

LOK SABHA DEBATES

LOK SABHA

Friday, July 19, 1991/Asadha 28,
1913 (Saka)

The Lok Sabha met at
Eleven of the Clock

(MR. SPEAKER *in the Chair*)

ORAL ANSWERS TO QUESTIONS

Impact of Rupee Devaluation

[English]

*101. SHRI HARI KISHORE
SINGH :

SHRI MANORANJAN SUR:

Will the Minister of FINANCE be pleased to state :

(a) the likely impact of the recent devaluation of rupee *vis-a-vis* major international currencies on our foreign trade, foreign debt, balance of payments position and inflow of foreign currency from Non-Resident Indians sources; and

(b) the names of the international currencies included in the basket of our foreign trade.

THE MINISTER OF STATE IN
THE MINISTRY OF FINANCE
(SHRI RAMESHWAR THAKUR) :

(a) and (b) A statement is laid on the Table of the House.

STATEMENT

(a) The adjustments effected by the RBI in the external value of the rupee on 1st and 3rd July, 1991 would stabilise the balance of payments situation in the short-term and improve the balance of trade situation in the medium-term. These adjustments

would not involve any change in the foreign currency value of external debt. However, in rupee terms, external debt may increase by 21 to 23 per cent depending on the currency of denomination for each loan. These adjustments will increase the profitability of our exports, discourage non-essential imports, discourage illegal capital flight abroad and the resulting improvement in our balance of payments will restore the confidence of the NRIs in the Indian economy and encourage the inflow of foreign exchange from NRI sources.

(b) The international currencies that are important in the invoicing of India's foreign trade are the US dollar, the pound sterling, the deutsche mark and the Japanese Yen.

[*translation*]

SHRI HARI KISHORE SINGH :
Mr. Speaker, Sir, a lot has been written about Government's statement regarding devaluation of rupee. But I would like to draw the attention of the Hon. Minister to the Financial Express dated 13th July in which a report of the Reserve Bank of India has been quoted. The report says that rupee will have to be devalued by over 15 per cent. This report relates to the year 1987. The Government has not taken the nation into confidence in the matter of devaluation of rupee. Not only that, they did it in two strokes. First of all, I would like to know the reasons why the Government did it twice? The Hon. Finance Minister is a renowned economist of international fame. I know him well and I hold him

in high esteem. But what led the Government to resort to devaluation twice? I think, the first devaluation was *suo motu* and the second one was under the pressure of the World Bank and the International Monetary Fund.

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Mr. Speaker, Sir, I have been absolutely truthful that whatever action was taken, was taken in the interest of our own country and that it was a very calculated strategy to do it in two stages. I want to come clean before this House and I will explain to you why I did it in two stages.

We are living in a world of floating currencies. Nobody knows what is the right exchange rate for the rupee. It is a guessing game. There were rumours all through the previous month that given the balance of payments position of India, the value of the rupee cannot be sustained. In fact, the Commerce Minister in the previous Government himself had gone out on record saying to the Press that the right rate of exchange for the rupee is about Rs. 30. In that sort of environment, who would have believed that the rupee will not come under pressure? Therefore, as soon as our Government came into power, I noticed that there was very strong element of destabilisation and that destabilisation could really bring about a default situation because the Non-Resident depositors were getting nervous. They were taking large amounts of money out of our country. In that situation, within a short period of time, we decided that something had to be done.

Yesterday the former Prime Minister said that we did it in haste. I think this House should compliment us that faced with a grave situation, our response was appropriate, quick and decisive. If you look at the history of exchange rate changes in our country, you would find that the change in the exchange rate was under discussion in India from 1964 to 1966. Because of bickering within the Government, 3½ years were lost and the end result was that when the time came to act, it lacked in taking a decisive action. What we have done this time was a decisive action. We deliberately did it in two stages and I will explain to the House why we did it in two stages. First, we did not know what the true market equilibrium would be. Therefore, we said let us test the market. The first day what happened was, I asked the Governor of the Reserve Bank to depreciate the rupee and I kept quiet. I said, the Reserve Bank, in the normal exercise of its power, has used the basket mechanism. Then the markets took account of what was done and the general feeling was that the rupee had not reached the equilibrium point but for quite some time there would be no further devaluation after this eight to nine per cent depreciation. So, we passed time. For a time, therefore, people began to believe that the exchange rate will stay here, though over time it will depreciate. We controlled the destabilising speculation. The run on the rupee was stopped. Two days later, there appeared a mischievous news. Since India has many enemies abroad, a news was published in one of our national papers that the State Bank of India has defaulted on its international

