

the 4th of July. I have not read the World Bank report which the hon. Member is referring to. The decisions which we have taken were taken on our own judgement based upon the work done by the previous Government and work done by our Government. We have taken these decisions according to our best judgement.

MR. CHAIRMAN: Q. No. 42.

Selling of Gold by Government

*42. SHRI A. G. KULKARNI:

DR. RATNAKAR PANDEY:

Will the Minister of FINANCE be pleased to state:

(a) whether Government have sold 20 tons of confiscated gold to ease the foreign exchange situation;

(b) what is the stock of gold necessary as security against the currency as per the law;

(c) whether Government propose to sell more confiscated gold to meet exigencies of debt servicing; and

(d) what is the estimate of gold held in the form of jewellery and ornaments by the people in the country?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI RAMESHWAR THAKUR): (a) The Union Government leased 20 metric tonnes of confiscated gold held in Government account to the State Bank of India as per lease agreement dated May 16, 1991. In turn, the State Bank of India entered into a sale transaction with repurchase option with Union Bank of Switzerland, as per agreement dated May 18, 1991. The confiscated gold forms part of gold held in Government account and does not form part of the gold held by Reserve Bank of India.

(b) In terms of Section 33(2) of the Reserve Bank of India Act, 1934, the aggregate value of gold coin and gold bull-

lion held as assets of the Issue Department shall not at any time be less than Rs. 115 crores. As on 30th June 1991, the value of gold held in the Issue Department of Reserve Bank of India was Rs. 7410.80 crores.

(c) There is no such proposal at present.

(d) The Government does not have any estimate of the gold stocks held in the form of jewellery and ornaments by the people in this country.

SHRI A. G. KULKARNI: Sir, the statement mentions about the sale or lease of confiscated gold under Section 33(2). The aggregate quantity of gold with the Reserve Bank of India is round about Rs. 7400 crores after revaluation as per the Ordinance issued by the previous Government. But, Sir, in view of the ethos, emotion and culture of the Indian continent, gold is a substance which carries great emotional values particularly to the ladies. I am quite aware that the previous Government had leased 20 tonnes of gold to the State Bank of India. And further, as stated in your reply to Q. No. 44 another 34 tonnes have been air-lifted. It is in view of the precarious and deteriorating financial condition. There are various opinions of experts also. Many experts have stated that this policy of sending gold abroad may be perhaps politically justified in view of the crisis in the monetary system of this country. But emotionally, a more determined effort should have been made by the Ministry to convince the people of this country.

MR. CHAIRMAN: Kindly come to your question.

SHRI A. G. KULKARNI: I am coming, Sir.

MR. CHAIRMAN: You cannot take that much time. There should be a limit.

SHRI A. G. KULKARNI: We have taken half an hour on the last ... question.

MR. CHAIRMAN: On the question but not on one man. (*Interruptions*)

SHRI A. G. KULKARNI: I don't want to claim any seniority.

†The question was actually asked on the floor of the House by Shri A. G. Kulkarni.

MR. CHAIRMAN: That I give you all the time. I do not want that (*Interruptions*)...

SHRI A. G. KULKARNI: As a Member of Parliament it is my right to ask that... (*Interruptions*).

MR. CHAIRMAN: But it is my right to check you if you go on for a long time.

SHRI A. G. KULKARNI: I want to know from the hon. Minister, taking in view the position of gold, is there any truth that... the Reserve Bank of India, while giving a statement stated that both the decisions—20 tons or 34.5 tons, whatever it is—have been taken by the previous Government and this Government has executed this as per their requirements? Is it true? And, (b) part of it, it is a fact that even countries like USSR, Canada, Belgium and many others in difficult circumstances have sold gold. Their problem is different. Our problem is different. So, the compelling reason which you give, do you want to elaborate on that so that people will be properly informed?

