PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
भारत सरकार

MINT, Delhi
Friday, 12th October 2018; Page: 16
Width: 40.47 cms; Height: 48.94 cms; a3; ID: 10.2018-10-12.75

Govt hikes customs duty on more items to rein in CAD

Duty on telecommunication equipment and other goods increased to 20% from 10%

Remya Nair
remya.n@livemint.com
NEW DELHI

The government on Thursday increased customs duty on a host of items, including telecommunication equipment, to 20% from the existing 10%, in a bid to reduce India's current account deficit. This is the second round of increase in custom duties as the government looks to cut down on non-essential imports in the face of a weakening rupee and massive outflows.

On a day the benchmark Sensex fell more than 1,000 points and the rupee touched an all-time high of 74.50, the government sought to assure investors about India's strong macro-economic fundamentals and its intent to react quickly to address any problem.

"Our main worry is the current account deficit, balance of payments gap and the rupee. These are the three things which we are watching...We have a strategy in place. If need be, the government can sort of intervene in different ways also to remove the balance of payments gap," said the official, who did not wish to be identified, adding that the government will take more action if required.

India's CAD worsened to 2.4% of gross domestic product (GDP) in the first quarter of 2018-19 and economists expect it to worsen to 3% for the full year. With large-scale capital outflows, financing the deficit is also a challenge, though India's forex reserves are more than adequate.

The rupee has also weakened by more than 16% so far this year, , according to Bloomberg, as foreign investors sold $3.69 billion and $7.65 billion in the equity and debt markets, respectively.

India's fiscal deficit target is also at risk on account of weak indirect tax revenue collections. All these have led to fears about India heading towards a twin deficit problem, similar to what it faced in 2013.

On further import compression, the official cited above said it should not adversely impact the competitiveness of Indian industry, though hinting that further increase of customs duties on non-essential imports could be considered.

This is the second round of increase in custom duties as government looks to cut down on non-essential imports

The official also expressed hope that from here on, the rupee will strengthen and the oil prices will come down, easing the pressure on India's external sector.

He stressed that India is on a strong footing with high levels of growth and stable inflation.

"India's (growth) is impressive and stable. Our inflation is something to rejoice about. Our monetary policy framework has enabled (us) to keep inflation well within limits...there are countries in the world which are unstable in terms of stock markets going up and down, in terms of inflation going up, currency also depreciating, plus rising oil prices, so they are having all macro factors affecting many of the emerging market economies," he said. "But in our case, in spite of the oil prices going up, the prediction of the Reserve Bank of India (RBI) for inflation is modest, something which we think will be a very positive factor for India."

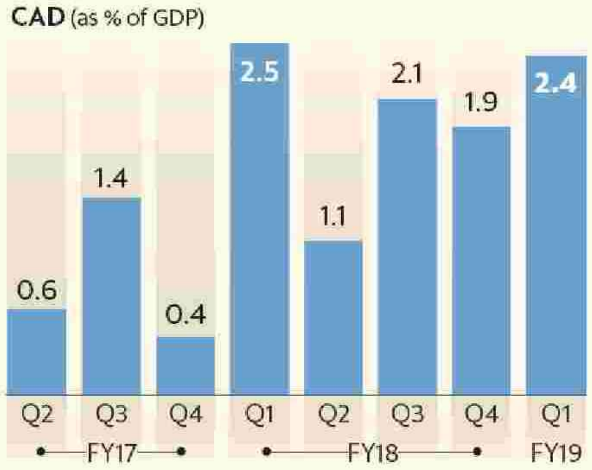
RBI, in its monetary policy announcement last week, forecast retail inflation based on the consumer price index at 3.9-4.5% in second half of 2018-19 and at 4.8% in first quarter of 2019-20 with upside risks.

MINT GRAPHITI

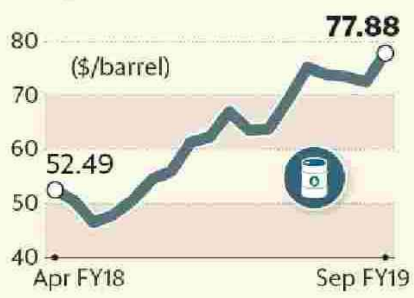
India's macro turmoil

India's economy has been reeling under a depreciating rupee, rising crude oil prices, a widening CAD and an unfolding trade war.

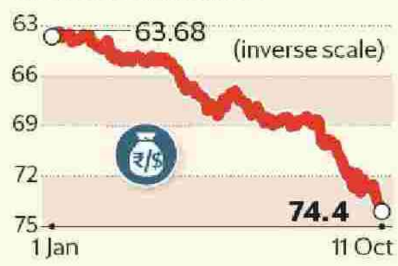
Current account deficit widening



Oil prices on the rise



Rupee continues its downward slide



Source: RBI, Petroleum Planning and Analysis Cell

India's growth stable, says finance ministry official

The finance ministry expressed concern over the widening current account deficit, balance of payments gap and the rupee

Govt assured investors on India's strong macro-economic fundamentals and its intent to react quickly to address any issues

Govt expressed hope that the rupee will strengthen and the oil prices will come down, easing the pressure on India's external sector

The finance ministry official also stressed that India is on a strong footing with high levels of growth and stable inflation

PHOTOGRAPH BY ANIRUDDHA CHOWDHURY/MINT; GRAPHIC BY SUBRATA JANA/MINT