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No negative balances in savings accounts: RBI

MUMBAI: Negative balances in savings accounts due to penalty charges are now history following a directive from the central bank. The RBI has asked banks to stop imposing charges for non-maintenance of minimum balance once the balance in a savings account touches zero. Although the norms came into effect last year, some banks were continuing with the practice of creating negative balances in savings accounts until recently. According to the RBI, if any bank continues to debit charges on a savings account creating a negative balance, customers can approach the banking ombudsman. Most banks contacted by TOI said that they do not create a Negative balance in savings bank accounts. Savings accounts usually go into negative balances when the customer changes his job and his `salary account' ceases to receive funds, and the bank begins to apply minimum balance requirements. The bank begins to debit a penalty, which often results in the balance turning negative. Although banks do not pursue recovery of the amount due under negative balance accounts, the customer stands to lose if he deposits funds into the account. In response to an email sent by TOI, HDFC Bank said it "does not allow the balance in a savings account to go negative due to imposition of charges for non-maintenance of minimum balance". The statement added that there are no charges for reactivation of the account in future. Axis Bank said that it does not accumulate charges for non-maintenance of balance. ICICI Bank also said that it does not create negative balances in savings accounts.

By Liily Chwda

Implementation of Indian Accounting Standards (IND AS)

The Reserve Bank of India, via notification no. RBI/2015- 16/315, DBR.BP.BC.No.76 /21.07.001/2015-16, dated February 11, 2016, had notified that scheduled commercial banks (excluding Regional Rural Banks) shall follow the Indian Accounting Standards as notified under the Companies (Indian Accounting Standards) Rules, 2015 converged with International Financial Reporting Standards (IFRS) from April 2018. RBI said that Ind AS shall be applicable to both standalone financial statements and consolidated financial statements. Banks shall not be permitted to adopt Ind AS earlier. RBI also advised Banks to take note of the Press Release dated January 18, 2016 issued by the MCA which states that notwithstanding the roadmap for companies, the holding, subsidiary, joint venture or associate companies of banks shall be required to prepare Ind AS based financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 and thereafter. (Comparatives shall mean comparative figures for the preceding accounting period.)

RBI also stated that Ind AS implementation is likely to significantly impact the financial reporting systems and processes and, as such, these changes need to be planned, managed, tested and executed in advance of the implementation date. Banks are advised to set up a Steering Committee headed by an official of the rank of an Executive Director (or equivalent) comprising members from cross-functional areas of the bank to immediately initiate the implementation process. Further, RBI pointed out certain additional responsibilities of the banks apart from stating critical issues which need to be factored in the Ind AS implementation.

By Liily Chwda

GST will change the way India does business: Who will win, who will lose -The Economic Times: By Anand Laddha & Sahil Kapoor

Indirect taxes in India have driven businesses to restructure and model their supply chain and systems owing to multiplicity of taxes and costs involved. With hopes that the Goods and Services Tax (GST) will see the light of the day, the way India does business will change, forever. Total tax collection in India (direct & indirect), currently stands at Rs 14.6 lakh crore, of which almost 34 per cent comprises indirect taxes, with Rs 2.8 lakh crore coming from excise and Rs 2.1 lakh crore from service tax. With the implementation of the GST (Goods and Services Tax), the entire indirect tax system in India (excise, statelevel VAT, service tax) is expected to evolve. The tax revenue mix can change as per the economic condition of the country. In developing countries, indirect taxes comprise a higher share of total taxes; in developed countries, their contribution is significantly lower. For example in Australia, indirect tax contributes just 13 per cent of total tax collection. After GST, the percentage of indirect tax is expected to increase in India.

Not covered under the GST purview:

1. Petroleum products
2. Entertainment and amusement tax levied and collected by panchayat /municipality/district council
3. Tax on alcohol/liquor consumption 4. Stamp duty, customs duty
5. Tax on consumption and sale of electricity

GST objectives:

1. Ensuring availability of input credit across the value chain
2. Minimising cascading effect of taxation
3. Simplification of tax administration and compliance
4. Harmonisation of tax base, laws, and administration procedures across the country
5. Minimising tax rate slabs to avoid classification issues
6. Prevention of unhealthy competition among states
7. Increasing the tax base and raising compliance

Implementation challenges:

1. Lack of adaptation
2. Lack of trained staff
3. Double registration can increase compliances and cost
4. Lack of clear mechanism to control tax evasion
5. Hard to estimate the exact impact of GST Impact on inflation: Under the proposed GST, effective tax rate on goods (comprising around 7075 per cent of the CPI basket) will decline. A significant proportion (3540 per cent) of goods (majorly agriculture products) are not subject to tax and we expect a status quo in future. At present, services oriented components constitute ~2530 per cent of the CPI basket with a major share belonging to housing, transport and communication sector . Service tax is not imposed on certain (12 per cent of the CPI basket) services and these services are expected remain exempt under GST regime. A hike in tax rate on services is unlikely to have any material direct impact on CPI. Thus, the overall transition to GST will not have a significant impact on inflation Sector wise impact of GST: Automobiles: The effective tax rate in the sector currently ranges between 30 per cent and 47 per cent.

