<u>**DATE - 1 July 2021**</u>

Interest Rates on Small Saving Schemes

Context:

Government may reduce interest rates on small saving schemes for the July – September Quarter.

A cut in small savings rates at this point would further hurt households amid a surge in inflation, according to economists.

About:

Background:

· Small savings rates were slashed between 0.5% and 1.4% on different instruments in April 2020, bringing the PPF (Public Provident Funds) rate to 7.1% from 7.9%.

· The government decided to further slash interest rates for the first quarter of 2021-22 (April-June), but withdrew its decision terming it an “oversight”.

Small Saving Schemes/Instruments:

- They are the major source of household savings in India and comprises 12 instruments.
- The depositors get an assured interest on their money.
- Collections from all small savings instruments are credited to the National Small Savings Fund (NSSF).
- Small savings have emerged as a key source of financing the government deficit, especially after the Covid-19 pandemic to a ballooning of the government deficit, necessitating higher need for borrowings.
- Classification: Small savings instruments can be classified under three heads:
- Postal Deposits(comprising savings account, recurring deposits, time deposits of varying maturities and monthly income scheme).
- Savings Certificates: National Small Savings Certificate (NSC) and Kisan Vikas Patra (KVP).
- Social Security Schemes: Sukanya Samriddhi Scheme, Public Provident Fund (PPF) and Senior Citizens' Savings Scheme (SCSS).

Determination of Rates:

- Interest rates on small savings schemes are reset on a quarterly basis, in line with the movement in benchmark government bonds of similar maturity. The rates are reviewed periodically by the Ministry of Finance.
- For the last one year, yields on benchmark government bonds have ranged between 5.7% and 6.2%. This provides the government the leeway to cut rates on small savings schemes in future.
- The Shyamala Gopinath panel (2010)constituted on the Small Saving Scheme had suggested a market-linked interest rate system for small savings schemes.

Advantage of the Rate Cut:

- Since the central government uses the small savings fund to finance its deficit, the lower rates would reduce the cost of deficit financing.
- A cut in rates would mean that the government wants people to spend and provide impetus to the economy.

Disadvantage:

- Rate cuts would hurt investors, particularly senior citizens and the middle

- Moreover, household savings have been shrinking significantly for two quarters in a row even before the Second Covid-19 wave.
- This would lead to further rationalization of fixed deposit rates by banks going forward, and would reduce returns further.
- A lower rate would mean a negative real rate of return on most debt instruments as inflation is hovering around 5%.

Rate of Return and Inflation

- The rate of return is the expected or desired amount of money a person receives from an investment in a savings account, mutual fund or bond.
- The real rate of return is the return on investment after adjusting for the rate of inflation. It is calculated by subtracting the inflation rate from the return on investment.
- Inflation has the power to erode a person's annual rate of return. When the annual inflation rate exceeds the rate of return, the consumer loses money when they invest it because of the decline in purchasing power.
- Inflation refers to the rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc. It is indicative of the decrease in the purchasing power of a unit of a country's currency
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Tax Inspectors Without Borders Programme

Tax Inspectors Without Borders Programme

Context:

Recently, the Tax Inspectors without Borders (TIWB), a joint initiative of the United Nations Development Programme (UNDP) and the OECD, launched its programme in Bhutan.

India was chosen as the Partner Jurisdiction and has provided the Tax Expert for this programme.

About:

Tax Inspectors Without Borders Programme

- This programme is expected to be of about 24 months' duration.
- It aims to aid Bhutan in strengthening its tax administration by transferring technical know-how and skills to its tax auditors, and through sharing of best audit practices. The focus of the programme will be in the area of International Taxation and Transfer Pricing.
- Transfer price, also known as transfer cost, is the price at which related parties transact with each other, such as during the trade of supplies or labor between departments. Multi National companies can manipulate transfer prices in order to shift profits to low tax regions.
- This programme is another milestone in the continued cooperation between India and Bhutan and India's continued and active support for South- South cooperation

Tax Inspectors Without Borders:

- TIWB is a capacity-building programme.
- It is a joint OECD/UNDP initiative launched in July 2015 to strengthen developing countries' auditing capacity and multinationals' compliance worldwide.
- It deploys qualified experts in developing countries across Africa, Asia, Eastern Europe, Latin America and the Caribbean to help build tax capacity in the areas of audit, criminal tax investigations and the effective use of automatically exchanged information.
- TIWB assistance has led to increased domestic resource mobilization in some of the least developed countries in the world.