DR. MANMOHAN SINGH: Mr. Chairman, Sir, hon. Member has referred to the emotional aspect of the sale of gold. I share that sense. I do recognise that the people of the country and particularly, our women would not like the gold to go out of this country, and that is why, on the very first day I took office, I mentioned in a press statement that it will be my effort to bring back the gold that had been sent out of the country. Resources permitting, depending upon the state of our balance of payments, I will make every effort to see that this gold, whether it is the Reserve Bank gold or the confiscated gold, is brought back. But, I must be very honest with this House. Today, I am in no position to fulfil that promise. In the months to come, we will work to convert that into a reality. But, we live in a very uncertain world.

Answering the second question, it is true that the decision to send the gold, the confiscated gold out of the government

stock was taken by the previous Government. It was executed by the previous Government. But, there were compelling reasons and I am convinced that that was the right decision considering the grave balance of payments crisis that this country faces. As regards the second part, the gold sold by the Reserve Bank of India, under the Reserve Bank of India Act, the Reserve Bank has the power to keep 15 per cent of its gold outside India. The Reserve Bank can exercise that power on its own. Of course, the Government has the power to countermand it and give a directive that the Reserve Bank; should not do it. I want to share this information with the House. The Reserve Bank is a great national institution. It has the power to act on its own. But, in this particular case, the Governor of the Reserve Bank came to the then Finance Minister and the then Prime Minister, and both of them agreed that if need be, that transaction can take place. This transaction actually took place after our Government came into power, and I was aware of the decision taken by the previous Government. I did not feel it necessary or desirable to countermand that decision.

SHRI A. G. KULKARNI: I thank the Finance Minister. I know that I am not making an issue of ideology. I know that the issue is of survival now. It is not only ideology that I am asking. But, it is also a fact that a team of experts in Bombay, particularly the economists who were the advisors to the various foreign banks, have estimated that the entire stock of gold in the confiscated portfolio, or whatever you call it, the smuggled gold etc, is roughly between 90 and 100 tons, and that was used for financing the Commerce Ministry's scheme for supplying gold to the jewellers. If so, I would like to know whether it is a fact? This is one thing. Secondly, the economic experts have stated that the total value of gold with the women—you can say, 'with the people'—in the country is about Rs. 10,000 crores. Therefore, I would like to know from you whether, instead of sending the gold abroad, we can mobilise resources by persuading the womenfolk of this country to part with their gold jewellery as it was done earlier? As you

know, during the Chinese War, Pandit Jawaharlal Nehru had appealed. Lal Bahadur Shastri had appealed.

श्री समापति : आप भी कोशिश कीजिए।

SHRI A. G. KULKARNI: Is there any such possibility? This is the question. Is there any possibility of persuading the people of this country to help the Government in view of the crisis which is a fact?

श्री समापति : क्या मैं पूछ सकता हूँ कि आप इसमें कितना प्रयास करेंगे? आप भी प्रयास कीजिए।

SHRI A. G. KULKARNI: I will take your help also, Sir.

DR. MANMOHAN SINGH: Mr. Chairman, Sir, there are various non-official estimates about the gold that has been smuggled into this country in the last thirty-four years. Now, these estimates vary depending upon who is making these estimates. But it is a fact that a very large amount of gold is smuggled into our country year after year.

SHRI A. G. KULKARNI: You are also an expert in that. (Interruptions). You are also an economic expert.

DR. MANMOHAN SINGH: Mr. question is, can we get that gold into the Government stock? Now, this is not very simple. First of all, if you are going to get the gold from the people and pay cash, you have a pressure on money supply immediately. In an inflationary situation, that could further accentuate the inflationary problem.

AN HON. MEMBER: You can issue gold bonds.

DR. MANMOHAN SINGH: The second thing that I want to say is this. I am not being partisan here. Here, I am making a statement which, I think, the House should reflect. In the year 1990, there was a scheme of loan waiver which was launched. Thousands of crores due to the banking system were written off. There is a general feeling... (Interruptions)

SHRI S. JAIPAL REDDY: Sir, how is it relevant here? (Interruptions)

DR. MANMOHAN SINGH: There is a general feeling that the money lent to the banking system, lent to the Government, is not safe. (Interruptions)

SHRI PARVATHANENI UPENDRA: How can you give your individual opinion here? (Interruptions)

SHRI A. G. KULKARNI: Sir, I referred to the opinion of the experts, that Rs. 10,000 crores worth of gold is held by the womenfolk in the country. Are you making any effort to bring this out through any economic measure?