Highlights:

► On implementation of GST the tax rate is expected to oscillate between 2022 per cent.
► It is expected to drive overall demand and reduce cost for the end user by about 10 per cent.
► The transportation time and the overall cost will be reduced as the goods will be transferred from one state to another by easily surpassing various octroi and check points.
► In addition to this, the cost for the logistics and supply chain inventory will be curtailed by almost 3040 percent.

By Tasfiya Shaikh

We'll let you know on RBI governor: Arun Jaitley – The Economic Times

NEW DELHI: No decision has yet been reached to appoint India's next central bank governor, Finance Minister Arun Jaitley said on Thursday, 18 days before the incumbent is due to stand down. A senior aide to Prime Minister Narendra Modi said he was "expected to make up his mind very soon" on replacing Raghuram Rajan, the former International Monetary Fund chief economist who dropped a bombshell in June by announcing he would not seek a second term. "We will let you know when we decide," Jaitley told reporters as he returned to the finance ministry from a meeting with Modi. "You will come to know the conclusion, not the process." Rajan ends his three-year term as governor of the Reserve Bank of India on Sept. 4. In that short time he transformed the RBI into an inflation-targeting central bank, with a central goal for consumer price growth of 4 percent. The government is also in the process of selecting a new, six-member Monetary Policy Committee that will decide on interest rates. Officials have suggested that Rajan's replacement would be named to give enough time for an orderly leadership handover at the Mumbai-based central bank. A shortlist of possible successors was floated in the immediate aftermath of Rajan's June 18 announcement that, in the ensuing weeks, has seen hopefuls drift in and out of contention. Former RBI deputy governor Subir Gokarn, now India's executive director at the IMF, has featured throughout. Also in consideration is current deputy governor Urjit Patel, according to officials with direct knowledge of the matter. World Bank Chief Economist Kaushik Basu, who is soon to retire, has edged into contention. Other names also mentioned have been State Bank of India Chair Arundhati Bhattarcharya; the government's chief economic adviser Arvind Subramanian; and Ashok Lahiri, who held the same role under an earlier government. One finance ministry official said a decision was likely to be announced by the Prime Minister's Office, adding it was difficult to say at this stage whether Modi would accept Jaitley's recommendation at all. He declined to comment on what was discussed at the meeting between Modi and Jaitley.

By Sonal Nema

ET in the classroom: How to manage liquidity in the system – The Economic Times

1. What is liquidity?
   Cash in the banking system. An excess results in lower rates while a shortage leads to higher rates. Since April, the RBI has been working towards making the system liquidity neutral from a high deficit a few months ago.
2. What prompted the RBI's move towards neutrality?
   In February-March, the system in a deficit of about Rs 1.40 lakh crore on average, with the overall deficit widening to Rs 2.65 lakh crore on a few days in March. That kept money market rates from falling as short supply led to higher borrowing costs. At times, the inter-bank call money rate was about 40-50 basis points higher than the policy rate, now at 6.50 per cent. This prevented banks from fully passing on the central bank's reduction in the policy rate by 150 basis points since January last year. This also gave rise to the paradox of relatively low inflation amid elevated money market rates. Incidentally, excess liquidity in the system is also not a good sign as this may be caused by sluggish credit growth, which means a poorly performing economy.
   Did deficit liquidity serve any purpose?

   Back in 2013, the rupee was facing a rout, weakening to a record 68.85 against the dollar. As overseas investors exited India investments, RBI hiked short-term interest rates, tightening liquidity. That shored up the currency and made the market more attractive for offshore investors. With not too much cash in the system, the central bank's moves had strong market impact, stabilizing the rupee.
   How does the RBI control liquidity?

   This can be done through autonomous drivers like forex flows but such means are not always under the RBI's control. Discretionary drivers include open market operations (OMOs), which is buying government bonds to pump in liquidity or selling them to drain money. RBI is currently focusing on OMO purchases

   By Sonal Nema