obligations. Quite honestly, when I was that news early in the morning—we had already taken a decision to do the second stage in some days—I thought that this was the time to act because when the markets opened, if this news got spread that the State Bank of India had already defaulted, the Non-Resident depositors would rush to take their money out. So, in consultation with the Prime Minister and his colleagues, I decided that that was the occasion to act and that is how the Reserve Bank was instructed that before the opening of the market, the new exchange rate of the rupee should be fixed. So, all this was done as part of a calculated device. It was not done at the behest of the IMF. There is no truth in the allegation that IMF said that the first thing that we did was not sufficient, therefore, we did the second thing. It was part of a package worked out by me in consultation with the Prime Minister and his colleagues.

[Translation]

SHRI HARI KISHORE SINGH : Mr. Speaker, Sir, the previous Government came into being with the support of the Hon. Members of the Congress Party and the reputation of that Government was that it had sold itself into the hands of the Congress Party. Did it have some impact on our currency in the international market? According to yesterday's news report, Indian rupee has again dipped by 91 paise against Pound Sterling.

[English]

SHRI MANMOHAN SINGH : Mr. Speaker, Sir, I do not want to speak in any partisan manner because we

are dealing with a national issue . . . (Interruptions). I will speak the truth as I see it. And let me say that India's balance of payments has been weak for a number of years. It started weakening for quite some time, but when our Government was in power, that is, until November 1989, there was no question of lack of confidence in our currency . . . (Interruptions). This crisis of confidence started when there was a change in Government, a statement was made to the world that 'we have inherited an empty treasury', and the second thing which was done was that a massive scheme of loan waiving was launched which has a very serious effect not only on the domestic banking system, but also abroad and the people said that if at one stroke thousands of crores of rupees of loans could be written off, may be one day India would rise and say, 'Well, we will not honour all our commitments' This was the second act. Then from July onwards all that political instability that had happened had a devastating effect on the credit rating of our country. And then there was a change in Government. Then when the Government changed, I think the then Prime Minister was very keen that we should get I. M. F. loan. Yesterday he was waxing eloquent about the evil that the IMF is, the evil that the World Bank is, but he was the one who was very keen that we should get the IMF loan. Now the IMF loan was given on certain conditions. Those conditions were accepted by the previous Government those conditions were announced by the previous Finance Minister in this very House, but when the time to implement them came, they developed

cold feet. And I think in the history of this country it has never happened before—the budget was to be presented, that Budget was not presented, the promises that were made to the people were not implemented and the credit rating sank.

SHRI LOKANATH CHOUDHURY : I want to simply know what effect the devaluation will have on our trade where we carry our trade with the rupee. Bulk of our trade is carried by rupee and now there is devaluation. I want to know whether it will affect our exports and to what extent and if it is a fact that the cost of exports to the countries where we carry our trade with rupee has gone up and the stoppage of the CCS has affected the exports.

SHRI MANMOHAN SINGH : Mr. Speaker, Sir, there will be some transitional problems. But let me say that the system that we have in our country places our exporters to the rupee areas at a great advantage today and therefore, in recent months our exports have grown, but we have nothing to import from them. The Soviet Union's state being what it is, they are not able and willing to supply even the contracted commodities. So, what is the use of merely saying that we want to go on exporting? We cannot export things if we cannot import things. Now, I recognise that there are some transitional problems: we would, I think, look at all those transitional problems because we want to work with the Soviet Union. The Soviet

Union has been a great friend of our country. All these problems will be looked at very carefully, but I do want to say that there is no need for saying that the rupee trade is going to be destroyed by the devaluation of the rupee.

What is this rupee trade? Very often it has a very heavy foreign exchange content. We import goods in free foreign exchange. Some people add something to it and then it goes to the Soviet Union. The Soviet Union, in the process, saves foreign exchange. It is very short of foreign exchange. So, I am convinced that there is no danger to the growth of rupee trade regardless of what has been done.

SHRI ANANDGAJAPATI RAJU POOSAPATI : Mr. Speaker, Sir I want to ask the Hon. Finance Minister about a specific aspect of this devaluation of rupee. In the statement, the Finance Minister has said that the rupee had also been devalued to discourage non-essential imports. Now, what is the percentage of reduction in non-essential imports? What we understand is that the imports are essential imports; they are bulk imports. What are these imports which we are going to curtail?

Then the second part of the question is, other countries also would devalue their currencies once our currency goes down in its value. So, what is the percentage increase that you are envisaging in exports due to this devaluation?

