



Revised Currency Swap Framework for SAARC

[Source: BL](#)

Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#), has decided to put in place a **revised framework** for currency swap arrangements for [SAARC \(South Asian Association for Regional Cooperation\)](#) countries for the **period 2024 to 2027**.

What is a Currency Swap Agreement?

▪ About:

- A **currency swap agreement** between two countries is a contract to exchange currencies with predetermined terms and conditions for liquidity support.
- Central banks and Governments engage in currency swaps with foreign counterparts to **meet short-term foreign exchange liquidity** requirements or to ensure adequate foreign currency **to avoid the [Balance of Payments \(BOP\)](#)** crisis till longer arrangements can be made.
 - These swap operations carry **no exchange rate** or other market risks as transaction terms are set in advance.

▪ RBI's Framework for Swap Facilities for SAARC:

- The [SAARC currency swap facility](#) first came into operation on 15th November 2012, to provide a backstop line of funding for **short-term foreign exchange liquidity requirements** or balance of payment crises of the SAARC countries till longer-term arrangements are made.
- The RBI can offer a swap arrangement within the overall **corpus of USD 2 billion**.
- The swap can be made in **US dollars, euro or Indian rupees**. The framework provides **certain concessions** for swap in the Indian rupee.
- The facility will be **available to all SAARC** member countries, subject to their signing the bilateral swap agreements.

▪ Changes in New Framework:

- Under the framework for 2024-27, a **separate INR (Indian Rupee) swap window** has been **introduced** with various concessions for swap support in Indian Rupee.
 - The total corpus of the rupee support is **Rs. 250 billion**.
- The RBI will continue to offer swap arrangements in USD and Euro under a separate US Dollar/ Euro swap window with an overall corpus of USD 2 billion.

▪ Other Bilateral Currency Swap Agreements:

- [India-Japan](#)
- [India-Sri Lanka](#)

South Asian Association for Regional Cooperation (SAARC)

- **Establishment:** SAARC was established with the signing of the [SAARC Charter](#) in Dhaka (Bangladesh) on 8th December 1985.
- **Member States:** Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
- **Secretariat:** Kathmandu (Nepal)
- **Objective:** To promote the welfare of the **people of South Asia**, to improve their quality of life, and accelerate economic growth, among other things

SAARC

South Asian Association for Regional Cooperation



- **Members:** 8
- **Etd. by signing SAARC Charter in Dhaka (Dec 1985)**
- **HQ:** Kathmandu, Nepal
- **9 Permanent Observers to SAARC:** Australia, China, EU, Iran, Japan, S. Korea, Mauritius, Myanmar and US
- **Comprises 3% of the world's area, 21% of the world's population and 3.8% of the global economy**
- **Agreements under SAARC:** SAPTA, SAFTA, SATIS, SAARC University

AFGHANISTAN

- ▣ It is India's gateway to the oil and mineral-rich Central Asian republics.
- ▣ Salma Dam in Afghanistan is aka Afghanistan-India Friendship Dam.
- ▣ From 2002 to 2021, India spent USD 4 bn in development assistance in Afghanistan, building high-visibility projects (highways, hospitals, Parliament building, rural schools, and electricity transmission lines).
- ▣ Afghanistan becoming a safe haven for terrorism is direct threat to India's national security.

NEPAL

- ▣ Shares border with 5 Indian states (Uttarakhand, Uttar Pradesh, West Bengal, Sikkim and Bihar)
- ▣ Bharat Gaurav Tourist Train connecting India's Ayodhya and Nepal's Janakpur
- ▣ Major Issues: Territorial Disputes (Kalapani, Limpiadhura and Lipulekh)
- ▣ Military Exercise: Surya Kiran (Army)

BHUTAN

- ▣ India is Bhutan's largest trade partner.
- ▣ Mutually Beneficial Hydropower Cooperation: Mangdechhu, Kholongchhu, Chukha hydropower Projects.
- ▣ India's grant assistance to Gyalsung Project.
- ▣ Integration of Bhutan's DrukRen with India's National Knowledge Network

PAKISTAN

- ▣ Indo-Pak diplomatic relations are quite limited with periodic attempts to improve relations often failing.
- ▣ India revoked Pakistan's Most Favoured Nation (MFN) status following the Pulwama terrorist attack (2019).
- ▣ Indus Water Treaty 1960 is often cited as one of the most successful intl. treaties in South Asia.
- ▣ Major issues: Cross-border terrorism, Kashmir issue, CPEC affecting India's Sovereignty

BANGLADESH

- ▣ Shares the longest border of over 4,096 km with India.
- ▣ Largest trading partner in South Asia.
- ▣ Water Sharing Agreements: Kushiyara river (2022), Ganga Water Treaty (1996).
- ▣ Major Issues: Teesta River Water Dispute.
- ▣ Military Exercises: SAMPRITI-X (Military Training), Bongosagar (Naval).

MALDIVES

- ▣ India is Maldives 2nd largest trading partner.
- ▣ Exercises with India - Ekuverin, Dosti, Ekatha and Operation Shield.
- ▣ Greater Male Connectivity Project by an Indian company is the largest-ever infra project in Maldives.
- ▣ Major Issues:
 - ▣ Maldives an important 'pearl' in China's String of Pearls.
 - ▣ Increasingly Maldivian drawn towards Pak-based terrorist groups.
 - ▣ India being projected as the bully and a big brother - 'India Out' Campaign

SRI LANKA

- ▣ India is Sri Lanka's third largest export destination.
- ▣ India is the first country to officially back Sri Lanka's debt restructuring programme at IMF.
- ▣ Major Issue: Fishermen crossing maritime boundary.
- ▣ Important Exercises: Mitra Shakti (Army), SLINEX (Naval)

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. In the context of India, which of the following factors is/are contributor/contributors to reducing the risk of a currency crisis? (2019)

1. The foreign currency earnings of India's IT sector
2. Increasing the government expenditure
3. Remittances from Indians abroad

Select the correct answer using the code given below:

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 only
- (d) 1, 2 and 3

Ans: (b)

Mains:

Q. "Increasing cross-border terrorist attacks in India and growing interference in the internal affairs of several member-states by Pakistan are not conducive for the future of SAARC (South Asian Association for Regional Cooperation)." Explain with suitable examples. (2016)