

**Economics**  
**Seminar**  
**Series**  
**2015**



**FACULTY OF ECONOMICS**

***Seminar***

***Designing Policies in the Presence  
of Hawala Markets***

***Professor Kavita Rao***

*National Institute of Public Finance and Public Policy*

*New Delhi*

**Date:** February 19, 2015  
(Thursday)  
**Time:** 2 :30 p.m.  
**Venue:** FSI Hall, Akbar Bhawan  
Satya Marg, Chanakyapuri  
New Delhi

**Abstract:**

To deal with rising current account deficits, the government often uses instruments such as increase in customs tariffs. These are expected to induce an appreciation in the currency. In the presence of hawala markets which constitute an alternative payment mechanism, the control exerted by the customs tariffs is diluted, thereby reducing the effectiveness of this policy in controlling depreciation of the currency. The paper explores the impact of the existence of such a mechanism on the effectiveness of various policy instruments in influencing outcomes on the official foreign exchange markets and GDP.