

Import duties raised to rescue ₹, reduce CAD

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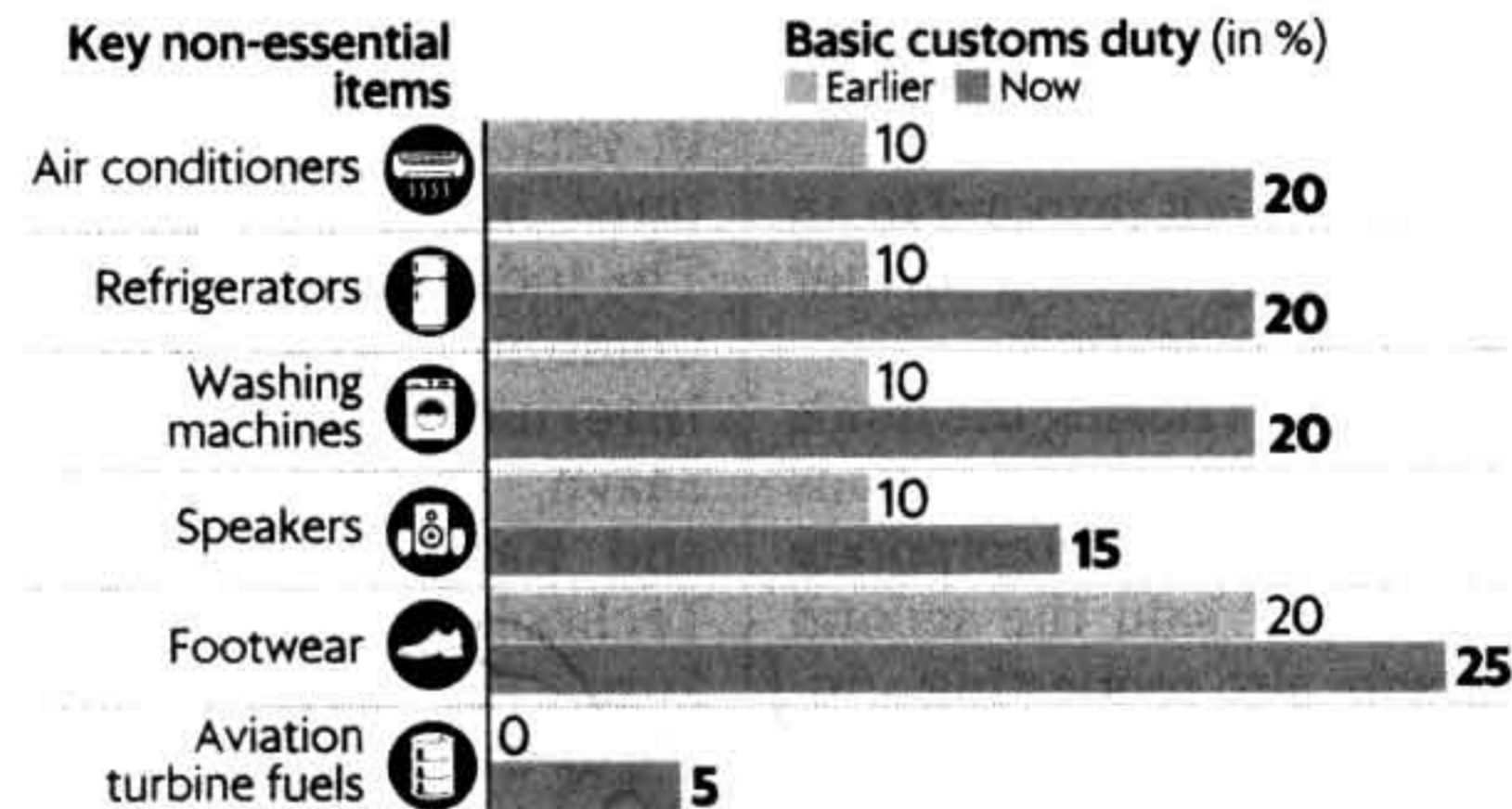
The government on Wednesday raised import duties on 19 non-essential items, including refrigerators, air conditioners, jewellery, diamonds and jet fuel, accounting for annual imports worth ₹86,000 crore, to arrest a widening current account deficit (CAD) and a weakening rupee.

The imposition of a 5% import duty on jet fuel is, however, unlikely to increase air fare as India mostly imports crude oil and refines jet fuel locally. India imported only \$181 million worth of the fuel in the year ended 31 March.

The increase in import duties, coupled with a depreciating rupee, would be a cause for worry for importers, said Abhishek Jain, tax partner at EY India. "However, this hike in duty may not impact importers who procure from countries with which India currently has beneficial free-

What will become costlier

The government has increased basic customs duty on a host of non-essential items ranging from ACs to shoes.



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trade agreements," he said.

Earlier this month, while announcing a slew of measures to increase capital inflows and check rupee volatility, finance minister Arun Jaitley said a broad policy decision had been made to cut non-essential imports and boost exports, against the backdrop of the CAD touching 2.4% in the June quarter.

The government, however, did not raise customs duties on imports of gold or electronic goods. While gold

imports surged at an average 65% to \$3.3 billion in July and August, that of electronic items rose 15% to \$2.47 billion during the April-August period.

The reason why the government decided against imposing additional import duty on gold may have been because the yellow metal already attracts a 10% import tax and the commerce ministry and NITI Aayog had sought a reduction to cut smuggling. Gold is also used as a raw

material by the gems and jewellery sector, whose exports have started to pick up after a prolonged weakness.

Many of the electronic items have zero customs duty under the World Trade Organization's first Information Technology Agreement, which limits the government's ability to raise tariffs although imports of such items have been rising significantly.

Kamal Nandi, business head and executive vice president at Godrej Appliances, said imports of large white goods are very limited as compared to the overall size of the market.

"For example, the large-size refrigerators with 500 litres and above capacity, sell only 100,000 units, which constitute 1% of the industry volume," Nandy said. "Moreover, as the consumers of this segment are value-driven and not price-sensitive, the increase in custom duties shouldn't impact sales in this segment."

Sapna Agarwal in Mumbai contributed to this story.