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No interest cut on small savings

The ongoing Assembly elections may have influenced the government to rethink the rate cut following a sharp backlash overnight on various social media platforms about the middle class being squeezed further even as retail inflation, and fuel and LPG cylinder prices, are soaring.

The government resets the interest rate on small savings instruments every quarter, but this round of cuts was significant after three quarters of the rates being left untouched. The last round of reductions was in the April to June quarter of 2020, when small savings rates had been cut between 0.5% and 1.4%.

On Wednesday, the sharpest cut was proposed in the quarterly interest rate paid on one-year term deposits, from 5.5% in the January to March quarter to 4.4% in this quarter.

The rate of return on the Senior Citizen Savings' Scheme was cut from 7.4% to 6.5%, while the Sukanya Samridhi Account Scheme's return was reduced from 7.6% to 6.9%.

The rate of return on the popular Public Provident Fund (PPF) scheme was reduced from 7.9% to 7.1% last April and further slashed to 6.4% for this quarter, before the Minister announced the rollback on Thursday morning.

No interest cut on small savings

Centre withdraws March 31 order apparently after backlash; FM cites 'oversight'

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Hours after notifying significant cuts in small savings instruments' returns for this quarter, the government backtracked and reversed the sharp rate cuts that sent the Public Provident Fund (PPF) return to a multi-decade low.

The rates notified on Wednesday night for the April to June 2021 quarter were 40 basis points (0.4%) to 110 basis points (1.1%) lower on different instruments. This is the first time that the Centre has scrapped the notified interest rates on small savings schemes after switching to a



quarterly interest rate setting system for them, beginning April 2016.

"Interest rates of small savings schemes of GoI (Government of India) shall continue to be at the rates which

existed in the last quarter of 2020-2021, i.e. rates that prevailed as of March 2021. Orders issued by oversight shall be withdrawn," Union Finance Minister Nirmala Sitharaman said in a tweet on

Thursday morning. While there was no further official clarification on the oversight that led to the pullback of the rate cuts, by evening, the Budget division in the Department of Economic Affairs issued a memo in "suppression" of Wednesday's order.

"...It has been decided that the rate of interest on various small savings scheme for the first quarter of FY 2021-22... shall remain unchanged from those notified for the fourth quarter of the FY2020-21. This has the approval of competent authority," the memo said.