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India: SAARC Swap Framework, 2012¹

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Yale Program on Financial Stability Case Study

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Abstract

In response to the Global Financial Crisis (GFC), finance ministers of member countries of the South Asian Association for Regional Cooperation (SAARC) agreed in 2009 on the need for bilateral arrangements to tackle short-term credit contractions and financial market disruptions. In 2012, the Reserve Bank of India (RBI) responded by launching a self-funded USD 2 billion swap framework for all SAARC member nations to provide a backstop line of credit to fight liquidity crises. The framework defined the terms under which a borrowing central bank could enter into a bilateral agreement with the RBI. Bhutan, Maldives, and Sri Lanka used the RBI's SAARC swap framework to sign and activate bilateral swaps at various points between 2012 and 2022, including during the COVID-19 pandemic, to meet dollar liquidity needs. These countries may have preferred SAARC to other multilateral liquidity facilities because of its lack of conditionality and quick disbursement of funds. The SAARC framework helped borrowing central banks maintain exchange rate stability, provide short-term foreign exchange liquidity, and facilitate downstream lending programs. It was set to expire in November 2022 but is likely valid for another three years, given Bhutan's latest swap agreement in December 2022.

Keywords: framework, liquidity, RBI, SAARC, swap

¹ This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering central bank swap line programs. Cases are available from the *Journal of Financial Crises* at <https://elischolar.library.yale.edu/journal-of-financial-crises/>.

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Overview

This case covers a framework that the Reserve Bank of India (RBI) created in 2012, under which it agreed to sign bilateral swap agreements with other South Asian countries to promote market functioning and stability. Countries could use these guidelines to access foreign exchange liquidity quickly by entering into bilateral agreements with the RBI during times of crises.

The South Asian Association for Regional Cooperation (SAARC) was formed on December 8, 1985, by eight member states: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka (SAARC 2020a). The association had the primary objectives of: (1) improving welfare and quality of life; (2) accelerating economic growth and social and cultural development; and (3) improving mutual trust and assistance and strengthening cooperation in various fields for the people of South Asia, “which are bound by ties of history and culture” (SAARC 2020a; SAARC 2020b).

In February 2009, Sri Lankan President Gotabaya Rajapaksa in a speech mentioned that both financial meltdown and terrorism posed a similar collective threat to the societies of South Asia, and regional cooperation was required to sustain peace and stability in the region. President Rajapaksa used his speech to highlight the successful formation of bilateral swap lines and reserve funds for liquidity problems in East Asia after the financial crisis of 1997. The formation of the SAARC Development Fund and the South Asia Free Trade Agreement (SAFTA) were signs of greater integration of South Asian economies (BBCSAP 2009). The further economic integration of SAARC member nations was expected to help withstand future economic

Key Terms

Purpose: for “strengthening regional financial and economic cooperation”; to provide a “backstop line of funding . . . to meet any balance of payments and liquidity crises”; and to increase intraregional trade and enhance collective welfare (RBI 2012)

Participating Parties	Central banks of Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka could access the swap framework; Bhutan, Maldives, and Sri Lanka used the framework to sign agreements with India
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Type of Swap	Multilateral framework to facilitate unidirectional, bilateral swaps
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Currencies Involved	Lending currency: US dollar, euro, or Indian rupee Borrowing currency: Bhutanese ngultrum, Sri Lankan rupee, or Maldivian rupee
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Launch Date	May 16, 2012
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End Date	Nov. 17, 2022 (another swap signed in Dec. 2022)
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Date of First Usage	Bhutan 2013
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Interest Rate and Fees	USD, EUR: LIBOR plus 200 bps INR: RBI Repo Rate minus 200 bps; plus 50 bps for second rollover
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Amount Authorized	USD 2 billion for full facility; USD 100 million–400 million per party
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Peak Usage Amount and Date	USD 1.05 billion (2020)
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Downstream Use/Application of Swap Funds	Fight balance of payments and liquidity crises; provide downstream lending to banks <i>(continued)</i>
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storms and present a collective front in dealing with various multilateral organizations future economic storms and present a collective front in dealing with various multilateral organizations (SUNOSL 2009).

On February 28, 2009, at a meeting of the SAARC Finance Ministers on the Global Financial Crisis, the ministers noted that:

Outcomes	All amounts repaid with interest; Framework renewed in 2016 and 2019
Notable Features	Standardized framework for all countries; swap sizes based on two-month import cover; Concessions for draws in Indian rupee versus US dollar or euro

A major cause of current concern in the region is the drying up of credit and the contraction of financial markets. Mechanisms must, therefore, be developed aimed at creating bilateral arrangements in the region to address short-term liquidity difficulties and to supplement international financing arrangements (RBI 2012).

