the highest reduction in such schemes. The government decided that such revision will be done on every quarterly basis.

The movement of the Government clearly indicates that it want to discourage the investment in small savings in coming future period and may be it will be more aggressive and reduce the interest rates more sharply as they implemented every quarter.

In the current scenario the government of India is following the policy mainly focused on as follows-

- ✓ To mobilize the funds of middle class families especially in the risk based markets such as Mutual funds and other corporate investments.
- ✓ To discourage the middle class families to invest in risk free investment such as government small saving schemes.
- ✓ To encourage the middle class families to invest in securities markets other than government investments and savings.

From the above discussion it highlights that the government is more interested in marketable securities in comparison to non marketable securities.

V. CRITICAL ANALYSIS

The middle class segment of India is mainly earned their money through the services and the small business and such life savings are very precious to them.

The psyche or behavior of such investor is to invest their money in the safest hand, so that redemption or repayment of such investment will be 100 percent secured and safe with nominal rate of returns.

The behavior pattern of the middle class families can be understood by the following case or from the simple example:

CASE – I

Mr. "R" was working in some private organization and has monthly salary of Indian Rs 35,000, now in such situation after all his expenses including child education, EMI and other family expenses; he saved, say for example Rs 2,000 per month. In this case his annual saving will be 2000 x12=24000 Indian rupees. In such situation he will try to invest his savings in small savings schemes with risk free investment. The annual amount saved by him is his hard earning and always desire to get back it safely. On the other and suppose he is working in the private organization, then in such cases, he is always have a fear of losing his jobs at any time.

So with such uncertainties the psyche of such investor is to earn the returns with full redemption of principal amount plus interest. But on the other hand, if the government will continuously decreases the small saving rates then in such situation these investors will shift to the risk based investment such as shares and mutual funds. Let's assume that Mr. "R" belongs to town and in his town there are 1000 people who are similar to Mr. "R" financial earnings and savings, if all these 1000 people will shift from small saving to mutual funds and stocks investment in private corporate sector. The total amount will more than 2 crore in Indian rupees in this way if we multiply for the number of towns in India the amount will in billions. In this way the savings of middle class will also mobilized in the marketable securities.

From the above example it is clearly indicated that to encourage the investors in the marketable securities market the government will adopt the policy for reducing the interest rates for all the small saving schemes in India.

From the Table no. 1, it is clearly indicated that government reducing the rates very aggressively.

The table contents all the major small saving schemes like Kisan vikas patra, MIS of Post office, PPF, Sukanya Samriddhi Account Scheme and other term deposits.

Instruments	**Rate of interest w.e.f.01.04.2015 to 31.03.2016**	**Rate of interest w.e.f. 01.04.2016 to 30.06.2016**
Saving Deposits	4.0	4.0
1 Year Time Deposit	8.4	7.1
2 Year Time Deposit	8.4	7.2
3 Year Time Deposit	8.4	7.4
5 Year Time Deposit	8.5	7.9
5Year Recurring Deposit	8.4	7.4
5 Year Senior citizen saving scheme	9.3	8.6
5year monthly Income Account scheme	8.4	7.8
5 year National saving certificates	8.5	8.1
Public Provident fund scheme	8.7	8.1
Kisan Vikas Patra	8.7	7.8(will mature in 110 months)
Sukanya Samriddhi Account Scheme	9.2	8.6

Source: office Memorandum, F.No1/04/2016-Ns.II, Government of India, Ministry of Finance, Department of Economic affairs)

Table 1: Revision of Interest rates for Small Saving schemes

From the above table it shows that there is sharp reduction in the interest rates, in case of term deposits (1 year time deposit) it reduces from 8.4% to 7.1 % from the year 2015 to 2016, on the other hand 2 years, 3 years, 5 years time deposits also reduced sharply. There is a deep reduction in 5 years senior citizen saving schemes from 9.3% to 8.6% .It shows that government has no concern for the old age people who known as senior citizen of India. At least in the case of senior citizens of India government should give some relaxation for the sake of their monthly minimum expenses. On the other hand 5 years NSC rates reduced from 8.5 to 8.1%. While PPF reduced from 8.7% to 8.1% and KVS reduced from8.7% to 8.1%. Even the sukanya smiridhi account scheme reduced from 9.2% to 8.6% which dilute the sense and aims of the scheme itself.

The products of small savings schemes become very popular among the middle class families due to the following reasons-

- ✓ These are non marketable securities having risk free rate of returns.
- ✓ Fixed rate of return with regular earnings.
- ✓ The investors are entitled for tax deductions and rebates for such investments.
- ✓ The income can invest in small denomination and for number of times in a year; these facilities make such schemes more popular in the middle class families.

The PPF and KVP are the most popular schemes for the middle class families in India .The PPF is the scheme of central government frame under PPF Act of 1968. The PPF rates in the year 1986was 12% and it remains 12% till the year 2000.First time in the year 2001 it was reduced by 1 % ,further it was reduced to 9.5%in the year 2002. After the year 2002 to till 2013, it reduced to 8.7 %. Finally in the year 2016 April it was announced to reduced it up to 8.1 %. From the table no-2, it clearly highlights the reduction in the rates of PPF from period to period.

Dates	Interest Rates
01/04/1986-14/01/2000	12%
15/01/2000-28/02/2001	11%
1/03/2001-28/02/2002	9.5%
1/03/2002-28/02/2003	9%
1/03/2003-30/11/2011	8%
1/12/2011-31/03/2012	8.6%
1/04/2012-31/03/2013	8.8%
1/04/2013 onwards	8.7%
1/04/2016 onwards	8.1%

Source: data compiled from various office Memorandum, Government of India, Ministry of Finance, Department of Economic affairs

Table 2: Revision of Interest rates for PPF

From the above table ,the rates of interest for PPF was constant from the year 1986 to January 2000, but after the year 2000 to year 2016 it reduced by almost 4 % in the last 16 years.

