

Small savings versus bank deposits

After keeping rates stagnant for almost 2-years, the government recently announced a hike in interest rates for small savings scheme. Overall out of the total 12 schemes, interest rates on 5 of the schemes was raised in the range of 10-30 bps. On the other hand, while banks have increased term deposit rates to some extent, savings deposit rate continues to remain at a low of 2.7%. Even term deposit rate of 1 year maturity fetches a lower rate of interest than the corresponding small saving instruments. In this study, we compare the trends in bank deposits with small savings deposits and the role of interest rate differential between the two.

Structure of small savings

Small savings comprise of three main components: deposits, saving certificates and public provident fund (PPF). Deposits account for a majority share (69.4%) of the total small savings. It must be noted that while small savings grew by a CAGR of 12.2% in the last 5 years, CAGR for deposits has been higher at 13.4% in the same period. Within deposits, post office time deposits (17.4%) and post office savings deposits (16.4%) have a significant share. Further, both of them have grown at a much faster pace than the growth in overall small savings as well as deposits. Monthly income scheme also has a sizeable share of 16.5%. However, CAGR growth in this segment has remained muted at 5.3% in the last 5 years.

Savings certificates with a share of 23% in total small savings, also remain a major player in this segment. CAGR growth in this segment was at 9.7% in the last 5 years. PPF with a share of just 7.6%, remains the least preferred amongst investors. This may be due to a long lock in period of 15 years under this scheme. Growth of PPF deposits too has remained lackluster at just 9.1%.

Table 1: Structure of small savings deposits

	% Share	CAGR (FY17-FY22)
1 Small Savings	100.0	12.2
1.1 Total Deposits	69.4	13.4
Post Office Saving Bank Deposits	16.4	16.4
Monthly Income Scheme	16.5	5.3
Senior Citizen Scheme 2004	8.2	23.0
Post Office Time Deposits	17.4	20.1
Post Office Recurring Deposits	10.8	10.9
1.2 Saving Certificates	23.0	9.7
1.3 Public Provident Fund	7.6	9.1

Source: CEIC, Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

Savings Certificates

Before proceeding to deposits under the small savings scheme, we first look at the performance of savings certificates. There are several savings certificates available for an investor to choose from.

These include national savings certificates (NSC), kisan vikas patra (KVP) and other certificates. Out of these, NSC-VIII issue and KVP (2014) have remained the preferred choice of investors. In fact, on a CAGR basis, only deposits under these schemes have shown an increase in the last 5 years.

Table 2: Structure of Saving certificates

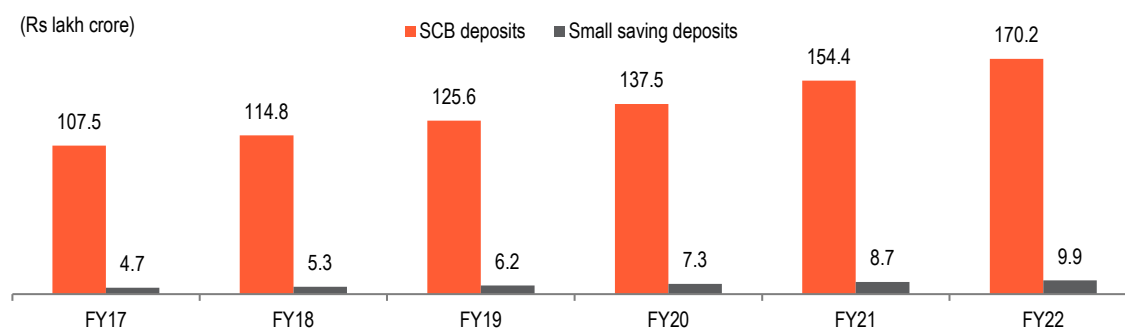
	% Share	CAGR (FY17-FY22)
Saving Certificates	100.0	9.7
National Savings Certificate VIII issue	46.8	12.0
Indira Vikas Patras	0.0	-217.3
Kisan Vikas Patras	-2.3	-172.7
Kisan Vikas Patras - 2014	52.4	19.5
National Saving Certificate VI issue	0.0	-8.5
Other Certificates	3.1	-1.6
National Saving Certificate VII issue	0.0	-1.9

Source: CEIC, Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

Bank deposits versus small saving deposits

Small saving deposits at Rs 9.9 lakh crore in Feb'22 are only a small fraction of total SCB deposits which stand at Rs 170.2 lakh crore (Figure 1). In terms of incremental deposits as well, while deposits by SCB's have increased by Rs 55.4 lakh crores over the last 5 years, small saving deposits have only increased by Rs 4.6 lakh crore.

Figure 1: Small savings deposits remain very low



Source: CEIC, Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

However, given faster growth in the deposits under small savings, Table 3 shows that the ratio of deposits under small savings to bank deposits, though low, has been rising steadily over the years.

