

## RBI: SRI LANKA TO SEEK \$400 MN DEBT SWAP FACILITY FROM RBI TO MEET SHORT TERM FINANCIAL NEEDS

Relevant for: International Relations | Topic: India - Sri Lanka

Colombo: [Sri Lanka](#) is set to enter into an agreement with the [Reserve Bank of India](#) for a currency swap worth USD 400 million to boost the foreign reserves and ensure the financial stability of the country which is badly hit by the COVID-19 pandemic, a top minister has said.

The Cabinet has approved a proposal made by Prime Minister Mahinda Rajapaksa as the [Finance](#) Minister to enter into an agreement with the [RBI](#) for the financing facility to meet short-term international liquidity requirements, Co-Cabinet spokesman Information and Communication Minister Bandula Gunawardena said.

Sri Lanka will enter into the agreement with the RBI for a Bilateral Currency Swap Arrangement worth USD 400 million, Gunawardena said, adding the facility from the RBI is aimed at boosting the island nation's foreign reserves.

The swap arrangement is a decision two countries reach while doing trade related payment.

Sri Lanka has placed critical economic measures to save the resources hit badly by the COVID-19 pandemic which has infected 373 persons in the country and the death toll reached 7.

Addressing the Cabinet media briefing yesterday, Gunawardena said the Cabinet meeting chaired by President Gotabaya Rajapaksa paid special attention to the control of the coronavirus pandemic, its success and the distribution of goods and relief to the people.

The minister pointed out that the whole world is now experiencing the economic collapse since World War II resulted from the COVID-19 outbreak and a single country alone cannot find a solution to the crisis.

So the Cabinet of Ministers has approved this proposal in order to ensure the financial stability of the country, Gunawardena said.

The country has ordered imports restrictions to prevent non-essential imports. This is in view of the local rupee falling to its historical low against the US dollar. The rupee now hovers over 195 to the dollar gaining somewhat from being down to 200 mark.

The government has also announced talks with [Asian Development Bank](#) and China's [Asian Infrastructure Investment Bank](#). A USD 300 million budgetary support is anticipated from the ADB, officials said.

The announcement for getting the USD 400 million financial facility from India came as the rating agency, Fitch on Wednesday warned Sri Lanka to reform its soft-peg and block the ability of its domestic operations department to inject large volumes of cash below the ceiling policy rate to stop monetary instability.

Last month, during a video conference of Prime Minister Narendra Modi along with leaders and representatives from [SAARC](#) nations, Sri Lankan President Gotabaya Rajapaksa said, "Our economy has taken a severe blow due to the coronavirus, particularly in tourism... Our exports

are also adversely affected."

Tourism is the third-largest earner of foreign exchange in Sri Lanka. The decline in tourist arrivals has hit the island nation's tourism industry in a big way.

Largely owing to the COVID-19 pandemic, the [World Bank](#) recently forecast Sri Lankan economy to contract by 3 per cent this year as against a 2.4 per cent estimated growth last year, whilst the IMF predicted the global economy to contract by 3 per cent as well.

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