

DHAKA CLEARS CURRENCY SWAP FOR LANKA

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

Bangladesh on Tuesday cleared a \$200 million currency swap facility for Sri Lanka, becoming the first South Asian country to extend crucial financial assistance to the island nation this year.

Dhaka-based *The Daily Star* newspaper reported on Wednesday that Bangladesh was extending “a lifeline of sorts to the beleaguered Sri Lankan economy”, offering to top up its depleting foreign reserves. “The board of the Bangladesh Bank has decided in principle to lend \$200-250 million from Bangladesh’s reserves to Sri Lanka for three months,” Mohammad Sirajul Islam, a spokesman for the Bangladesh Bank, the country’s central bank, told *AFP* in Dhaka.

With Sri Lanka’s main foreign exchange-earning sectors — tourism, export of garments and tea — badly hit due to the pandemic, the country has been struggling to maintain its reserves in the face of a daunting debt repayment schedule.

Foreign reserves

In April 2021, Sri Lanka’s foreign reserves stood at \$4.5 billion, about the same amount that the country is due to settle this year in external loan repayments.

So far this year, Colombo has obtained financial assistance from China, through a \$1.5 billion currency swap arrangement, and a \$500 million loan, in addition to the \$500 million extended last year. Sri Lanka also inked a \$500 million loan-agreement with the EXIM Bank of Korea a fortnight ago. India, which extended a \$400 million currency swap facility from the Reserve Bank of India — it was settled in February 2021 after an extension — is yet to respond to Sri Lanka’s year-old request for an additional \$1.1 billion currency swap facility.

President Gotabaya Rajapaksa made the request during a telephone conversation with PM Narendra Modi in May 2020. New Delhi is also yet to approve Prime Minister Mahinda Rajapaksa’s request for a debt moratorium, which he sought before the pandemic hit the region.

Meanwhile, Dhaka clearing the request — discussed during PM Mahinda Rajapaksa’s visit to the capital in March — brings some relief to Colombo, senior officials said, although the decision is yet to be formalised in a bilateral agreement. Despite the pandemic, Bangladesh’s foreign reserves hit a record high in April, crossing the \$45 billion mark.

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