Table 3: Ratio of small savings deposits to deposits of SCBs

	Ratio of Small savings deposits to bank deposits
FY17	4.4
FY18	4.6
FY19	4.9
FY20	5.3
FY21	5.6
FY22	5.8

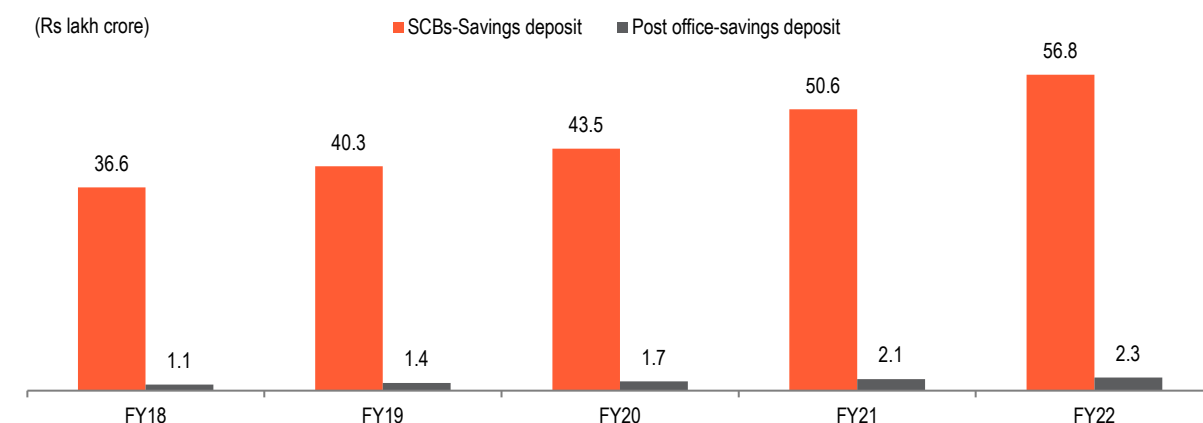
Source: Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

The table above shows that the ratio of small savings deposits to bank deposits has been inching upwards over the years from 4.4% in FY17 to 5.8% in FY22. While the share is still very low, the gradual rise is significant. The higher interest rate offered could be the main reason for this increasing ratio.

Savings deposits of banks versus post office savings deposits

In terms of savings deposits, SCBs have dominated the market with Rs 56.8 lakh crore of deposits in FY22. In comparison, post office savings deposits under the small savings scheme have remained very low at just Rs 2.3 lakh crore. Also in terms of deposit accretion, while savings deposit of SCBs have risen by Rs 20.3 lakh crore in the last 5 years, deposit accretion by post office deposits has been much lower at Rs 1.2 lakh crore only. However, here again, the ratio of savings deposits under small savings to banks, has inched up from 3% to 4% in a period of 4 years.

Figure 2: Small savings deposits remain very low



Source: CEIC, Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

Table 4: Ratio of savings deposits of post offices to savings deposits of SCBs

Ratio of savings deposits: small savings to bank savings	
FY18	3.0
FY19	3.5
FY20	3.9
FY21	4.2
FY22	4.0

Source: Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

The constancy in the interest rate on savings account under small savings has again contributed to a rising ratio.

Interest rates

One of the reasons for relative attractiveness of small savings deposits over traditional bank deposits is higher interest rates. It can be seen in Table 1 that small savings scheme offer a higher rate of interest than that offered on the corresponding bank deposits. This is true both for savings deposit rates as well as term deposits of 1 year maturity. For savings deposits, both SCBs and small savings scheme offered the same rate of 4% in FY17. However, while banks successively reduced the savings deposit rate to 2.7% in FY22, for post office deposits, it has remained unchanged at 4%. Similarly for

term deposits of 1 year maturity, both SCBs and small saving scheme offered an interest rate of 6.8% in FY17. This was reduced sharply by FY21 to 5.2% for SCBs, while for small savings scheme it actually increased to 6.9%. In FY22, the deposit rate for SCBs increased to 5.3%, but it still remained lower than the corresponding interest rate offered by small savings scheme at 5.5%.

Table 5: Interest rates on banks and small saving deposits

	Savings deposit rate SCBs	Post office savings deposit rate	Deposit rate 1year, SCBs	1year term deposit rate, Small savings
FY17	4.0	4.0	6.8	6.8
FY18	3.5	4.0	6.5	6.8
FY19	3.5	4.0	6.9	6.8
FY20	3.0	4.0	6.2	6.8
FY21	2.7	4.0	5.2	6.9
FY22	2.7	4.0	5.3	5.5

Source: CEIC, Ministry of Finance, Bank of Baroda Research | Note: End period rates

Concluding remarks

Banks continue to remain the preferred choice for consumers when compared with small saving schemes. However, small savings have the benefit at the margin of offering higher rates as these are adjusted only periodically and linked to market rates. Often in the downward cycle, the government chooses not to lower their rates which make them attractive for the households. As post offices are located all over the country, their touchpoints in rural India is significant. Of the 1.56 lakh post offices 1.41 lakh are in rural areas. In comparison, out of a total of 1.51 bank branches (as of Sep'22), only 35% or 53,380 are in the rural areas.

Further, in the current scenario due to a rising consumption growth, household savings have come down. On the other hand, bank credit demand has seen a sharp pickup while deposit growth has remained benign. In such a scenario, for banks to effectively compete with the higher returns offered under the small saving schemes, deposit rates need to be increased.

It has been observed that based on revealed preference of consumers bank deposits still dominate as the preferred choice of saving. But as seen above, there is a very gradual though marginal shift witnessed over the last few years, with the share of small savings inching up. This issue assumes particular importance in the present scenario when banks are looking to raise funds to finance the rising credit demand. Banks cannot afford to lose out on these funds and may have to rise deposit rates further to attract customers.

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