

Following is the full text of a statement on Foreign Exchange made in the Lok Sabha (Lower House) on August 13, 1958, by the Union Finance Minister:

I thank the Speaker for giving me this opportunity to report to the House on recent developments relating to our foreign exchange situation. The keen interest that Members have taken in this somewhat complex aspect of our economy is of great value, since it serves to keep constantly before the public eye what is one of the important determinants of our economic future.

2. The factors that have led to the continued heavy drawing on our foreign exchange reserves during the Second Plan period have been discussed in the House on several occasions in the recent past and are set forth in some detail in the Planning Commission's paper on the fall in foreign exchange reserves that was laid on the table of the Lok Sabha by the Prime Minister on March 20, 1958.

3. Members are aware of the remedial steps taken by the Government; as soon as it became apparent that there was likely to be a large deficit in our balance of payments, prompt measures were taken to centralize fully the whole system of foreign exchange control, to reintroduce the system of foreign exchange budgetting and to take all possible measures to restrict imports by a system of foreign exchange allocations for different purposes, determined - on what has been an austerity basis - in consultation with the Planning Commission. Apart from restrictions on imports, foreign exchange facilities for tourist travel abroad were totally stopped and exchange was released on a restricted basis only for business travel or for travel justified on medical grounds or for attending certain educational and technical training courses. Side by side with such restrictions, emphasis was placed on the need to take positive steps to earn more foreign exchange by promotion of exports.

4. These measures have had some effect. Speaking in the House on this subject on March 18, the Prime Minister referred to the temporary improvement that had taken place in the first quarter of the year but cautioned Members against drawing ^{h₂} inference that we had turned the corner. He explained that the summer months constituted the season during which our exports were always at a lower rate. Notwithstanding this and notwithstanding the fact that the shadow of economic recession in foreign countries has affected and depressed commodity prices and our external markets, I think it necessary to point out that we have been able to bring down the average weekly drawal on our sterling balances to Rs. 4.09 crores in the first seven months of 1958 as compared with the average drawal of Rs. 7.2 crores in the corresponding period of 1957.

5. Taking the period April to July 1958, our foreign exchange reserves at the end of March 1958 comprised, in addition to a gold holding of Rs. 118 crores, sterling reserves of Rs. 267 crores. As against this our sterling reserves dropped to Rs. 193 at the end of July 1958, notwithstanding a payment by the U.K. Government of Rs. 22 crores early in April 1958, which included advance repayment of three instalments under the excess pension repayment agreement. The net fall has thus been approximately Rs. 74 crores in the four months April to July inclusive.

6. These are the statistics. What do they mean? And what do they mean particularly for the Plan? Even more than how they react on the Plan, is the question of how the Plan should react to them. Members are aware that the Plan is not an ossified or petrified structure. The Indian concept of a Plan is that we seek therein to strike a balance from time to time between various operative factors, both internal and external, and both social and economic; and that while so doing we seek to impart and maintain the momentum necessary to push forward the Nation towards accepted goals. Thus the Plan as a whole is and has to be

constantly under review. The restrictive methods we have imposed since January 1957 naturally led to certain difficulties both in the private and the public sectors of our economy. By and large, however, an all-out effort is being made to go ahead with what we have defined as the core of the Plan, to complete other projects which are well-advanced and at the same time to maintain the economy at ^{the} existing level of production. In certain fields there has been a tendency for internal prices to rise owing to a relative short-fall in the availability of imported goods, but this tendency has not developed to any embarrassing extent. On the contrary, I feel that a strong fillip has been given to indigenous industries which have awakened to new demands that are now being made upon them to replace imported goods. Special consideration is also being accorded to imports of plant and machinery for ^{the} installation of factories which will produce goods and commodities that are at present being imported. Such imports are being allowed on deferred payment terms, on the basis that they will be financed out of savings that will accrue when the plants go into production.

7. There is no room, however, for complacency. During the current year, large payments are falling due on orders which were placed earlier for capital goods for our important projects. It has been estimated that such commitments in the public and the private sectors together yet to be paid for amounted to Rs. 887 crores approximately as on April 1, 1958, the bulk of this representing capital goods. Added to this we have suffered in recent weeks a fall in exports, as already referred to, on account of the recessionary trend in foreign markets.