Then, the third part is, as you earlier said, these currencies are adjusted to the basket of currencies. That is also not a realistic value. Then, what do you consider a realistic value for exchange value?

SHRI MANMOHAN SINGH: Sir, when I said that this change in exchange rate would lead to reduction of non-essential imports. I was referring to the fact that these imports have become more costly than ever before and therefore, I do hope that there would be some positive effect of this rise in the cost of importing these non-essential goods. I am not in a position to tell you the precise effect, but over a period of time, you would see it in operation.

The second question was, what would be the percentage increase in exports. There too, I would be very honest, in economic and social phenomenon, it would be wrong on any body's part to say that he knew with certainty what would be the effect of changes. We have to take calculated risks and it is my belief that as a result of what we have done, India's exports will boom and not only India's exports of manufactured products, but India's exports of agricultural products also. In the past, we have had the scheme of Compensatory Support Facilities on a case-by-case; people were favoured; a part of the money went to the exporters and another part of the money went to the officials, but a large part of India's agricultural sector was totally left out of the purview in the belief that agricultural exports have no future. What we have done today is a generalised improvement in the incentive for ex-

ports and I am confident that, as a result of this, you would see India's agricultural exports particularly the processed exports, where there is a great scope, would get a big boost. I will not be able to quantify the effect and I think, my colleague, the Hon. Minister for Commerce had made a statement about the Government's export intentions either in this House or in the other House. If you give me notice, I am willing to answer that question as well.

SHRI NIRMAL KANTI CHATTERJEE: Mr. Sneaker, Sir, it is really very sad at least for me to listen to Shri Manmohan Singh arguing that the loan waiver scheme to the poor had affected international confidence on India. This I did not expect from him at least.

The question that I would like him to answer is what was the experience of our earlier devaluation? I would like to know all that we expected, were they realised at that time.

Part (b) is, who was the consumer of these non-essential imports? Do they have enough funds to stock 5% or 10%? Is it true or it is not true that the sale of Maruti car has not declined domestically? How high should the prices rise in order to reduce the import value of these items?

The quantity reduction, if there is at all any, would be more than overshadowed by the price escalation, import cost. Is this not the experience of other countries excluding China and some other countries which have a firm control over the export-import trade?

SHRI MANMOHAN SINGH : I was merely mentioning the facts. I was not criticising the loan waiver scheme. I was asked the question what certain things happened which weakened the confidence. In my opinion, honest opinion, this particular scheme weakened the confidence in the international market about India.

SHRI RAM NAIK : Is that your opinion or Government opinion ?

SHRI MANMOHAN SINGH : I speak for the Government.

This is not to say that I am criticising anything.

Secondly, the Hon. Member asked, what is the earlier experience of devaluation. I recognise that the right Hon. gentleman belongs to a Party which has an ideological view.

SHRI BUTA SINGH : We are Hon. Members and not Hon. gentlemen !

MR. SPEAKER : An Hon. Member is a gentleman also.

SHRI MANMOHAN SINGH : In this matter of the exchange rate, I find a strange conspiracy between the Extreme Right and the Extreme Left in our country. Both of them think that monkeying the exchange rate is something immoral. I think, that was not the tradition of India's freedom struggle.

MR. SPEAKER : No. There is no ideological question.

SHRI MANMOHAN SINGH : He further asked about the 1966 experience, 1966 experience is not going to be repeated for the following reasons :

In 1966, we had a very small manufacturing base. Today, 70% of our exports are manufacturing exports. Given the proper incentives, these exports will grow. At that time Indian agricultural economy was also subsistent economy. Now India's agricultural economy has got a scientific temper. Given the incentives, exports of agriculture will also grow. You do not have to worry that 1966 experience will be repeated.

SHRI BUTA SINGH : Mr. Speaker, Sir, while highlighting the impact of the rupee devaluation, the statement given by the Government has indicated fine prospects. According to them by this measure, the country will gain, namely increase of profitability of our exports ; it would discourage non-essential imports, discourage illegal capital flight abroad and would result in the improvement of our balance of payment position.

I would like to know from the gentleman and the Hon. Finance Minister—so long as he was not an Hon. Member, he was gentleman, now also he continues to be gentleman—we are Hon. Members. I want to know what special measures has the Government of India taken to discourage illegal capital flight abroad.

The other day while participation in the President's Address, Hon. Shri Jaswant Singh mentioned about the flow of Indian currency across the border and that flow of currency gets back in its way, which is for the disaster for the youth. It comes in the form of narcotics, drugs and in the form of automatic weapons.

