

**Report of the Advisory  
Committee to Advise on the  
Administered Interest Rates  
and Rationalisation of  
Saving Instruments**

**Mumbai  
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**(Rakesh Mohan)**  
**Chairman**

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## **Summary of Recommendations**

The Central Government on January 24, 2004 constituted an Advisory Committee to advise on the Administered Interest Rate and Rationalisation of Saving Instruments under the Chairmanship of Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India with the following terms of reference:

- (i) To suggest criteria for fixing the spreads on administered interest rates over the benchmark yields recommended by the Expert Committee chaired by Dr. Y. V. Reddy, taking a view on the need to avoid excessive volatility in returns;
- (ii) to make recommendations on rationalisation of existing savings instruments offered by the Government; and
- (iii) to review the implementation of recommendations of the Expert Committee (Reddy Committee) on tax treatment of small savings schemes and to suggest a road-map.

The Committee examined in depth the various issues arising from the above terms of reference. The recommendations of the Committee, which are covered under three broad heads viz., Benchmarking and Spread Rules, (b) Rationalisation of Existing Savings Schemes and (c) Structure of the Proposed Dada-Dadi Scheme as announced by the Finance Minister, are set out below:

### **(a) Benchmarking and Spread Rules**

- ❑ Continuance of average G-sec yields as the suitable benchmark, but for a longer period. The Committee recommends for consideration of the weighted average of G-sec yields for the previous two years to work out the benchmark for administered interest rates, with a weight of 0.67 for the more recent year and 0.33 weight for the previous year, in order to impart more stability to the benchmark.
- ❑ Continuance of the fixed liquidity spread of 50 basis points over the benchmark and the interest rate revision at annual rest in line with the suggestions made by the Reddy Committee.
- ❑ To limit the inter-year movement of interest rate fluctuations within a limit of 100 basis points in either direction.

- ❑ The benchmark should be kept under review by appointing another Committee in case its movement exceeds by more than 200 basis points.

## **(b) Rationalisation of Existing Savings Schemes**

The Committee considered the removal of those schemes, where investments are primarily motivated to obtain tax benefits available under section 88 and section 10 of the Income Tax Act. The Committee, at the same time, recommends the exploration of means to make TDS effectively applicable to taxable bonds. The major recommendation of the Committee as regards the rationalisation of schemes are as under.

- ❑ Discontinuance of Kisan Vikas Patra and National Savings Certificates (VIII Issue)
- ❑ Discontinuance of the 6.5 per cent (tax free) GoI Savings Bond 2003.
- ❑ As the Public Provident Fund is a longer-term savings scheme providing old age income security, among others, to the unorganised sector, it is desirable to continue the scheme in its present form for some time.
- ❑ Discontinuance of the Deposit Scheme for Retiring Employees (DSRE) which was applicable to only retired government and public sector employees with the introduction of the Dada-Dadi Scheme, which would be universally available to all classes of retired employees/senior citizens.

## **(c) Structure of the Proposed Dada-Dadi Savings Scheme**

The Committee made the following recommendations with respect to the proposed structure of Dada-Dadi Savings Scheme.

- ❑ As announced by the Finance Minister, the Dada-Dadi Scheme would be issued for the purpose of improving the welfare of senior citizens.
- ❑ The interest rate on the Dada-Dadi Scheme could be kept at 100 bps higher than the average benchmark for other small savings instruments.
- ❑ The average benchmark rate for the Dada-Dadi Scheme shall be based on government security with a five-year tenor instead of three year to make it more attractive.
- ❑ To keep the tenor of the Dada Dadi Scheme shorter at three years to ensure liquid nature of the Instruments.

- ❑ Dada-Dadi Scheme should be taxable in terms of section 80L of Income Tax Act.
- ❑ As Dada Dadi Schemes are meant to provide regular income to senior citizens, the payment of interest income should be on a monthly basis.
- ❑ An individual ceiling of Rs 20 lakh to be placed on investment
- ❑ An agency commission of 0.5 per cent for the scheme as in case of other small savings schemes.
- ❑ In order for keeping the scheme simple and hassle free, the banks issuing Dada Dadi scheme should have their own verification systems for ascertaining the age of the beneficiary placed at 60 years or above.