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To,
The Governor,
Reserve Bank of India,
Central Office Building,
Shahid Bhagat Singh Road,
Fort, Mumbai – 400001.

Date: 2nd October, 2012.

Dear Sir,

Re: Interest Rates in India.

Government of India and Finance Minister insist that interest rates should be reduced. **Logic is**: with lower interest rate, interest expenditure for business goes down. The businessmen (which include all industries, banks & financial institutions) make more profit and there is an overall growth. GDP grows. Share market goes up.

Consider another logic:

1. Indian people save. Significant part of their savings are invested with banks, LIC/ UTI and other institutions. These institutions lend to business and Government.

As per RBI data (September, 2012) on "liquidity Aggregates" total deposits with institutions were Rs. 78 Trillion. We, the people saving and placing deposits with banks & other institutions get an average interest @ 8% or less. Rate of inflation at consumer level is 10% or more. (Note: All figures are from Economic survey or RBI. These figures are only indicators. Different sources may give different figures.)

2. This means that the **Indian saver** who places his deposit with banks & other institutions is a **clear loser in real terms** by at least 2%. In case of savings accounts where the rate of interest is much less than 8%, the depositor loses much more.

On top of this loss in real terms, the Government **collects income-tax** on interest income. All this loss is at current rates of interest. Now Government wants to increase the loss to the common man by pressurising RBI for reduction in interest rate.

3. Businessman is expected to **make profit by adding value** to the goods or services supplied by him. The value addition has to be **in real terms.** In reality the businessman gains what the saver loses. A part of his profits are from savers' losses. On deposits of Rs. 78 trillion; the common man suffers a loss of more than Rs. 1.5 trillion every year. This is the profit made by the business.

Businessman claims that if interest rates don't go down; he cannot make profits. In other words, if the businessman does not exploit the common man of his interest income, he cannot make profits. Is it fair to cause losses to the saver in real terms? Is it fair to increase the existing losses?

4. Common man makes several deposits - with Post office savings account, Government of India and RBI securities, corporate securities etc. Wherever he gets an interest rate lower than inflation rate, he suffers losses.

Every person whose receipts of earnings are delayed in the form of **provident fund, pension fund, LIC claims, etc. is a loser**. When the amounts are accumulated over several decades, the losses are really large. A young man joining service at the age of 25 years may calculate his provident fund & pension funds to be large. When he retires, he finds that the receipts cannot buy all that he had dreamt of.

Some savers have realised that they are losing by any investment expressed in rupees. Hence they are **moving to gold**, property and other modes of investment. Financial savings rates are going down and yet Government of India wants to increase the saver's losses.

My humble submissions:

(i) Indian economy has to be so arranged that the saver earns a **net interest in real terms**. There is no case for reduction in interest rates unless & until inflation at Consumer level is reduced.

(ii) And no **income-taxes** may be levied unless the saver earns a real rate of interest. Just as inflation adjustment is given in calculating capital gains, it should be given in calculating taxable interest income also.

With Best Regards,

Yours faithfully,

Rashmin Sanghvi.