Special FD rates, while attractive, lose the medium to long-term race

While you may begin allocating to them, keep some powder dry as rates could rise further

SPECIAL FD RATES BY BANKS

Bank	Scheme name	Tenure	Interest rate (%)* Regular citizens
PUBLIC SECTOR			
Bank of Baroda	Baroda Tiranga Deposit	444 days	5.75
		555 days	6.00
	Baroda Tiranga Plus Deposit	399 days	6.75
Bank of India	Star Super Triple Seven FD	777 days	7.25
Canara Bank	Canara Special Deposit	666 days	7.00
Bank of Maharashtra	Maha Dhanavarsha	400 days	5.70
PRIVATE SECTOR			
YES Bank	Special FD-2022	20-22 mnths	7.25
IDBI Bank	Amrit Mahotsav	700 days	7.00
		555 days	6.50
Karnataka Bank	KBL Centenary Deposit	555 days	7.20
Bandhan Bank	600-day FD	600 days	7.50
DCB Bank	DCB Suraksha FD	3 years	7.50

Note:*Per annum; All banks offer 50 basis points (bps) higher rates to senior citizens except Karnataka Bank which offers 40 bps more and DCB Bank (75 bps more); FD rates as on November 7, 2022 Source: Paisabazaar.com

"Many banks have announced special fixed deposit (FD) schemes for specific tenures on which they are offering attractive rates. While you may begin allocating to them, keep some powder dry as rates could rise further.

"As long as the domestic inflation rate continues to exceed the Monetary Policy Committee's (MPC) mandated inflation band, and major central banks continue with their hawkish policies, one can expect the repo rate to increase further. Banks could steadily increase their FD rates," says Gaurav Aggarwal, senior director, Paisabazaar.

The wide gap between credit and deposit growth rates is another driver. "Banks will need to increase their FD rates to attract more deposits," says Aggarwal."

Check your liquidity needs

Factor in your liquidity requirements before investing in special FDs. "Some banks don't allow premature withdrawal from these schemes," says Aggarwal. Some also stipulate higher minimum deposit amounts. Most are limited-period offers, so you may not get the higher rate if you invest after the last date.

Interest rate shouldn't be your sole criterion for investing in these schemes. "The tenure over which these rates are available should match your needs," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Compare rates across public-sector and private-sector banks before selecting a special FD scheme. Small Finance Banks (SFBs) also offer high rates. Look up their rates. You may allocate 10-15 per cent of total FD holdings to SFBs.

Don't invest at one go. "Invest in special FDs but keep some powder dry to benefit from higher rates in the future," says Dhawan.

Bansal suggests investing for one-two years and reinvesting at higher rates later. He also suggests laddering to take care of liquidity issues and get returns at regular intervals.

Non-senior citizens especially should limit their exposure to FDs. "Returns from most bank FDs are still below the consumer inflation rate. Post-tax returns from FDs may well be negative. Unless FD returns are at least a couple of percentage points higher than inflation, they will not be an investment in the true sense," says Bansal. He suggests using FDs for short-term capital protection, say, to park emergency funds.
TMFs score in above 3-year tenure

Both FDs of large commercial banks and target maturity funds (TMFs), which invest in government securities, state development loans and AAA public sector unit debt, are safe. As for liquidity, premature withdrawal may not be permitted in special FDs, but you can exit TMFs anytime.

FDs and TMFs having tenure of less than 36 months can be compared directly on post-tax return criterion. "Both FDs and TMFs of less than 36 months are taxed at the marginal slab rate," says Joydeep Sen, corporate trainer (debt markets) and author. FDs of one-three-year tenure are offering 5.75-7.5 per cent. TMFs maturing in 2023 are offering a yield to maturity of 6.89-7.08 per cent. Those maturing in 2025 are offering 7.36-7.40 per cent.

PNB UTTAM (Non Callable) Fixed Deposit Scheme			
Non-Callable (Rs 15 lakh to less than 2 crore)			
Period	Domestic TD	Senior Citizens	Super Senior Citizens
600 days	7.05% p.a. (6.55+0.50)	7.55% p.a. (7.05+0.50)	7.85% p.a.(7.35+0.50)