

18.05 hrs.

STATEMENT RE : RUPEE-DOLLAR RATE

THE MINISTER OF FINANCE (SHRI YESHWANTRAO CHAVAN) : Mr. Speaker, Sir, hon. Members will recall that after the suspension of convertibility for the US dollar by the US Government on August 15, a number of major currencies were allowed to fluctuate freely in relation to the US dollar whose formal parity with gold remained unchanged. The Government of India decided at that time to maintain the exchange rate for the rupee in terms of gold and therefore in relation to the dollar as well. Consequently, over the past few months, while the Rupee-dollar rate has remained unchanged around Rs. 7.50 per dollar, the exchange rate for the rupee in terms of other currencies, such as Sterling, Mark etc., has fluctuated in response to the change in the sterling-dollar or the mark-dollar rate.

The rupee-sterling rate has accordingly moved up over the past few months and in terms of the decision we had taken in August, the latest buying and selling rates announced by the Reserve Bank, prior to the realignment of parities of major currencies over the last week-end, gave a medium rate of Rs. 18.9677 per pound. This represents an appreciation of sterling in relation to the rupee by some 5.4 per cent as compared to the situation that prevailed before August, 1971.

Hon. Members are aware of the decisions taken over the week-end by the Group of Ten. Subject to approval by the US Congress it is proposed to increase the price of one ounce of gold in terms of US dollar from \$35 to \$38. i.e. by 8.57 per cent. The United Kingdom and France have decided to maintain their official parity unchanged so that their currencies will appreciate by 8.57 per cent in relation to the dollar. In the case of Germany and Japan, their currencies are to appreciate by roughly 13.57 and 16.88 per cent respectively in relation to the dollar. Simultaneously, the 10 per cent import surcharge levied by the United States is proposed to be lifted.

In giving their approval to these changes, the executive directors of the International Monetary Fund have also decided that, if necessary, other countries may declare the

exchange rate for their currencies provisionally in terms of the currency of another member. The Fund has also decided to permit variations within a wider margin of 2.25 per cent of any rate now adopted by a member country.

Government have reviewed the situation arising from these proposed changes. At the present juncture, it is all the more important that we determine our own action in terms of our basic objective of increasing self-reliance, i.e. increasing export earnings and import substitution. In order to avoid, to the maximum extent possible, any disturbance to our exporters and importers, it has been decided to maintain the existing rupee-sterling rate. As I have already mentioned, just prior to the decision taken by the Group of Ten over the week-end, the Reserve Bank's buying and selling rates gave a medium rate of Rs. 18.9677 per pound. It is this rate which the Reserve Bank has been asked to maintain. We will, of course, take advantage of the wider margin of 2.25 per cent now permitted by the International Monetary Fund if we consider it necessary and desirable. In order to avoid any uncertainty in the markets opening this morning decisions on the above lines have been announced and I am taking the earliest opportunity of making a statement in the House.

While continuity is being maintained in terms of the rupee-sterling rate, this will now imply a rupee-dollar rate of approximately Rs. 7.279 per dollar as against Rs. 7.50 per dollar which has been the case hitherto. Our maintaining the rate *vis-a-vis* sterling, therefore, also implies an appreciation of roughly 3 per cent for the rupee *vis-a-vis* the dollar. Since other countries like ourselves might take advantage of the wider margins, these rates can, of course, vary from time to time.

Hon. Members would appreciate that it is best for us to adopt a course which maintains continuity to the maximum possible extent with the recent past so that the basic interests of export promotion and import substitution are not affected. We shall continue to maintain as stable a climate as possible for our exporters and importers while taking into account such changes as we must in the interest of the primary objective of growing self-reliance.