PPF to earn higher returns from Dec 1

The finance ministry has notified rules which will pave the way for small savings account holders to earn higher returns from December 1. Earlier this month, the government had accepted the recommendations of a panel which would help investors earn higher interest on small savings schemes.

An expert panel, headed by former RBI deputy governor Shyamala Gopinath, had recommended moving to a market-linked interest rate system for small savings schemes that would translate into higher returns for now.

The return on the Public Provident Fund (PPF) scheme in the current fiscal year is expected to be 8.6%, up from 8%, while the return on the five-year national savings certificate plan would be 8.4% from 8%.
The annual ceiling on PPF accounts will now go up to Rs 100,000 from the current Rs 70,000. Small savings accounts in post offices will now fetch 4% interest up from 3.5% now.

Interest rates on deposits of other maturities would also go up from December. The finance ministry also notified that the sale of the popular Kisan Vikas Patra would be stopped from November 30. The panel was of the view that this instrument was being used in some areas for money laundering as it was a bearer instrument.

The maturity period of monthly investment schemes (MIS) and national savings certificates would be reduced from six to five years. MIS would earn an interest of 8.2%, but accounts which are functional on or after December 1 would not be entitled for bonus. The reforms of the small savings schemes were stalled after protest from agents and some political parties. The agents were protesting the reduction in commission paid to them.

The implementation of the report will help garner funds for the government from small savings schemes. The increase in the PPF investment ceiling is expected to get a good response from investors, officials said.

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