

# Govt may slash fuel, maize tax to cool inflation

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The government could consider reducing taxes on some items such as maize and fuel in response to the central bank's recommendations to help rein in climbing retail inflation, two sources with knowledge of the discussions told *Reuters*. However, a decision will only be taken after the release of February inflation data, one of the sources said.

The annual retail inflation rate rose to 6.52 per cent in January from 5.72 per cent in December, data showed this week. "Food inflation is likely to stay high, prices of milk, maize and soy oil are adding to inflation worries in the near-term," a senior source familiar with the central bank's and government's thinking on the matter said.

"The government is looking at cutting import duties on products like maize, which attract a 60 per cent basic duty, while taxes on fuel could also be reduced again," the source added.

The finance ministry and Reserve Bank of India (RBI) did not immediately respond to *Reuters*' queries.

Though global crude oil prices have eased and stabilised in recent months, fuel companies have not passed on the lower import costs to consumers or companies trying to make up for previous losses. India imports more than two-thirds of its oil requirements.

A cut in taxes by the government could push pump operators to pass on the benefits to retail consumers and help



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bring down inflation. January's retail inflation was above the RBI's upper target limit of 6 per cent for the first time since October and much higher than an estimate of 5.9 per cent in a *Reuters* poll of 44 analysts. "We have some recommendations from them (central bank) which is a usual practice," a second source said. "This has been one of the ways in which government and RBI has coordinated to create a stable macroeconomic environment. Fuel and maize are part of duties. We will probably wait for at least one more print before we decide on these," he added. "The RBI's decision and stance remains vindicated by this number and it would be fair to surmise that if inflation remains above the 6 per cent mark in the next couple of months, there could be a further rate hike considered," Madan Sabnavis, chief economist at Bank of Baroda said in a note, though he added that the probability of a hike was low.