In case of Kisan Vikas Patra the rate of interest is reduced from 8.7% to 7.8% with the maturity in 110 months. It was reduced by one percent.

As per the office Memorandum (F.N.1/04/2016-NS.11) of Government of India, Ministry of finance stated that interest rates for small savings schemes are to be notified on the quarterly basis for the FY 2016-17, that is first quarter from (Q-1-1 April 2016-30/06/2016), Q2 (1/07/2016-30/09/2016), Q3 (1/10/2016-31/12/2016) and Q4(1/01/2017-31/03/2017).

The government of India reducing the rates on the quarterly basis has increased the scope to reduce the rate within one financial year more than one time. It clearly shows the intentions of the government to reduce the rates drastically in coming future to discourage the small investors to invest in the risk free saving schemes.

Almost all small saving schemes reduced and even in the case of Kisan Vikas Patra the maturity increased to 112 months from 110months with reduction of 0.1 percent that is exact reduction 1 percent from the year 2015-16 to 2016-17. The highly appreciated scheme for the welfare of girl child Sukanya samriddhi scheme is also reduced from 9.2 % to 8.5 % by the end of the financial year 2016-17.

From the Table No-3 it is clearly indicated that within the financial year 2016-17, the government has reduced the rates between the Quarters for the FY 2016-17.

Instruments	Rate of interest (2015-16)	Rate of interest (Q1&Q2) 2016-17	Rate of interest (Q3&Q4) 2016-17
Saving Deposits	4.0	4.0	4.0
1 Year Time Deposit	8.4	7.1	7.0
2 Year Time Deposit	8.4	7.2	7.1
3 Year Time Deposit	8.4	7.4	7.8
5 Year Time Deposit	8.5	7.9	7.8
5Year Recurring Deposit	8.4	7.4	7.3
5 Year Senior citizen saving scheme	9.3	8.6	8.5
5year monthly Income Account scheme	8.4	7.8	7.7
5 year National saving certificates	8.5	8.1	8.0
Public Provident fund scheme	8.7	8.1	8.0
Kisan Vikas Patra	8.7	7.8(will mature in 110 months)	7.7(will mature in 112 months)
Sukanya Samriddhi Account Scheme	9.2	8.6	8.5

Source: Data compiled from various office Memorandum, Government of India, Ministry of Finance, Department of Economic affairs

Table 3: Revision of Interest rates for Small Saving schemes (2015-16 &2016-17)

The table no-3 depicts that within a year there is a reduction of interest rates of almost one percent in all the small savings schemes in India.

As per the headlines in the newspaper “The Hindu” dated 21st march 2016, the representative of the present government said that the economy need lower interest rates to become more efficient and high deposits rates would keep it sluggish. “Interest rate has risen a lot, so the cost of borrowing for the government and other was very high, but now they have come down. The way the economy is moving, we cannot have a situation landing rates are growing down but deposits rates remain high”

The above argument by the government representative that the cost of borrowing is high and in such situation we cannot increase the rates for the deposits, but the government can make some relaxations in some cases likes Senior citizen saving schemes and the Sukanya Samriddhi Account Scheme.

Most of the salaried persons after their retirement have no pensions, the employees who are working in the private organizations has no pension benefits and at the old age they have no earning capacity, in such cases government should rethink and treated them as exception for such reductions. Previously in the early nineties the rate of MIS in post office fetches the rate of interest even up to approximately 12 percent or more than it and old people with their hard earning at least have an advantage to earn their 2 time bread. But in current scenario, the rate slashed down up to 8.5 percent. These rates will be more less if we will include the inflation.

VI. FINDINGS AND SUGGESTIONS

- ✓ The government of India should rethink to revised the interest rates of senior citizen saving schemes because, presently there is reduction of 9.3% to 8.6% which was depressive for the old age people in India. As the core objective of this scheme was to give the financial support and self reliance at the old age but due to such reductions in the interest rates, it dilutes the senses and its objectives.

  The investment is mainly made by the senior citizens who retired from the PSU, private organizations and other nongovernmental sectors where they have no other source of incomes, such as pension; in such situation they are mainly dependent on such schemes for their life.
- ✓ The Government should not reduce the Sukanya Samriddhi Account Scheme because this scheme was designed to help the poor man for the financial supports for the need of their daughter.
- ✓ The government should fix some maximum amount for the small savings invested by the individuals and if the individuals exceed such limits, then the interest rates will be payable at lower rates. This will safeguard the middle class families' interest in the small savings. It is suggested that the implementation of slbs should be introduced.
- ✓ If government wants to mobilized the fund of small savings in the bank's deposits for the purpose of credit creation, then the banks should provide good rate of interest on the various term deposits, but the rate of term deposits are also not encouraging, it clearly indicates that government encouraging the investments in marketable securities and that is full of speculation. The government of India has to maintain a balanced policy which safe guard the interest of small savings schemes for the middle class families.
- ✓ Instead of reducing the rates quarterly , the government can reduced annually , but in that case Government can reduced only once in a year.
- ✓ It is strongly recommended that government should not reduce the interest rates further anymore; otherwise the middle class will lose their savings and it will be a senseless for the middle class families from the point of view of investment.
- ✓ The government should encourage such small saving schemes, because ultimately, such investment increases the government fund and further government can invest such funds for its new valuable projects.

VII. CONCLUSION

The reduction in the rates of interest in small saving sachems provide the discouragement to middle class families and government wants to encourage to mobilized such small savings into marketable securities and other market risk investments.

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