

sad day for India, and we will avoid that under all conditions.

Effect of rupee devaluation on economy

*43. SHRI GURUDAS DAS
GUPTA:†

SHRI AJIT P. K. JOGI:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the rupee has recently been devalued sharply in two instalments against major international currencies; and

(b) if so, the details thereof and the reasons therefor?

THE MINISTER OF FINANCE (DR. MANMOHAN SINGH): (a) and (b) The Reserve Bank of India effected an exchange rate adjustment on 1 July, 1991 in which the value of the rupee declined by about 7 to 9 per cent against the major currencies (the pound sterling, the US dollar, the deutsche mark, yen and French franc). There was another exchange rate adjustment on 3 July, 1991 in which the value of the rupee declined by about 11 per cent against the major currencies. Between 28 June and 3 July, 1991, the value of rupee declined by 17 to 19 per cent *vis-a-vis* the five major currencies while these major currencies appreciated *vis-a-vis* the rupee by about 21 to 23 per cent. These adjustments had been necessitated by the growing external and internal imbalances in the economy. The balance of payments situation had become very critical reflected by a sharp drawdown of reserves. Since October, 1990 there has been an appreciation in the real effective exchange rate of the rupee as a result of a relatively high rate of inflation in the country *vis-a-vis* India's major trading partners and much slower rate of depreciation in the nominal exchange rate lead-

ing to an erosion in the international competitiveness of the economy. It has equally necessary to stem the destabilising market expectation which were generated by perceptions about the exchange value of the rupee.

SHRI GURUDAS DAS GUPTA: Going through the statement the hon. Minister has made, it appears that devaluation has been resorted to to bring about correction in the balance of payments position. Secondly, according to this statement it appears it has been done because we have to increase the international competitiveness of our economy. These are the basic points.

My question to the hon. Minister is that the balance of payments position cannot be corrected if there is no increase in the export that India does. Over the last ten years there have been a number of so-called adjustments in the exchange rate and even then there has been no appreciable improvement in the export of the country. In 1966, devaluation was resorted to. Even then for the first few years export increased only by 4.5 per cent. In this background, I would like to know how the hon. Finance Minister is optimistic that there can be increase in export so that the balance of payments position can be corrected, because the export does not increase only on the price of the commodity that you would like to sell in the international market. It also depends on the buoyancy of the international market. And as is well known, the international market is passing through a slump and unfavourable conditions. In a condition like this will the Minister tell us why it has been done and how it is going to be corrected?

Part (b) of my question is this. There is a danger that the increase in export may be over-counter-balanced by the increase in the price of import. Therefore, this devaluation may lead to further accentuation of the balance of payments position.

Yesterday the Prime Minister said openly that these changes have been brought

†The question was actually asked on the floor of the House by Shri Gurudas Das Gupta.

about because otherwise the banks would have been under run. The NRIs had threatened that they would withdraw their deposits. So, part (c) of my question is whether the devaluation was resorted to because the Government of India was under duress from non-resident Indians and also that it was under duress because of the World Bank conditionalities for getting the loan.

DR. MANMOHAN SINGH: I would like to answer the last part of the question first. We were not under duress from anybody then and we are not under duress now. This was a sensible decision to do in the circumstances in which our country was placed and is now. Therefore, I don't have to bow to the IMF or to anybody else to do what is in the best interest of the country.

SHRI GURUDAS DAS GUPTA: The Prime Minister said yesterday that the banks would have been under run if devaluation was not done. What have you to comment on that?

DR. MANMOHAN SINGH: The Prime Minister was mentioning the objective conditions prevailing then and what we did was a response mechanism which stopped those types of destabilising activities becoming a flood. This is not a question of functioning under duress at all.

The first part of the question is: will devaluation lead to increase in export? The hon. Member has referred to several previous instances. Let me say that in this country there seems to be strange conspiracy between the extreme right and the extreme left that there is something immoral or dishonourable about changing the exchange rate. But that is not the tradition. If you look at the whole history of India's independence struggle before 1947, all our national leaders were fighting against the British against keeping the exchange rate of the Rupee unduly high. Why did the British keep the exchange rate of the Rupee unduly high? It was so because they wanted this country to remain backward and they

did not want this country to industrialise. They wanted the country to be exporter of primary products against which all Indian economists protested. If you look at the Indian history right from 1900 onwards to 1947, this is a recurring plea of all Indian economists not to have an exchange rate which is so high that India cannot export, that India cannot industrialise. But I am really surprised that something which is meant to encourage the country's exports, encourage its industrialisation is now considered as something anti-national.

MR. CHAIRMAN: Question Hour is over.

SHRI GURUDAS DAS GUPTA: The Minister's statement is not in agreement with the statement made by the Prime Minister. His statement is at variance with the statement made by the Prime Minister yesterday in the House.

WRITTEN ANSWERS TO QUESTIONS

Negotiation of a sum of dollar 200 million with foreign banks

*44. SHRI SUNIL BASU RAY: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the caretaker Government had negotiated with foreign banks in June 1991 for a loan of 200 million dollars;

(b) if so, what were the terms and conditions of the loan;

(c) whether any of our national assets had been sold/mortgaged; and

(d) if so, what were the compelling circumstances to act in that manner?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI RAMESHWAR THAKUR): (a) No, Sir.

(b) Does not arise.

(c) (i) The Union Government has leased 20 MT of confiscated gold held in Government account to the State Bank of