

Increase in NSS profit rates

The government announced increase in the profit rates of all the National Saving Schemes (NSS) by up to 2.3 percent per annum on 5th July, 2019. However, the new rates will be effective from 1st July, 2019. Profit on Pensioners' Benefit Accounts, Behbood Savings Certificates and Shuhada's Family Accounts were raised by 48 basis points to 14.76 percent from 14.28 percent announced in January, 2019. This translates into a profit of Rs 61.50 per month on minimum purchase of Rs 5,000 of these Certificates and Accounts. The profit rate on Defence Saving Certificates was jacked up by 54 basis points from 12.47 percent to 13.01 percent while the return on Regular Income Certificates was raised by 96 basis points, with the new rate of profit standing at 12.96 percent from 12.0 percent, translating into a payable profit of Rs 540 per month on a deposit of Rs 50,000. Average profit payable on Special Saving Certificates (Registered) increased by 1.33 percent to 12.90 percent from 11.57 percent at the start of the calendar year. The return on Short-Term Saving Certificates with 3-12 months tenor witnessed the highest increase for 2.3 percent, going up to 12.08 percent from 9.80 percent per annum. The CDNS has also instructed all regional offices that existing stock of blank Special Saving Certificates, Regular Income Certificates and Defence Saving Certificates would now be used by affixing rubber stamps with "Issue 49", "Issue 46" and "Issue 45", respectively, along with revised rates before issuance.

It may be mentioned that the federal government raises a considerable part of its financial resources to meet the budgetary gap through various National Saving Schemes (NSS) offered to the general public and the rates on these schemes are basically linked to cut-off yields on long-term Pakistan Investment Bonds (PIBs) and reviewed almost every two months. The present rise in the rates had become necessary after a sharp increase of 150 basis points to 12.25 percent in the policy rate announced by the SBP on 20th May, 2019. Obviously, a rise in the policy rate becomes instrumental in increasing the overall interest rate structure in the economy, including the rate on bank deposits, and if the CDNS does not announce a commensurate increase in the profit rate on NSS instruments, the investors in these schemes could divert their investments from National Saving Schemes to the commercial banks and deprive the government of financing the budget deficit through this valuable source. It may thus be inferred that profit rates on NSS would continue to rise until and unless inflationary pressures in the economy are tamed and the external sector position of the country does not improve, enabling the SBP to lower the policy rate. So far as the beneficiaries of the hike in the NSS rates are concerned, it is obvious that the investors in these schemes who generally belong to middle class and are mostly inactive would benefit due to higher return on their savings, offsetting partly the impact of inflation on their lives. However, it may be pointed out that the increase in the profit rates announced for Pensioners' Benefit Account, Behbood Saving Certificates and Shuhada's Family Welfare Account are relatively lower this time although this is the group of accounts/investors that deserved the highest increase because most of them are senior citizens and solely dependent on returns on their life savings.

The present increase in the NSS rates, though inevitable, would have certain negative consequences. Debt servicing of the country, which is already very high, would increase further. Private sector credit could be curtailed to a certain extent because of lower credit creating potential of the banks because of flow of funds from the commercial banks to the CDNS. This could lead to lower investment, higher unemployment and retardation in growth. Obviously, there are always certain pros and cons for taking a policy decision and the final determination is made by the policymakers after taking into consideration a host of factors relevant to the situation.