

Recent Financial and Banking Policy

(internal IIM Bangalore email)

Please find attached articles on recent financial policy and banking issues. The first is my Financial Express article, “*Men At Work: Accountants Needed?*,” long back in 2003, along with a note for classroom use, about the tax treatment of different deposits. This newspaper article is a shorter version of an Economic and Political Weekly article *Small Savings Policy: Circumventing Tax Sops May 2003*. The abstract of this 2003 EPW article is “*Inflation benchmarking of small savings and provident fund interest rates, which is a sound policy in and of itself, has the added advantage of lowering the interest paid when there is inflation and tax exemptions cannot be touched.*”

This 2003 article in turn is an offshoot of, “Setting Small Savings and Provident Fund Rates,” my various recommendations to the YV Reddy Committee in EPW (2001), including the suggestion to subsidize the opening of bank accounts for the poor instead of giving tax concessions on deposits. As it stands, policy has moved towards benchmarking PF rates to market rates, not to inflation. (Links to these EPW articles are on my website economicsperiscope.com)

As you may know the tax exemptions were a big issue in the Budget this year. The Economic Survey put out by Arvind Subramanian Chief Economic Advisor had recommended removal of tax exemptions on Small Savings and PF deposits. In the Union Budget it was announced that the exemption for Employee Provident Fund will be removed, but not for Public Provident Fund. However under huge protest, including a social media campaign with perhaps over a million signatures, the tax exemption was quickly restored. Accordingly, I stopped writing an article in progress! The issue of how PF rates should be fixed, when there are tax exemptions, is not going to go away.

The second article, “RBI’s new lending rate: A Double Edged Sword,” is a discussion in the Deccan Herald on March 21st, written by their correspondent Furquan Moharkan, on the new Marginal Cost Lending rate regimes of the RBI that started on 1st April. In this article, along with others, I have shared my views on this new policy. Banks have already lowered their lending rates and the issue is likely to come up in tomorrow’s Credit Policy.

Comments and responses are welcome.

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