Reversing the cut in Small Savings Rates

Why in news?

Recently government has withdrawn the interest rates cut payable on the small savings instruments.

What was the earlier order?

- Earlier Department of Economic Affairs has revised the interest rates payable on small savings instruments for the April-June 2021 quarter.
- The government had refrained from changing these rates for the last three quarters after effecting a similarly sharp cut in Q1 of 2020-21, when the PPF interest was reduced from 7.9% to 7.1%.
- The centre has now reversed the cut on interest rates of up to 110 basis points or 1.1 percentage points.
- The return on the most popular PPF scheme was pegged at 6.4% which is the lowest in the last 46 years.

What has happened now?

- The centre said that the previous order issued by oversight shall be withdrawn but it is not clear whose oversight led to the rates being cut.
- It is sure that the order has been approved by the competent authority and not based on random numbers.
- It has been notified in the last-minute economy-related government notifications on the last day of the financial year.

What can we infer from this?

- It is difficult to believe that the oversight is on the bureaucracy's part and it simply executed the stated policy decision of linking small savings rates to the interest paid on government securities.
- Hence we can assume that oversight is on the political executive's part on the timing of assembly polls in five states.
- This rollback is not the first instance of post-haste policy ad hocism.
- Now government will find harder to borrow Rs12.05-lakh crore as the central bank is complaining of high small savings rates as a deterrent to lower interest rates.

Source: The Hindu

