Dollar Swap Line

Why in News?

India is working with the United States (US) to secure a dollar swap line.

Are India's forex reserves enough?

- As per the RBI, India's foreign exchange reserves have fallen by $ 13 billion from March 6 to April 3, 2020.
- This is due to a sharp outflow of funds of the foreign portfolio investors, who wanted safer havens amidst the current global uncertainty.
- After a smooth run during which India's foreign exchange reserves rose week-on-week for nearly six months, they started to decline in March.
- According to RBI data, 63.7% of India's foreign currency assets are held in overseas securities, mainly in the US treasury.

What are the benefits of a swap line?

- A swap line with the US Federal Reserve would help in better management of the external account of India.
- It would also provide extra cushion in the event of an abrupt outflow of funds from the forex markets.
- So far, foreign institutional investors (FIIs) have been large sellers in the Indian equity and debt markets in March and April 2020.
- There is apprehension that the economic impact of COVID-19 will last for a significant length of time.
- So, the government and the Reserve Bank of India (RBI) cannot lower their guard on the management of the economy and external account.

How does a swap facility work?

- In a swap arrangement, based on the market exchange rate at the time of the transaction,
    1. The US Fed provides dollars to a foreign central bank, and
    2. The bank provides the equivalent funds in its currency to the Fed.
- The parties agree to swap back their currencies at a specified date in the future, at the same exchange rate as in the first transaction.
- These swap operations carry no exchange rate or other market risks, as transaction terms are set in advance.

Does India have a swap line with any other country?

- **Japan** - India has a $75 billion bilateral currency swap line with Japan, which has the second highest dollar reserves after China.
- This provides India with the flexibility to use these reserves at any time in order to maintain the balance of payments or short-term liquidity.
- **SAARC** - The RBI offers similar swap lines to central banks in the SAARC region within a total corpus of $2 billion for 2019-22.
- This facility will further the financial stability and economic cooperation within the SAARC region.

With which countries does the US have swap lines?

- **Temporary** - On March 19, 2020, the Fed opened temporary swap arrangements with the central banks of Australia, Brazil, Norway, etc.
- This is to be in place for at least six months for a combined $450 billion.
- **Permanent** - The Fed already has permanent swap arrangements with the Banks of Canada, England, Japan, the European Central Bank, etc,.
- Currently, India, China, Russia, Saudi Arabia and South Africa do not have a currency swap line with the US.

Source: The Indian Express

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