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Currency Swap Arrangement for SAARC

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Why in News

The **Reserve Bank of India (RBI)** has revised the framework on **currency swap arrangement** for the **South Asian Association for Regional Cooperation (SAARC) countries** for **2019-2022**.

This has been done to further financial stability and economic cooperation within the SAARC region.

Key Points

- The SAARC currency swap facility came into operation on 15th November, 2012.
- Under the revised framework,
 - The RBI will continue to offer a swap arrangement within the overall corpus of **USD 2 billion**.
 - The swap drawals can be made in **US dollar, euro or Indian rupee**. The framework provides certain concessions for swap drawals in Indian rupee.
 - The facility will be **available to all SAARC member countries**, subject to their signing the bilateral swap agreements.
 - The framework is valid from 14th November, 2019 to 13th November, 2022.

Currency Swap Arrangement

- The word swap means exchange. A currency swap between the two countries is an agreement or **contract to exchange currencies** with predetermined terms and conditions.
- 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 Balance of Payments (BOP) crisis** till longer arrangements can be made.

- **Example**

- India and Japan in the year 2018 signed a bilateral currency swap agreement.
- RBI will get a certain amount of yen and the Bank of Japan will get an equivalent amount in Indian rupees on a decided swap rate.
- After a specified period, both the countries will repay the amount at the same swap rate.

South Asian Association for Regional Cooperation

- SAARC was established with the signing of the SAARC Charter in Dhaka (Bangladesh) on 8th December 1985.
- **Eight 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 and to improve their quality of life, and to accelerate economic growth, among other things.

Source: IE