DR. MANMOHAN SINGH: I have to create confidence in the banking system. I have to create confidence in the Government of India before the people of India trust us with their gold.

डा० रत्नाकर पाण्डेय : माननीय सभापति जी, अपनी प्रेस कॉन्फ्रेंस की बात माननीय मंत्री जी ने की और उसमें उन्होंने कहा था कि मेरे हाथ में कोई जादू की छड़ी नहीं है कि मैं इलेक्शन मैनीफेस्टो में जो कांग्रेस ने वादा किया था कि सौ दिन में हम मूल्यों को पिछली स्थिति में ला देंगे... (व्यवधान)

श्री समापति : यह प्रश्न तो सोने के बारे में है।

डा० रत्नाकर पाण्डेय : मैं सोने पर ही आ रहा हूँ। सोने से सारा संबंधित है। सोना स्टॉक में होगा तभी गेनियंटन कर सकते हैं और पुराने मूल्यों पर ला सकते हैं। उसके बाद पब्लिकली प्रेस कॉन्फ्रेंस करके मंत्री महोदय ने, राजीव गांधी जो कांग्रेस के अध्यक्ष थे और जनता के बीच में गये थे... (व्यवधान)

श्री समापति : आप प्रश्न पूछिए।

डा० रत्नाकर पाण्डेय : और सरकार बनी तो आपने कबूल किया था कि सौ दिन में हम मूल्यों में गिरावट लाएंगे।

मैं पूछना चाहता हूँ कि क्या चन्द्रशेखरजी की सरकार ने जो केयर टेकर गर्वनेमेंट थी सोना गिरवी रखने से पहले राजनैतिक दलों या अपनी मति परिषद् से सलाह मशविरा किया था? यदि नहीं किया था तो यह फैसला किस स्तर पर लिया था इसकी जानकारी आप सदन को दीजिए। और विदेशी ऋण के भुगतान के लिए सोना गिरवी रखने के अलावा क्या आपकी सरकार के पास या पिछली सरकार के पास और कोई उपाय नहीं था? कब तक जो सोना गिरवी रखा है आपने या चन्द्रशेखर जी की सरकार ने, उसको मुक्त करवा पायेंगे और रुपये के अवमूल्यन का सोना छुड़ाने पर क्या अमर पड़गा?

अगर सरकार सोना गिरवी रखती, तो कितना व्याज की दर और अदा करने पड़ती और अब सोना बाहर भेजने और वापिस लाने पर व्याज बहुत कितना खर्च आने की संभावना है और आप क्या सौ दिन में इलेक्शन के मेनिफेस्टो को पूरा करेंगे? ... (व्यवधान)

श्री सभापति : सोने का डाम गिरा देंगे। ... (व्यवधान)

डा० रत्नाकर पाण्डेय : वह सोने से ही संबंधित है। अगर सोना होगा आपके देश में, आपके रिजर्व बैंक में, तभी आप मूल्यों पर नियंत्रण कर सकते हैं, अन्यथा इन पोर्टफोलियो को छोड़ कर क्या दूसरा पोर्टफोलियो सरकार में स्वीकार करेंगे, क्योंकि आपने हमारे स्वर्गीय नेता के अग्रेस्ट यह काम किया है?

DR. MANMOHAN SINGH: Mr. Chairman, Sir, there is no relation between the stock of gold held by the Reserve Bank or the Government and the price level in this country. So, this decision with regard to gold, which was taken by the previous Government—some gold went when they were in power, some gold went when we were in power—if you are asking what impact it will have on price, my answer is plain no' that there is no relation between what was done and the domestic price level.

