Contractual Savings

4.46 The interest rates on small savings and provident fund schemes still remain under the administered regime. In his Budget Speech for 2001-02, the Union Finance Minister referred to the unsustainable burden imposed by high real interest rates on Government debt at both the Centre and in the States, and expressed concern over the high cost of capital. Accordingly, he proposed the setting of an Expert Committee to make recommendations on this issue. The Expert Committee, which was set up in April 2001, submitted its Report in September 2001. The recommendations of the Committee are expected to remove the long-standing anomaly between cost of Government borrowing through gilt-edged securities on the one-hand and small savings instruments on the other. The key recommendations of the Committee are given in Box 4.7.

BOX 4.7
Major Recommendations of the Expert Committee on Administered Interest Rates

- Sale of small savings products should be restricted to individuals.
- PPF may be integrated into the pension funds system that will emerge out of existing reforms efforts for GPF, EPF and other old age security schemes.
- The interest rate on various products like those offered by the POSB, Kisan Vikas Patra, etc. should be benchmarked to the GOI yield curve.
- The entire proceeds obtained through small savings should be transferred to state governments from 31 March, 2002 onwards. Future requirements of the Central Government would then be entirely met out of securities issuance.
- All tax incentives on short-term and medium-term financial assets provided under Section 80L, Section 88 and Section 10 of the Income Tax Act should be withdrawn.
- For long-term, an 'EET" structure should be employed, where entry and accumulation are tax-exempt, but withdrawals are taxed.