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Cost of Borrowing-Small Savings

In the wake of rising interest rates scenario, Government has followed suit by jacking up the rates on small savings schemes for Q11FY24. The increase across components have been in the range of 10-70bps in line with expectation. A status quo position has been maintained for PPF rates at 7.1%. Deposits contributes the bulk of the savings deposits with a share of 69.4%. Recently, Centre had pegged Rs 8.88 Lakh crore of the gross issuance calendar for H1FY24. As per our calculation (Bank of Baroda Study: Centre has finely managed its H1FY24 calendar), the average interest cost is projected at 7.29%-7.35%. Against this, the study attempts to estimates the cost of borrowings and average interest cost based on newly revised rates for small savings.

Small savings rate hiked

Government of India has revised the small savings scheme for Q1FY24 from Q4FY23. With the revision, there has been increase in interest rates across the board with only one exception.

- Time deposits have been raised by 20bps for 1year deposits to 6.8% from 6.6% previously.
- For 2 year (6.9% vs 6.8%) and 3 year (7% vs 6.9%) deposits, the rates are now higher by 10bps. Time deposits for 5-year duration have been raised by 50bps to 7.5% for Q1FY24. Recurring deposits for 5-year tenure have been elevated to 6.2% mark from 5.8% previously.
- Interest rates under the Monthly income scheme have been pushed up by 7.4%, it holds a sizeable share in total savings.
- The highest rate of increase (70bps) has been registered for the National Saving certificate at 7.7% compared with 7% rate in Q4FY23.
- Kisan Vikas Patra scheme will now be attracting much higher rates of 7.5% as against 7.2%.
- Under the Sukanya Samridhi Scheme, rates have been increased by 40bps to 8% from 7.6% in Q4FY23.
- However, the exemption to these rising interest rates have been for Public Provident Fund wherein the rates are steady at 7.1%.

Table 1: Interest rates hiked for small savings

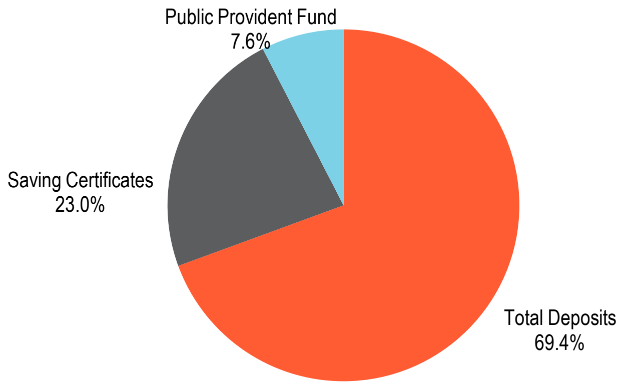
Instrument	Old Rates % (Q4FY23)	New Rates % (Q1FY24)
Savings Deposit	4.0	4.0
1 year Time Deposit	6.6	6.8
2 year Time Deposit	6.8	6.9
3 year Time Deposit	6.9	7.0
5 year Time Deposit	7.0	7.5
5 year recurring Deposit	5.8	6.2
Senior Citizen savings	8.0	8.2
Monthly Income Account	7.1	7.4
National Savings Certificate	7.0	7.7
Public Provident Fund	7.1	7.1
Kisan Vikas Patra	7.2 (maturity in 120 months)	7.5 (maturity in 115 months)
Sukanya Samridhi Account Scheme	7.6	8.0

Source: Ministry of Finance, Bank of Baroda Research

Structure of Small Savings

In order to understand the structure of small savings better, it is important to notice the share of each of components. This is based upon RBI's data for Feb'22 on components wise break up of small savings. Deposits have the highest share in total savings comprising about 69.4%, followed by saving certificates at 23% and Public provident Fund at 7.6%.

Chart 1: Share of components in Total Savings



Source: RBI, Bank of Baroda Research

Cost of Borrowing

Recently the government had also announced the borrowing calendar for H1FY24, which has been estimated at Rs 8.88 lakh crore for H1 (57.6% of total borrowing). In our Note (https://www.bankofbaroda.in/-/media/project/bob/countrywebsites/india/economic-scenario/data-releases/borrowing-calendar-h1fy24--31-19.pdf) on the same, it has been projected the average interest cost of Centre on these securities at 7.29%-7.35% for first half of borrowing programme.

For the year 2023-24, Government has budgeted Rs 6.48 lakh crore as receipts for small savings. After deducting the repayments, the net securities against small savings have been earmarked at Rs 4.74 lakh crore. By calculating the component wise borrowing costs and using the revised interest rates; it has been estimated the overall interest payment for government with the revision has inched up to *6.75% from 6.47% (based on old rates).* In absolute terms the interest cost would rise from Rs 41,917 crore to Rs 43,731 crore (new rate). But this would be lower than the market borrowings cost which is placed at 7.29-35% based on our estimates.

In case however, we exclude savings deposits from the lendable pool then the average cost of borrowing is expected to be much higher at 6.95% (old rate) and 7.28% (new rates). In absolute terms the cost will be higher from Rs 45,041 crore to Rs 47,211 crore (new rate). However, this scenario is more theoretical as banks include CASA when reckoning overall lending and the same principle applies here.

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