

TODAY'S IMPORTANT CURRENT AFFAIRS

UPSC

Date: 09.10.2024

India signs \$750-mn currency swap deal with forex-starved Maldives

Source: The post is based on the article published in “The Hindu” on 9th Oct 2024.

In News: India signed a **\$750 million currency swap agreement** with the Maldives to help the island nation tide over its current foreign currency crunch.

Syllabus: Mains – GS II (International Relations- Neighboring countries)

India's Financial Support to Maldives:

- ❖ India is set to extend financial assistance to the Maldives, offering \$400 million through the US Dollar/Euro Swap Window.
- ❖ Additionally, ₹30 billion (about \$357 million) will be provided under the INR Swap Window.
- ❖ The arrangement was signed between the Reserve Bank of India and the Maldives Monetary Authority under the **SAARC Currency Swap Framework** and is available until **2027**.



Currency Swap Agreement:

- 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.

SAARC Currency Swap Framework:

- ❖ The **SAARC Currency Swap Framework** was established to provide **short-term liquidity support** to SAARC member countries.
- ❖ The primary purpose of this facility is to address balance of payment crises and enhance financial stability among member nations.
- ❖ Launched in 2012 and administered by the **Reserve Bank of India (RBI)**, the facility includes all SAARC members.
- ❖ This framework allows member countries to access swap arrangements in **US Dollars, Euros, or Indian Rupees**, depending on their needs. The framework provides certain concessions for swaps in Indian rupee.

Other agreements:

- ✓ Launch of the RuPay card in the Maldives.
- ✓ Handover of 700 houses built with Indian assistance.
- ✓ Agreement to enhance cooperation on trade using national currencies.
- ✓ Plans to negotiate a **Free Trade Agreement**.

Maldives' Debt Situation:

- Fitch Ratings estimates that the Maldives' external debt obligations will reach **\$557 million by 2025** and exceed **\$1 billion by 2026**.
- The country's foreign reserves stood at just \$437 million at the end of August, only enough to cover one-and-a-half months of imports.

➤ India provided a **\$50 million lifeline** to the Maldives to help avoid this outcome.

Significance of India's Assistance:

Debt Relief: India's financial aid, including a \$50 million lifeline, would help the Maldives avoid debt default and stabilize its economy.

Geopolitical Influence: With this, India can counter China's influence in the Maldives, strengthening its strategic position in the Indian Ocean.

Diplomatic Reset: India's support strengthens diplomatic relations, aiding the Maldives in debt restructuring and global partnerships.