

# Smart rate cut in small savings schemes

Without doubt, it is a very unpopular course to pursue. Yet, the Bharatiya Janata Party-led government has decided to act boldly and [slash interest rates on several Centrally sponsored savings schemes](#). The decision will upset senior citizens, and the salaried middle class that forced the government to [reconsider its decision to tax a portion of the Employees' Provident Fund \(EPF\) corpus upon withdrawal](#). The government has also decided to reset these rates every quarter. The objective is to align them with market rates. It has not come all of a sudden: there were enough hints to indicate that the government is not averse to shedding its populist mindset and looking to deal with economic issues from a realistic perspective. For instance, the government [has excluded people above an annual income threshold from availing of the subsidy for LPG](#) for household use. And though the government finally abandoned the Budget 2016 proposal to tax EPF, it was a clear indicator of things to come. Viewed in this context, there is a method in the manner in which the government has set out to implement its economic agenda. Its latest action on small savings could yet deliver the unkindest of cuts to its core constituency, the middle class. For, the rate cut covers a broad spectrum of schemes, including the Public Provident Fund (PPF), the Kisan Vikas Patra (KVP) and the National Savings Certificates (NSC). Surprisingly, the cut has also not spared schemes with a larger social intent, such as those for girl children and senior citizens. However, the government has decided to maintain the interest spread on such schemes. The rate cut is bound to emerge as a fresh rallying point for the Opposition to corner the government. These schemes have been a safe bet and offered assured returns for the salaried sections. These are also useful instruments to foster the

saving habit among people. You cannot easily wish away the social security concerns thrown up by the rate cut decision, and the government will have to politically defend the cut.

Read in tandem with the U.S. Federal Reserve decision last week to keep its interest rate policy unchanged, the rate cut on the Centrally backed small savings schemes must clear the way for the Reserve Bank of India to lower its policy rates. Though the RBI had slashed its key policy rate by 125 basis points in 2015, banks had been extraordinarily reluctant to pass on the full benefits to borrowers. The deposit mobilisation efforts of the banks have faced unequal competition from small savings schemes, which offer artificially fixed, higher interest rates. That makes it difficult for banks to transmit fully the benefits of rate cuts made by the RBI. The rate cuts on savings schemes represent a necessary course correction to right the distortions in the system. It will also inevitably usher in a competitive cost structure in the economy for the greater public good. The cuts make good economic sense, and the government should stand firm on it.

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## **The challenge in Jammu & Kashmir**

Of late, political uncertainty has hit some of India's strategically significant border States – Jammu and Kashmir, Uttarakhand, Manipur and Arunachal Pradesh. Of these, J&K is undoubtedly the most sensitive State, where the Government of

India has bled physically and financially for over 25 years to stop the separatist discourse and bring its people back to the political mainstream. But the [demise of Chief Minister Mufti Mohammad Sayeed](#) in early January culminated in a political crisis as the two coalition partners, the Peoples Democratic Party and the Bharatiya Janata Party, fell out, with [the former accusing the latter of not abiding by the "Agenda of Alliance"](#), the goodwill treaty that had brought them together. Last week, the hope of such a coalition government emerging was renewed when Mehbooba Mufti, who is deemed a natural political successor to her father, met BJP president Amit Shah in Delhi. The meeting only resulted in further estrangement and left one big question: will the BJP be able to give Ms. Mufti what she wants? So far, she has declared the Mufti's decision to join hands with the BJP an "unpopular" choice, but she has been vague when it comes to explaining where the BJP has gone wrong with the Agenda of Alliance. The BJP has not been forthright enough either. It is unclear what the party would or would not seek to deliver under the Agenda. For the Centre, governing Jammu and Kashmir has not been easy, not even in the post-insurgency era. Previous governments led by the BJP or Congress, backed governments in the State by making efforts to fill its budget deficits, fix its battered infrastructure and skilfully tackle separatist elements.

The three successive governments in post-insurgency Kashmir could only function when they had the Centre's backing. In the early 2000s, the decision of the Vajpayee government to allow cross-LoC trade and travel, enter into bilateral engagement with Pakistan, and talk to Kashmiri separatists on the side, not only increased voter confidence but also brought the mainstream discourse back to the Valley. A decade later, with [the arrival of the PDP-BJP coalition government](#), a similar approach was expected. But the State seems to be vulnerable again, with the number of militant strikes increasing and the absence of a civilian government furthering political alienation. For the BJP, the need of the hour is to

work out an alliance with the PDP and scuttle any attempts to subvert Ms. Mufti within her party through undemocratic means, such as horse-trading. It is equally important to cultivate a strong mainstream leadership in the State by giving politicians like her the space to bargain with the Centre within the constitutional framework. Therefore, the BJP must not use the government at the Centre to make political gains in Jammu and Kashmir. It should revisit the Agenda of Alliance and also set the terms of the Agenda in concrete terms. If that does not work, it should simply go for new elections. Any undemocratic attempt to break the deadlock could have larger ramifications.

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