



SAARC Currency Swap Framework

Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) has signed an agreement to extend up to a USD 200 million currency swap facility to Maldives Monetary Authority (MMA) under the SAARC Currency Swap Framework.

What is the Currency Swap Arrangement?

- The word **swap means exchange**. A currency swap between two countries is **an agreement or contract to exchange currencies** with predetermined terms and conditions.
- In the present context, the **facility is to provide swap support as an alternative source of funding for short-term [foreign exchange](#) liquidity requirements**.
 - In 2020, the RBI **signed a currency swap agreement for extending up to a USD 400 million to Sri Lanka**.
- 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**.
 - Exchange rate risk, also known as **currency risk**, is the financial risk arising from fluctuations in the value of a base currency against a foreign currency in which a company or individual has assets or obligations.

What is the RBI's Framework for Swap Facilities for SAARC?

- The [SAARC currency swap facility](#) **came into operation on 15th November, 2012**.
- The RBI can offer a swap arrangement **within the overall corpus of USD 2 billion**.
- The swap draws can be made in **US dollar, euro or Indian rupee**. The framework provides certain concessions for swap draws in Indian rupee.
- The facility will be **available to all SAARC member countries**, subject to their signing the bilateral swap agreements.

What is 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 and to improve their quality of life, and accelerate economic growth, among other things.

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)

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