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Published in BusinessStandard
Jan 15, 2025

Budget 2025: Experts predict impact on small savings schemes PPF, NSC

Rising inflation and shifting economic priorities are prompting investors to seek alternative avenues offering better returns

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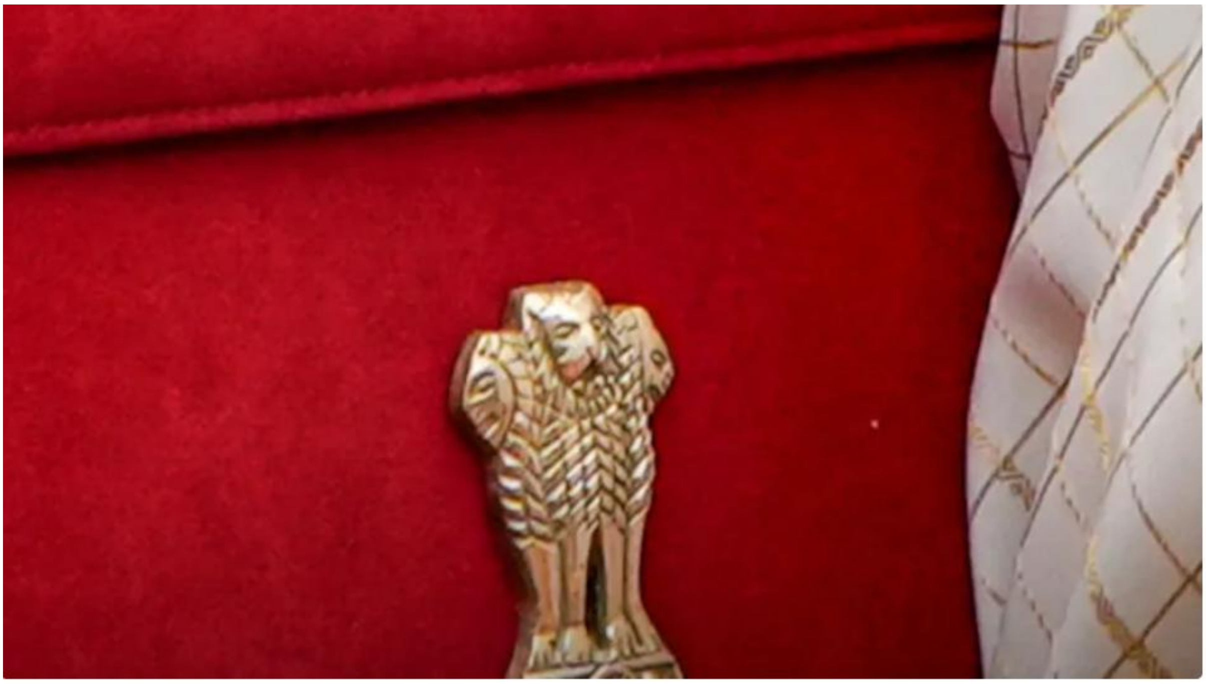

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Article Content:

The Union Budget for 2025-26 will likely impact small savings schemes like the Public Provident Fund (PPF), National Savings Certificate (NSC) and Sukanya Samriddhi Yojana (SSY), given expected changes in tax policies and interest rate dynamics, according to experts.

For small investors, the Budget's impact on these schemes extends beyond just returns. Tax benefits and sovereign guarantee make these instruments vital tools for long-term wealth creation.

Small savings schemes

As of January 2025, interest rates for small savings schemes remain steady for the fourth quarter of Financial Year 2024-25. PPF offers an interest rate of 7.1 per cent, NSC of 7.7 per cent, and SSY of 8.2 per cent. This marks the fourth consecutive quarter without any changes in interest rates, highlighting the government's cautious stance amidst fluctuating market conditions.

However, experts say, with rising inflation and shifting economic priorities, many potential investors are exploring alternative avenues that promise better returns without the constraints imposed by traditional savings schemes.

Expectations for small savings schemes in Budget 2025

“For a long time the expectation has been that of an increase in the rate of interest. Talking about small saving schemes, the government had in 2020 cut the interest rate on PPF from 7.9 per cent to 7.1 per cent. While towards the end of 2022, rate of interest on other small saving schemes saw an increase, we have seen amendments in the PPF scheme where the government has started carving out taxpayers. For example, HUFs [Hindu Undivided Family] are now not allowed to invest. Recently, interest rates for minors have been restricted and renewals are restricted after a certain period. It is important to note that in view of the push towards the new regime, the investments in PPF, NSC have actually tapered thereby reducing the impact of interest rate changes as such,” said Anita Basrur, partner, Sudit K. Parekh & Co. LLP.

“We anticipate a revision in the rates of schemes like PPF and NSC. Further, We expect the government to provide relief to the middle class by modifying the tax slabs, resulting in a lower effective tax rate compared to last year,” said Shravan Shetty, managing director, Primus Partners.

“We have got small savings schemes like PPF, NSC, and Sukanya Samriddhi Yojana -- let’s keep those interest rates nice and steady. A solid 7.1 per cent for PPF, 7.7 per cent for NSC, and 8.2 per cent for Sukanya Samriddhi would be like a cozy blanket of stability for savers, while keeping the fiscal balance in check,” said Himani Mishra, managing director and chief executive of Brand Radiator (a service provider company)

“While the government has opted for consistency in rates, these schemes remain under periodic review, aligning with macroeconomic trends and fiscal requirements. Investors are advised to take advantage of the current regime by contributing to these schemes, leveraging their benefits for long-term financial goals such as children’s education, retirement planning, and contingency reserves,” said Bharath Gangadharan, counsel at SKV Law Offices.