

SRI LANKA SETTLES \$400 MN CURRENCY SWAP WITH INDIA

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

Ajith Nivard Cabraal

The Central Bank of Sri Lanka (CBSL) settled a \$400 million currency swap facility from the Reserve Bank (RBI) of India last week, meeting the terms that the two countries had agreed upon.

The update sparked speculation in local media that India may have “abruptly terminated” the agreement, following Colombo’s decision to pull out of a 2019 agreement to develop a Colombo Port terminal jointly with India and Japan.

However, both countries clarified that the developments were not linked. “The CBSL settled its swap facility with [the] Reserve Bank of India as scheduled. There was no special request from India for a premature settlement as erroneously reported by certain media outlets. Discussions on future collaboration continue,” the CBSL said in a tweet on Friday.

“The two countries had agreed on the date earlier, this scheduled repayment has nothing to do with the ECT decision,” Sri Lanka’s State Minister of Money and Capital Market and State Enterprise Reforms Ajith Nivard Cabraal told *The Hindu* .

Pandemic impact

The CBSL obtained the swap facility on July 31, 2020, for an initial period of three months, to cope with the severe economic impact of the pandemic. Subsequently, the RBI provided a three-month rollover at CBSL’s request, until February 1, 2021. “Further extension would require Sri Lanka having a successfully negotiated staff level agreement for an IMF programme, which Sri Lanka does not have at present,” a spokesman of the Indian High Commission said.

“It is reiterated that India abides by all of its international and bilateral commitments in letter and spirit,” he added, days after India urged the Sri Lankan leadership to adhere to Colombo’s commitments on the ECT.

Foreign reserves

COVID-19 struck Sri Lanka in March 2020, putting its foreign reserves under strain since, as tourism, worker remittances and exports were badly hit. Sri Lanka’s looming foreign debt obligations — \$6.8 billion this year — and fall in gross official reserves to \$5.6 billion as of December 31, 2020, according to Central Bank Data, foretell another challenging year.

However, the Rajapaksa administration has said it will not seek an IMF bailout. Colombo has instead sought further loans from China, among others, and additional currency swap facilities from both India and China. Neither China nor India has responded to Colombo’s debt freeze request. Sri Lanka owes over \$5 billion to China and \$960 million to India in debt repayment.

Secretary to the Treasury S.R. Attygalle said Sri Lanka expects the \$1.5 billion swap facility from China to come through soon. “The [bilateral] negotiations are nearly over, only the final paperwork is pending. We should be able to complete that by the end of this month,” he told *The*

Hindu on Saturday.

The currency swap is only one of at least three requests Colombo has made to Beijing since the pandemic. Following approval of a \$500 million loan from China in March 2020, the Sri Lankan government has sought an additional \$700 million loan, in addition to applying for another 'COVID-19 Emergency and Crisis Response Facility', to the tune of \$180 million, from the Beijing-backed Asian Infrastructure Investment Bank (AIIB). "The negotiations are proceeding well," a Chinese Embassy spokesman told *The Hindu* .

Meanwhile, amid questions over whether New Delhi would clear Colombo's \$1 billion swap line request, in the wake of the ECT deal falling through, an Indian official source said, "the request is under consideration". State Minister Cabraal said: "Negotiations are going on, but even if India decides not to offer it, we will understand. The Indian Economy is also under grave pressure due to the pandemic, you see," he told *The Hindu* .

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