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PPF, Kisan Vikas Patra interest rates to fall from 1 April, it's time to consider bolder investment options

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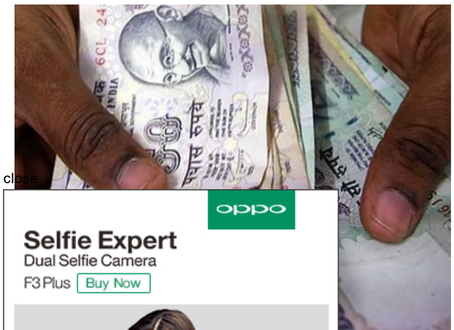
The government today cut interest rate on small savings schemes such as PPF (public provident fund), Kisan Vikas Patra and Sukanya Samridhhi Savings Scheme by 10 bps or 0.1 percent. The new rates are applicable for April-June quarter. This will have a marginal impact on investors who depend on interests income from small saving schemes. For instance, if you had invested Rs 1 lakh, you would have earlier got an interest of Rs 8,000 per annum when the rate was at 8 percent. In the reduced interest rate scenario, you now stand to get Rs 7,900 per annum at 7.9 percent. The move is in keeping with the government's decision to reduce small savings rates to align with the rates in the economy. Currently, one-year bank fixed deposits rates are hovering in the range of 6.50-7.00 percent.

In general, interest rates are on a downward curve, with bank deposit rates too falling in last few months owing to liquidity gush post the demonetisation move.



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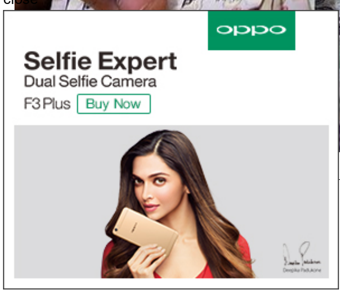

The question is how should savers adjust in a falling interest rate scenario.

Here is what financial planners have to advise in a falling interest rate regime:

Invest in debt mutual fund: According to Suresh Sadagopan, founder of Ladder7 Financial Advisories - a specialist financial planning firm, the latest cut in small savings rate is a very minute adjustment. But the options for savers in such a scenario are limited. "We will have to learn to live in this scenario," he says.

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His advise is to consider investing in debt mutual funds. "FDs and other small saving schemes are treated as income from taxation point of view and savers will have to pay complete tax on it. In debt mutual fund schemes, investing in it for three years or more is considered as long-term capital gains. Effective tax incidents will be three to four percent then." The debt funds become attractive from a taxation point of view.

Look for equities and real estate: Bhargavi Sridharan, founder, Finmintra (www.finmintra.com), an online investment services firm, feels that rates will fall further as the government wants to boost investments. Many infra projects are in limbo and 80 percent of them are dependent on debt. A small reduction in rates changes the economics, said Sridharan. She thinks that with the government being pro business, pro economy and pro growth, it is bound to encourage this climate by cutting interests.

Sridharan suggests that with equity markets on a strong footing over the past four to six months, investment in equity market-related instruments could be a better option in a falling interest rate scenario.

"Equities are always a better option when interest rates are falling. However, i feel interest rates will go down further and it is better to lock one's money in fixed deposits for a year to a year and a half period. I would consider that a better option even now," she says.

Another choice is to invest in housing. Prices are stable now and that would be a good option, Sridharan says. Due to demonetisation exercise, interest rates are falling, and with the government pushing for for clean investment, investing in real estate is a good option, reiterates Sridharan.

Consider investing in bonds, debentures: The common refrain from small savers is that they do not understand financial instruments beyond fixed deposits, life insurance policies and post office savings. That is something that has to be remedied soon, says Pankaj Mathpal, Managing Director, Optima Money Managers Pvt Ltd. Financial literacy is a must in the times we are living in and in the future, said Mathpal.

He advises that an option for small savers should now be to consider investing in bonds and debentures. "Another option is mutual funds. Though bonds and debt are better instruments and can't be compared with equity schemes, small savers should now step forward and invest in it and also look at G-Sec funds and debt-oriented mutual funds."

Disclaimer: These are not investment advises given by Firstpost. Please consult your financial planner before making any investment.

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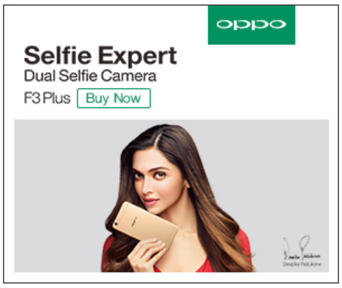

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