The second question that was asked was, was this transaction absolutely necessary and at what level was the decision taken? I am convinced that in both these cases, these transactions were very necessary. The former Finance Minister and the former Prime Minister took these decisions. It was not a happy decision. I know that the then Prime Minister was greatly pained by that decision and I share the sense of pain. It is not something of which I am very proud that I have to sell the country's gold, but the House must appreciate the situation in which this country stands. We have a huge trade deficit. We cannot import even essential commodities, like petroleum products, fertilizers on cash. We have been borrowing even to get such essential goods into the country. We have put a savage import compression on the country. Some hon. Members have been saying, why don't you restrict the import of luxurious goods? I can assure those hon. Members that in the last 5 months a savage import cut has been put into operation and I am deeply worried about its effect. If that import cut persists as of now, there would be very severe consequences for the level of unemployment and the working class itself would be the greatest sufferers of that. Therefore, you have a situation where nobody will give you money. Also imports have been compressed to the bare bones and yet there are essential needs of our people. We need diesel to keep our transport system going. We need kerosene to see that there is some light in the distant villages of India. For all these purposes we need foreign exchange and we have no cash, we have no reserves worth the name. What else could we do? And then we had all this money of the non-resident depositors. Because of the cumulative impact of what happened because of the Government uncertainties since July, 1990 and what went on thereafter, there has been, whether you like or not, a great weakening of confidence in India. So, these non-resident investors have been very nervous. In recent months instead of being a positive flow there is a net outflow. Now in this situation in which we are placed, we need certain essential goods to be brought into the country. Our farmers must have fertilizers. We need diesel to run the wheels of our economy, so that our transport

system can be kept moving, and we have no money. What else could we do? This was a measure of last resort, as it were. We are not very proud of what we have done but you have my assurance that we considered all options, the pros and the cons, the costs and the benefits. In the circumstances, this was the best possible decision that could be taken.

SHRI YASHWANT SINHA: Sir, I am very grateful to the Finance Minister for the way he has spoken. I must say that it has been a totally non-partisan approach that the Finance Minister has brought to bear upon a question to which unnecessary sentiment is sought to be attached. I am personally not attached to gold except for this ring. *... (Interruptions) ...* But the manner in which a simple question, a matter of necessity, is often sought to be politicized is something of which we have had some evidence in this House just now. I must point it out because the Finance Minister has justified what our Government had done, and I must express my gratitude. At the same time, I must also say that I am very glad that he has put the record straight, because a junior spokesman of that party called it a national betrayal. He does not agree with that and I am glad about that.

श्री सभापति : अब यदि सबल कर लो ।

SHRI YASHWANT SINHA: I am coming to my question. I would now like him to put on record and take the House into confidence....

SHRI AJIT P. K. JOGI: Who is that junior spokesman? *... (Interruptions) ...*

SHRI YASHWANT SINHA: That junior spokesman is a Member of this House and now a Minister. *... (Interruptions) ...*

AN HONOURABLE MEMBER: Name him, name him. *... (Interruptions) ...*

SHRI DIPEN GHOSH: Mrs. Margaret Alva. *... (Interruptions) ...*

SHRI V. NARAYANASAMY: Have you taken your Cabinet into confidence—

you kindly answer this question—while taking such a decision or not?

SHRI YASHWANT SINHA: Sir, I am not the Minister in charge to answer supplementaries. *... (Interruptions) ...*

SHRI S. K. T. RAMACHANDRAN: It is our legitimate right to ask that question. *... (Interruptions) ...* He should not go on vaguely pointing out something. *... (Interruptions) ...*

SHRI YASHWANT SINHA: So, Sir, I am coming to my question. Will the Finance Minister now take this House and the people of this country into confidence and say on what terms the confiscated gold was sold with a repurchase option by our Government and on what terms about 35 tonnes—25 plus about 10 more, 34.8 tonnes—of RBI gold, which has now been offered as a collateral to the Bank of England, on what terms that transaction has been completed, so that the people will get an opportunity to see the truth and compare the two transactions.

