

# INDIA EXTENDS \$900 MN AID TO SRI LANKA

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

India on Thursday confirmed a \$400 million currency swap with Sri Lanka while deferring another \$500 million due for settlement to the Asian Clearing Union (ACU), in a move aimed at helping the island nation witnessing an unprecedented economic crisis.

In a tweet on Thursday, the Indian mission in Colombo said High Commissioner Gopal Baglay met Central Bank Governor Ajith Nivard Cabraal and expressed “India’s strong support to Sri Lanka” in the wake of the Reserve Bank of India extending facilities of \$900 million over the last week.

“Had an excellent discussion with Indian High Commissioner to #SriLanka HE Gopal Baglay at my office this morning where he confirmed the #SAARC #SWAP by RBI and other forms of bilateral cooperation,” Mr. Cabraal said in a tweet.

India’s assistance follows a request from Sri Lanka during Finance Minister Basil Rajapaksa’s visit to New Delhi in December, for emergency financial assistance, including Lines of Credit for importing essentials and a currency swap to boost Sri Lanka’s draining foreign reserves. Sri Lanka is facing a severe dollar crunch that economists say might lead to a default on external debt and create a food shortage in the imports-reliant nation. Colombo must service over \$7 billion outstanding debt in 2022, including bond repayments of \$500 million in January and \$1 billion in July.

The Central Bank of Sri Lanka has expressed confidence about paying off the foreign debt. Ruling out an IMF bailout, Governor Cabraal on Wednesday said Colombo is in talks with Beijing for a new loan, in addition to the \$500 million loan and \$1.5 billion currency swap extended by Beijing as pandemic-time support. The request, according to local media reports, was also discussed during Chinese Foreign Minister Wang Yi’s visit to Colombo last week. Sri Lanka owes China over \$5 billion already, and Colombo has requested Beijing to restructure it to provide some relief.

The developments have prompted political commentators in Sri Lanka to pit India and China against each other, in providing timely assistance to the island nation.

In July 2020, the RBI extended a similar swap facility — of \$400 million — to help Sri Lanka cope with the impact of the first wave of the pandemic, and later provided a three-month roll over until February 2021, when the Central Bank of Sri Lanka settled it.

Thursday’s announcement on RBI assistance includes deferring the payment of \$500 that Sri Lanka owes to the ACU, a regional initiative with the Central Banks and Monetary Authorities of Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.

Significantly, India’s confirmation of the swap comes a week after the two countries signed a long-pending agreement on jointly developing the strategically located Trincomalee oil tank farm along the north-eastern coast of the island. Diplomatic sources had earlier indicated that any financial support from New Delhi to Colombo would have to follow the signing of the deal.

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