8. In the Planning Commission's paper on "Appraisal and Prospects of the Second Five-Year Plan", it has been estimated that for the period April 1958 to March 1961 the gap in our foreign exchange balance sheet might approximate to Rs. 500 crores. The latest estimate prepared in this behalf, taking account of the current

unfavorable trend in exports, has shown that for the last three years of the current Plan our requirements of foreign exchange will be of the order of Rs. 500 crores. This is on the assumption that any food imports found to be necessary, in addition to our normal marketing obligations in respect of wheat and our agreement for importing Burma rice, would be found under P.L. 480 Agreements. The basis for the estimate is that the cost of the Plan, which including existing commitments requires an expenditure of Rs. 619 crores for completion, will be completed and that the needs for the maintenance of the economy and for security will be provided. It also assumes that sterling reserves will stand at Rs. 200 crores at the end of the Plan period. This does not, however, mean 200 crores at any time. As a matter of fact they are below Rs. 200 crores today. It is considered necessary, however, that we should begin the Third Plan with reserves of not less than Rs. 200 crores, rebuilding it up to this level if it is possible to do so. In estimating the deficit at Rs. 560 crores as on April 1, 1958, foreign aid already promised - which amounts to about Rs. 513 crores - was fully taken into account. Since then a further loan of Rs. 12 crores has been authorized by the International Bank for Reconstruction and Development in July 1958 for a DWG project.

9. We are making constant endeavors to bridge the gap which remains. Our efforts in the direction of increasing our exports may be mentioned in some detail. The House is already aware of the setting-up by the Ministry of Commerce and Industry of the Foreign Trade Board and the Directorate of Export Promotion, which are helping to implement the Cabinet's directive to give highest priority to matters having a bearing on export earnings. Steps are being taken to augment production of Indian products in demand in foreign countries. In the field of agriculture commercial crops, notably oilseeds, have attracted special attention. Larger quantities of coal and ores are expected to be made available for export. A special effort is being made to improve the competitive capacity of the products

of our new industries: arrangements for the supply of basic raw materials such as iron and steel have been made more effective; permission for importing finished accessories and other material required for being incorporated in goods intended for export is being readily granted; and preference is accorded to import requirements of industrial units participating in the export promotion effort. The tastes and requirements of consumers in foreign markets are being studied and measures to control quality are receiving special attention. Exports have been freed from hampering fiscal imposts; export duties have been abolished or reduced over a very wide field and the procedure for refund of import and excise duties has been simplified. In the field of transport, the Railway Board are taking special steps to encourage export traffic and we are hoping that likewise the international shipping lines will in our mutual interest lend a helping hand. The sugar industry has been helped to organize the export of sugar surpluses and the State Trading Corporation is, with the help of its business associates, contributing to the promotional endeavor by organizing export of commodities like cement and shoes. The Export Risks Insurance Corporation has also made a modest beginning in its effort to help exporters by covering risks not normally covered by other insurance companies.

10. The measures that have been taken and that are contemplated to be taken will, I have no doubt, help to develop the country's export potential. But in the face of the recession in international trade and the dullness of the outlook for exports, the task of securing a significant improvement in our export earnings during the current year is likely to encounter great difficulties.

11. We have been keeping international institutions and friendly foreign countries fully informed regarding our current situation and it will be our endeavor to secure further foreign assistance in an appropriate way. The House, I am sure, will understand and appreciate that it would be premature - and likely to cause embarrassment,

in our efforts - to deal with details; but I think it is an opportune moment to say that the International Bank for Reconstruction and Development, which has contributed so vitally to our development and is fully apprised of our plans, our potential and our needs, has decided to consult with its member countries that have interested themselves in India and has therefore convened a conference to meet in Washington later this month to discuss the Indian situation in respect of foreign exchange and the manner in which India can be helped. The governments of the U.S., U.K., West Germany and Japan have agreed to participate. The International Monetary Fund will also be represented at the conference. We shall ourselves not participate but will be prepared to give all factual data necessary for an appraisal of our position. We naturally cannot expect that the results of the conference will be announced immediately it is over; the governments concerned will have to take appropriate decisions. We can only at this stage express our sincere appreciation of the interest that is being taken in our economic betterment by the World Bank and by friendly governments and institutions.

12. With a view to ensuring the full and proper exchange of information and expediting negotiations with international institutions and interested foreign governments, we have decided to strengthen our economic representation abroad by the appointment of a special officer of the Department of Economic Affairs who will be based in Washington, and by enlarging the functions of our Economic Minister in the U.K.

13. It is hardly necessary for me to point out to the House that every credit that we secure, while no doubt helping us to tide over the needs of development in the immediate future, does at the same time represent a liability over the long term, more particularly so when repayment is in foreign exchange. I need hardly add that whatever success we may have in securing foreign assistance or credits only underlines our responsibility to see that we so manage our affairs and our finances that we maintain and improve our credit-worthiness. As on April 1, 1958, the foreign

exchange liabilities already contracted amounted to about Rs. 750 crores, of which about Rs. 110 crores will be repayable during the rest of the Second Plan period, about Rs. 340 crores in the Third Five-Year Plan and the rest at a later date thereafter. Servicing of these debts will have to be a first charge on our resources in future - a serious task indeed but a task not impossible if we continue to conserve and to direct these credits and our other resources into the most productive channels - a task certainly not beyond a country and people to whom personal self-denial for the public good should be no mere occasional virtue but a principle of life itself.