

# **Revised Currency Swap Framework for SAARC**

#### Source: BL

## Why in News?

Recently, the <u>Reserve Bank of India (RBI)</u>, has decided to put in place a <u>revised framework</u> for currency swap arrangements for <u>SAARC (South Asian Association for Regional Cooperation)</u> countries for the <u>period 2024 to 2027</u>.

# 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 <u>SAARC currency swap facility</u> 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 **swa**p 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:

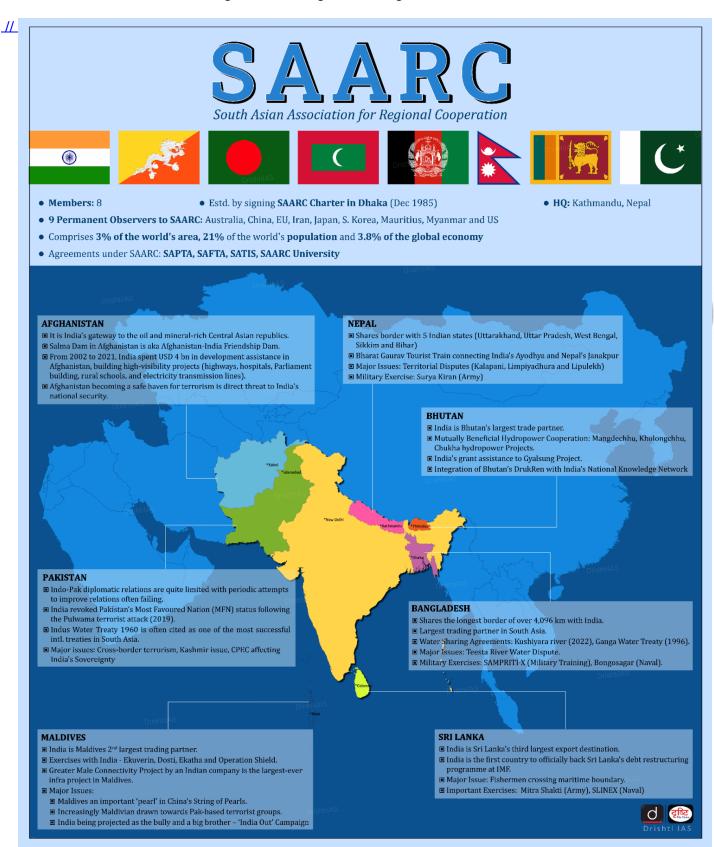
- Under the framework for 2024-27, a separate INR (Indian Rupee) swap window has been introduced with various concessions for swap support in Indian Rupee.
  - The total corpus of the rupee support is **Rs. 250 billion.**
- The RBI will continue to offer swap arrangements in USD and Euro under a separate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



# **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)** 

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