

**Interest rates for deposits in Postal savings and PPF raised**

**No.6-1/2011-NS.II (Pt.)  
Ministry of Finance  
Department of Economic Affairs  
(Budget Division)  
New Delhi, the 11th November, 2011.**

**OFFICE MEMORANDUM**

**Sub: Decisions on the recommendations of the Committee for Comprehensive Review of National Small Savings Fund (NSSF).**

The Thirteenth Finance Commission in its Report had, inter alia, recommended that all aspects of the design and administration of the NSSF be examined with the aim of bringing transparency, market linked rates and other much needed reforms to the scheme. As a follow up of this recommendation, the Government had constituted a Committee on 8th July, 2010, headed by Smt. Shyamala Gopinath, the then Deputy Governor, Reserve Bank of India for comprehensive review of NSSF. The terms of reference of the Committee included review of the existing parameters for the small saving schemes in operation and recommend mechanisms to make them more flexible and market linked; review of the existing terms of the loans extended from the NSSF to the Centre and States and recommend on the changes required in the arrangement of lending the net collection of small savings to Centre and States; review of other possible investment opportunities for the net collections from small savings and the repayment proceeds of NSSF loans extended to States and Centre; review of the administrative arrangement including the cost of operation; and review of the incentives offered on the small savings investments by the States.

2. The Committee submitted its report to the Government on 7th June, 2011. Comments/views of Department of Posts, Department of Revenue, Department of Financial Services, Department of Expenditure and all State/Union Territory Governments were sought on the recommendations made by the Committee.

3. The recommendations of the Committee have been considered in detail, taking into account the views/comments received from other Departments, States/UTs and representations received from various agents' associations and others. After detailed examination the following decisions have been taken:

*Rationalisation of Schemes*

(i) The maturity period for Monthly Income Scheme (MIS) and National Savings Certificate (NSC) will be reduced from 6 years to 5 years.

(ii) A new NSC instrument, with maturity period of 10 years, would be introduced.

(iii) Kisan Vikas Patras (KVPs) will be discontinued.

(iv) The annual ceiling on investment under Public Provident Fund (PPF) Scheme will be increased from 70,000 to 1 lakh.

(v) Interest on loans obtained from PPF will be increased to 2% p.a. from existing 1% p.a.

(vi) Liquidity of Post Office Time Deposit (POTD) — 1, 2, 3 & 5 years — will be improved by allowing pre-mature withdrawal at a rate of interest 1% less than the time deposits of comparable maturity. For pre-mature withdrawals between 6-12 months of investment, Post Office Savings Account (POSA) rate of interest will be paid.

#### *Interest Rates on Small Savings Instruments*

(i) The rate of interest paid under Post Office Savings Account (POSA) will be increased from 3.5% to 4% p.a.

(ii) The rate of interest on small savings schemes will be aligned with G-Sec rates of similar maturity, with a spread of 25 basis points (bps) with two exceptions. The spread on 10 year NSC (new instrument) will be 50 bps and on Senior Citizens Savings Scheme 100 bps. The interest rates for every financial year will be notified before 1 April of that year.

(iii) Assuming the date of implementation of the recommendations of the Committee as December, 2011, the rate of interest on various small savings schemes for current financial year on the basis of the interest compounding/payment built in the schemes, will be as given below:

Instrument	Current Rate (%)	Proposed Rate (%)
<b>Savings Deposit</b>	<b>3.50</b>	<b>4.0</b>
<b>1 year Time Deposit</b>	<b>6.25</b>	<b>7.7</b>
<b>2 year Time Deposit</b>	<b>6.50</b>	<b>7.8</b>
<b>3 year Time Deposit</b>	<b>7.25</b>	<b>8.0</b>
<b>5 year Time Deposit</b>	<b>7.50</b>	<b>8.3</b>
<b>5 year Recurring Deposit</b>	<b>7.50</b>	<b>8.0</b>
<b>5 year SCSS</b>	<b>9.00</b>	<b>9.0</b>
<b>5 year MIS</b>	<b>8.00 (6 year MIS)</b>	<b>8.2</b>
<b>5 year NSC</b>	<b>8.00 (6 year NSC)</b>	<b>8.4</b>
<b>10 year NSC</b>	<b>New Instrument</b>	<b>8.7</b>
<b>PPF</b>	<b>8.00</b>	<b>8.6</b>

(iv) Payment of 5% bonus on maturity of MIS will be discontinued.

#### *Commission to Agents*

(i) Payment of commission on PPF schemes (1%) and Senior Citizens Savings Scheme (0.5%) will be discontinued.

(ii) Agency commission under all other schemes (except MPKBY agents) will be reduced from existing 1% to 0.5%.

(iii) Commission at existing rate of 4% will continue for Mahila Pradhan Kshetriya Bachat Yojana (MPKBY) agents.

(iv) Incentives, if any, paid by the State/UT Governments will be reduced from the commission paid by the Central Government.

*Investments from NSSF*

(i) The minimum share of States in net small savings collections in a year, for investment in State Governments Securities, will be reduced from 80% to 50%. The remaining amount will be invested in Central Government securities or lent to other willing States or in securities issued by infrastructure companies/agencies, wholly owned by Central Government.

(ii) Yearly repayment of NSSF loans made by Centre and States, will be reinvested in Central and State Government securities in the ratio of 50:50.

(iii) The period of repayment of NSSF loans by Centre and States will be reduced to 10 years, with no moratorium.

(iv) For the current financial year the prevailing interest rate of 9.5% will continue. From 1 April, 2012 revised interest rate will be notified.

(v) Half yearly payment of interest by the Centre and the States will be introduced.

(vi) Interest rate on existing investments from NSSF in Central Government securities till 2006-07 will be re-set at 9% and on those from 2007-08 till 2010-11 will be re-set at 9.5%.

*Operational Issues of NSSF*

(i) A Monitoring Group drawn from Ministry of Finance, Reserve Bank of India, Department of Posts, State Bank of India, other select banks and select State Governments will be set up to resolve various operational issues like reducing the time lag between collection and investment, etc.

4. Necessary notifications, including those requiring amendments to rules of various small saving schemes and National Small Savings Fund (Custody & Investment) Rules, 2001 will be notified separately. The above decisions will take effect from the dates to be specified in the notifications.

5. This has the approval of Finance Minister.

**(Shaktikanta Das)**

Addl. Secretary to the Govt. of India