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Bank, postal FDs no more attractive

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New Delhi: Inflation is no longer just eating into your pocket by way of higher grocery bills. It's also eroding the money you've safely put away in a fixed deposit in your bank or post office. That's because at 7.6% it is more than enough to offset your interest earnings, giving you negative real returns.

Most banks offer interest in the range of 8% to 8.75% on fixed deposits of tenures ranging from one year to 10 years. The country's largest bank, SBI, for instance, offer 8.5% on deposits of two years or more, while for shorter duration deposits it gives 8.75%.

That may seem like it still gives you some positive real return after accounting for inflation, but that's an illusion for most.

Don't stay fixed on FDs, look out for other options

New Delhi: Fixed deposits no longer earn positive gains. Even though the bank interest rates might indicate some gain postinflation, it's not so—because the interest income is taxable, even if your deposit is covered by Section 80C of the IT Act.

If your annual income is above Rs 5 lakh, the tax deduction would be at 30.9% (including education cess), which means the effective interest income comes down to 6.05% if the nominal rate is 8.75% and to 5.87% if the rate is 8.50%. In either case, the current level of inflation more than wipes out this return. Even if your income is lower, between Rs 2.5 lakh and Rs 5 lakh per annum, where the tax rate applicable is 20.6%, the effective interest rate would be between 6.75% and 6.95%, again not enough to give you a positive real return on your deposit.

So, what's to be done? With inflation unlikely to come down significantly in the near future, it makes sense to look at other avenues to park whatever surplus you might have. Real estate and gold, which typically appreciate fast in inflationary periods, are possible options that are relatively risk-free. Equity could be another option, but that requires a different kind of risk appetite and more indepth knowledge of the market.

It is only if you are in lowest taxable or the non-taxable bracket, with an annual income below Rs 2.5 lakh, that current levels of bank deposit rates and inflation give you a positive real return on your money and even that is only marginal. With a tax rate of 10.3%, your effective interest earnings on deposits would be between 7.62% and 7.85%, barely allowing you to keep your nose above water.