May I know from the Hon. Minister what special measures has the Government taken after devaluation to see that this kind of most dangerous trade done through *havala* and through currency being sent across the border in trucks is effectively checked? I would not be satisfied with the routine measures that the Government of India has already taken.

I would like to know from the Hon. Minister what special measures have been taken by the Government to arrest this kind of outflow of our valuable rupee.

SHRI MANMOHAN SINGH Mr. Speaker, Sir, what we have done is one of the measures to discourage this illegal flight of capital. As a result of the greater attractiveness of the exchange rate, those who take capital out because they want to make more money through exchanges through black-market, they have now less of an incentive to do so. I must be very honest with you to say that this is not the totality of measures which will bring about an improvement. I take note of the suggestion that the Right Hon. Member has made. I do not have an answer today. If I am given proper notice, I will come back to this House.

[Translation]

SHRI RAJNATH SONKAR SHASTRI Mr. Speaker, Sir, my question does not relate to economics nor does it emanate from international trade etc. My question relates to the poor people of this country who are very much concerned about the devaluation of rupee. The Hon. Minister has

just now said that the devaluation would stabilise the balance of payment situation but it would not involve any change in the foreign currency value of external debt.

MR SPEAKER: Sonkar ji, you are not supposed to read it. Please put the question. There is no time since several members are yet to put questions.

SHRI RAJNATH SONKAR SHASTRI. He has said that this devaluation is beneficial in many ways. Besides these two instalments of devaluation, this exercise was done in September, 1949 and June, 1966 also. At that time, the devaluation of rupee had resulted in rise in prices in general and spurt in the price of gold. This time also, the price of gold as well as prices in general have registered an increase in the country due to devaluation of rupee. I would request the Hon. Minister to break the chains of officialdom and tell us whether he would be able to contain the price rise? If so, how does he propose to do it and what steps are contemplated to check the rise in price of gold which has a direct bearing on the people?

MR SPEAKER: What, the gold?

SHRI RAJNATH SONKAR SHASTRI: Sir, the people in rural areas in general including the poor purchase gold in large quantities on the occasion of marriage (Interruptions).

[English]

SHRI MANMOHAN SINGH: Sir, I have already explained that we are

not in 1949. We are not in 1966. Therefore, the experience of 1949 and the experience of 1966 is no guide to what is going to happen in 1991. I have referred to the great diversity of India's economic structure that has taken place in the last 44 years of our independence and the House should also remember that in 1966, we were living from ship to mouth. We were deficient in food-grains production, but thanks to the increase in domestic production of food, we have today a very large buffer-stock of foodgrains. So, there should be no fear in anybody's mind that prices will go out of control.

SHRI CHANDRA TEFT YADAV: Sir, I must compliment the Finance Minister for his eternal optimism in a measure like devaluation that he has taken. But he will perhaps agree with me that it is not the only measure which will help boost our economy and bring stabilisation in our currency.

Will the Finance Minister take this House into confidence and inform what other measures he, as Finance Minister, has taken so that Indian currency rupee can become stable in the international market and our economy gets a boost.

SHRI MANMOHAN SINGH: Mr. Speaker, Sir, I have a strategy, I have a credible programme. But I am only five days away from the presentation of the Budget. I do hope to convince right Hon. Members when I come before the House on the Budget day that we have a strategy that will work.

SHRI K. P. REDDAIAH: I have two specific questions.

MR. SPEAKER: Not two, but only one.

SHRI K. P. REDDAIAH: My question is in part (a) and (b). Sir, the main problem that confronted this present Government is Balance of Payments and devaluation of the Rupee. I would like to ask the Hon. Finance Minister whether the amount derived out of the sale of 46 tonnes of Gold could have been sufficient to phase out the Balance of Payments crisis. If that amount has been sufficient for one year's Balance of Payments position, then the Government ought to have postponed the devaluation of the Rupee because already we have sold 46 tonnes of Gold.

MR. SPEAKER: Please come to the question. I have already given half-an-hour to this question.

SHRI K. P. REDDAIAH: It is a very important question. The whole nation is afraid of only devaluation. A simple common man, a man like me also hails from a village, we are afraid that our loans

MR. SPEAKER: Again, you are making a speech. Please ask a pointed question.

SHRI K. P. REDDAIAH: Because of devaluation, there is doubt in the minds of so many people that simply the debt of Rs. one lakh crores has gone up to Rs. 1.6 lakh crores of debt by devaluation. Could the Government postpone devaluation? We have already solved the Balance of Payments crisis.

