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Want good returns on your FDs? Lock it NOW

Pankaj Anup Toppo, Outlook Money

April 11, 2009

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Owing to stable returns and high interest rates even in the present turbulent times, bank fixed deposits have re-emerged as a favourite investment tool even among fixed income instruments. Most other investment avenues have been far from stable given the volatility in the market.

Says Vishal Kapoor, head (wealth management), Standard Chartered Bank, India: "It's nice to see that even in these sophisticated times, a simple product like a

bank FD has regained its importance."

"If you had moved into fixed income instruments after January 2008, you would have got both stability and returns," he says. However, FD rates are expected to go down soon.

The downhill push

The Reserve Bank of India [[Get Quote](#)] has been cutting key rates since September 2008 in a bid to revive consumption. While some public sector banks have reduced deposit and lending rates January onwards, private sector banks are yet to tread that path. Signalling further cuts, Prime Minister Manmohan Singh recently told industry leaders that interest rates could be lowered further.

Receding inflation. With inflation nearing zero levels and the RBI expected to cut key rates further, experts believe that FD rates will come down in the near future. Says Dharmakirti Joshi, director and principal economist, Crisil, a rating agency: "In the next one year or so, deposit rates could come down by 100-150 basis points. Bank FD rates could even go below small saving rates. But that would depend on the rate of inflation. In 2009-10, inflation should be around 2 per cent."

Ashish Kapoor, CEO, Invest Shoppe, a wealth management and advisory firm, however, feels that inflation will go up to 5-6 per cent in the near future due to revival in prices of crude and metal. "Even at these levels, FD rates should come down," he says.



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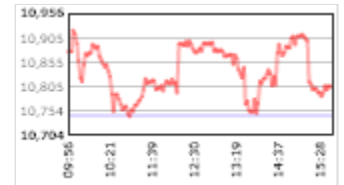
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He cites two reasons why FD rates have not come down to the desired levels already. "High fiscal deficit and high government borrowing are preventing interest rates from coming down," he says. Further, though banks have ample liquidity, their risk-averse stance towards lending is leading to weak monetary transmission.

What should you do

Should you lock in? If you are getting a good rate and you have funds available with you for some time, go ahead. "You will not be able to get that rate for the next few quarters," says Ashish Kapoor. For a retired person who wants regular income, it makes a lot of sense to put his money in an FD now.

"In many cases, individuals want to keep money available for a possible market upswing," says Vishal Kapoor. Consider this factor before locking your funds in an FD.

Earlier, there were options like fixed maturity plans which aren't so attractive now. Says Om Ahuja, executive vice-president and country head (investment management), Yes Bank [[Get Quote](#)]: "Insurance policies, typically, require long lock-in periods. Also, due to the new guidelines of the Securities and Exchange Board of India, returns on liquid funds will go down."

How much? Says Anil Rego, CEO and founder of Right Horizons, an investment advisory and wealth management firm: "Bank FDs can constitute about 30 per cent of your debt portfolio. Short-term debt funds could be an alternative for someone in the higher tax bracket, looking at high liquidity."

For how long? There are some popular FD tenures. Says Vishal Kapoor: "On the shorter end, it is typically around 3 months. At the longer end, people prefer deposits up to a year." At present, you should not look at a longer duration. "The maximum should be two years as interest rates could go up again after that," says Ashish Kapoor.

What to look at

Normally, you would look at the interest rate being offered on an FD. But, there are some other factors that can assume a lot of importance later.

Look at the safety and the quality of service provided by the bank. Check if there are any penal charges if you break the FD prematurely. "At times people have no idea what the rate would be if they break the FD prematurely," says Vishal Kapoor. Also, check product features such as automatic overdraft facility into your savings account to meet any urgent requirement of cash.

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