DR. MANMOHAN SINGH: Mr. Chairman, Sir, the right honourable gentleman has asked this question about the terms on which the two transactions have taken place. I am afraid there is no simple answer to that because in one case the transaction was sale of confiscated gold—we had sold that gold with the option to repurchase it within six months.

SHRI VIREN J. SHAH: At the prevailing market price.

DR. MANMOHAN SINGH: Whatever the price then. In the second case, we have not sold the gold. All that we have done is, we have taken this gold away from the vaults of the Reserve Bank of India and put it in the vaults of the Bank of England, and it is customary among central banks to do this thing. Against that gold which lies in the Bank of England, I think the Reserve Bank has been advanced a month's bridging facility—I think, both by the Bank of England and, probably, by the Bank of Switzerland. So, the two transactions are not comparable. One was a sale transaction with the option to repurchase within six months, also to roll

it over. This is a different type of transaction. We have kept that gold and, against the security of that gold, the Bank of England has advanced to the Reserve Bank of India some temporary accommodation. We have not sold that gold.

SHRI RAJ MOHAN GANDHI: Will the hon. Minister who spoke of the net outflow of capital as having been one of the reasons for this audacious package of measures, answer whether following this package of measures which included the sale and mortgage of gold the net outflow has been reversed in the last week or ten days?

DR. MANMOHAN SINGH: Mr. Chairman, Sir, I would like to share with the House that there is a very substantial change in the market sentiment, that as a result of the measures that we have taken there is now a greater degree of confidence, that the rupee has been stabilised. The figures that I have got from the Reserve Bank of India show that this outflow is now a trickle of what it was in the last month.

SHRI KRISHNA KUMAR BIRLA: Sir, as far as the sale or mortgage of gold either by this Government or by the earlier Government is concerned, this was unavoidable under the circumstances through which the country was passing. My question I am going to put shortly. There is another aim. That aim is to reverse this trend. Sir, my feeling is that in case the NRIs are interested in selling gold to this country, to the Reserve Bank of India, in rupee currency, then, that will be beneficial to them also and that will be beneficial to the Government of India also. That will be beneficial to the Reserve Bank of India also.

With that aim, Sir, in my mind, my question is: Will the Government of India agree to sale of gold by NRIs in India to the Reserve Bank of India in Indian Currency? Will the smuggling of gold by such a step go down? Will the clandestine drain of foreign exchange be reduced, and so also will the hawala business get reduced?

DR. MANMOHAN SINGH: Sir, the suggestion that the right honourable

member has made, is a suggestion for action. It is not a question. Naturally we consider all suggestions. Among others this is a suggestion which also we can consider.

SHRI SUKOMAL SEN: Sir, the Finance Minister earlier painted a very grim picture of the balance of payments position of the country. The earlier Government sold gold with a purchase option, and now this Government has mortgaged gold. I do not know whether in future also we will be mortgaging or selling gold. At the same time we are going to the IMF for further loan.

Sir, the question is, India is heavily indebted, true. Not only India but many other third world countries are also heavily indebted to the IMF or other commercial banks, and they have the same problem. Now, if the Government of India wants to review the situation in a broader perspective, I would like to know from the hon. Minister whether instead of sending out gold immediately and going to the IMF, the Government unitedly with other third world countries would demand a moratorium on all foreign debts for the next few years so that India and other third world countries can tide over this crisis.

DR. MANMOHAN SINGH: Mr. Chairman, Sir, that is a different question. I have stated categorically....

MR. CHAIRMAN: He wants to know whether India will try to have a moratorium in co-operation with other countries in a similar situation.

DR. MANMOHAN SINGH: The Prime Minister has stated it categorically, and I have stated it categorically that we are honour-bound and duty-bound to honour all our commitments.

About what happens in collective forums of the third world, I think, we will consult all other countries. We have been doing so before, and we will continue to do so hereafter.

But let nobody get any impression that this country is out to renege on its international obligations. That will be a

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.