The other point is this: Has the Hon. Finance Minister got any plan to proclaim a general amnesty for

the Indian nationals who have illegally or legally deposited the huge amounts of money in Swiss Bank etc. ?

MR SPEAKER : I am not going to allow you These are disconnected questions You are going from one to the other question

SHRI K P. REDDAIAH : The devaluation of the Rupee could have been avoided. Let the profits be enjoyed by the Indian nationals instead of IMF and the World Bank. Is it true ?

SHRI MANMOHAN SINGH : I do agree with the right Hon Member that there is a lot of Indian money illegally lying abroad But let me also assure the Member that this money is not going to come back if there is a doubt about the viability of our economic system, if there is a doubt about the viability of India's economy I have to create confidence in the Indian economy before these other things can work We are considering various things I request you not to further probe me on this question All these questions are under consideration. The right Hon Member said : Could you postpone the change in exchange rate ? I have already explained to the House that in the circumstances in which we were placed, we could not have postponed and if we had postponed, I think we would have done a great harm to this country, we would have defaulted and the consequences of that default would have been far more serious.

SHRI JASWANT SINGH : Mr. Speaker, Sir, very briefly I put two questions. Firstly, the Hon. Finance

Minister has suggested that on account of loan waiver scheme of the previous Government, India's

MR. SPEAKER : Let us not enter into ideological polemics. Please put the question

SHRI JASWANT SINGH : The Hon Finance Minister made this point That is why I wanted to say. I seek a clarification But I will not violate your ruling On this question of devaluation, as it is, the rupee has had its floating exchange rate against the basket of currencies. From the date of introduction of this floating exchange rate to this first formal devaluation how much was the actual devaluation of the rupee ?

SHRI MANMOHAN SINGH : I don't have the figures because the rupee started floating some time in 1972 I think And since then all the currencies of the world are floating and there is no unambiguous measure of devaluation or depreciation. You may go up with relation to one currency and you may go down with relation to another currency And also there are competitors of India. It is not easy to compile the figures There are some estimates and I need some notice We will supply that information to the Hon Member

SHRIMATI MALINI BHATTACHARYA : I have a layman's question to ask . . . (Interruptions)

AN HON MEMBER : A laywoman's question.

MR. SPEAKER : Man includes woman.

(Interruptions)

SHRIMATI MALINI BHATTACHARYA: A little while ago, the Hon. Minister has talked about certain crisis of confidence generated among the international agencies as a result of the behaviour of the erst-while Government. Now, may I ask the Hon. Minister regarding the so-called mortgage of gold by the RBI, the transaction between RBI and the Bank of England which is said to be an act of mortgage rather than a direct sale? Now, when a person who has made a pledge, a mortgage and immediately afterwards hastens to transport that mortgaged property to the creditors' house, does that inspire the creditors confidence?

(Interruptions)

MR. SPEAKER: May be that mortgaged property is not documented. That is the question.

SHRI MANMOHAN SINGH: I can say with full confidence that what we have done has convinced the international credit institutions, our international creditors and non-resident Indians that this country takes very seriously its international obligations. And there is return of confidence all over the world in India.

MR. SPEAKER: Now the next question.

(Interruptions)

SHRI PAWAN KUMAR BANSAL: I have a submission to make. You have allowed Members from that side to put questions. Please allow me also from this side to put a question.

MR. SPEAKER: Please take your seat.

Projects from Maharashtra Pending Clearance

*102 **SHRI PRAKASHBAPU VASANTRAO PATIL**: Will the Minister of SURFACE TRANSPORT be pleased to state:

(a) the projects and schemes proposed by the Government of Maharashtra pending clearance; and

(b) the action taken in each case so far?

THE MINISTER OF STATE OF THE MINISTRY OF SURFACE TRANSPORT (SHRI JAGDISH TYTLER): (a) From the Government of Maharashtra 17 project estimates for works on National Highways aggregating to Rs. 156.03 crores, proposals for 11 roads to be declared as new National Highways and proposals for 801 Schemes aggregating to Rs. 359.82 crores under Central Road Fund, have been received

(b) Sanction of project estimates would be possible only after the regular budget 1991-92 is passed. Decision regarding New National Highways would be taken after finalisation of the Eighth Five Year Plan. The Schemes under Central Road Fund could not be considered for sanction as actual augmentation of the Fund has not yet taken place.

[Translation]

SHRI PRAKASHBAPU VASANTRAO PATIL: Mr. Speaker, Sir, the Central Government had promised in