However, progress on the SAARC proposal was slow, partly owing to diplomatic deadlock in India and Pakistan's bilateral ties following the November 2008 terrorist attack in India (Hindustan Times 2009; Jawaid 2010). On September 25, 2011, the SAARCFINANCE Governors' Symposium, held in Washington, DC, provided the financial concurrence to the currency swap framework for SAARC countries (CBSL 2016). On May 16, 2012, as part of the 24th SAARCFINANCE³ Governors' meeting, RBI Governor Duvvuri Subbarao announced the offer of a swap framework of up to USD 2 billion in Indian rupees (INR), US dollars, and euros to member countries of the SAARC region (PTI 2012). The facility was announced to "[strengthen] regional financial and economic cooperation" and was approved by the Indian Union Cabinet. The purpose of the facility was to provide a "backstop line of funding . . . to meet any balance of payments and liquidity crises" of the SAARC countries. The swap facility was expected to improve economic cooperation in the region, increase intraregional trade, and enhance collective welfare (RBI 2012).

India had USD 257 billion of foreign exchange (FX) reserves at fiscal year end 2012 (RBI 2013b). Prior to launching the SAARC swap, the RBI was facing immense depreciation pressures on the Indian rupee, with a 15% depreciation from February to May 2012 (Keohane 2012). Despite the RBI attempts, analysts stated then that the RBI had a limited ability to control short-term pressures on the rupee (Keohane 2012). A senior fellow at Brookings stated that the rupee's weakness highlighted the vulnerability of India's economy to external shocks (Crabtree 2012).

The SAARC swap framework is similar to other global liquidity initiatives, such as the Federal Reserve's dollar-providing facilities, the ECB's euro-providing facilities, and regional facilities like the Chiang Mai initiative. The aggregate maximum amount that India made

³ SAARCFINANCE comprises the central bank governors and finance secretaries of the SAARC member countries (Statesman 2016).

available under the SAARC swap framework to all countries at any time was USD 2 billion.⁴ Under the framework, member countries could enter into bilateral swap agreements with India. The swap amount available to each country was broadly based on two months' import cover and limited to a minimum of USD 100 million and a maximum of USD 400 million. The RBI's swap framework was offering draws in US dollars, euros, or Indian rupees in exchange for domestic currency or government securities denominated in domestic currency of the borrowing country (RBI 2012).

The RBI signed bilateral agreements based on the framework with Bhutan in 2013, Sri Lanka in 2015, and Maldives in 2019 (see Figure 1) (MMA 2021; RBI 2013a; RBI 2015a).

Figure 1: Usage of SAARC 2012 Swap Framework

SAARC swap usage	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bhutan	-	USD 100 mn	-	-	USD 100 mn	-	USD 100 mn	USD 100 mn	USD 190 mn	USD 200 mn	USD 400 mn ^A
Maldives	-	-	-	-	-	-	-	-	USD 400 mn ^B	USD 400 mn ^B	USD 200 mn
Sri Lanka	-	-	-	USD 1.1 bn ^C	USD 400 mn ^D	USD 400 mn ^D	-	USD 400 mn	USD 400 mn ^E	USD 400 mn ^E	USD 400 mn

^A Bhutan received an additional USD 200 mn INR equivalent swap line in November 2022

^B Maldives repaid USD 150 mn in January 2021 and USD 250 mn in December 2021

^C USD 400 mn, rolled twice and USD 700 mn special swap

^D USD 400 mn, rolled four times and settled in March 2017

^E USD 400 mn, rolled twice in 2020 and settled in February 2021 (CBSL had no SAARC draws in 2021)

Sources: RBI 2013b; RBI 2014; RBI 2015c; RBI 2016d; RBI 2017; RBI 2018; RBI 2019b; RBI 2020b; RBI 2021a; RBI 2022b.

On February 13, 2016, the RBI extended the SAARC 2012 framework until November 14, 2017 (RBI 2016a). On December 20, 2018, the RBI incorporated a Standby Swap Arrangement (SSA) into the original swap framework. This allowed a SAARC member country to draw up to USD 400 million beyond its maximum eligible swap amount, so long as aggregate draws did not exceed the USD 2 billion total (RBI 2020b).

On November 26, 2019, the RBI revised the framework and extended it to 2022; the overall corpus remained at USD 2 billion (RBI 2019a). The revised framework provided additional concessions for swaps draws in Indian rupees in terms of waiting period and the second rollover to incentivize draws (RBI 2020b).

The RBI again signed swap agreements with Bhutan in January 2020, Maldives in April 2020, and Sri Lanka in July 2020 to help them meet dollar liquidity needs in the face of declining tourism receipts and other COVID-19-related disruptions (RBI 2021a). From 2020 through 2022, total usage of the swaps by these three countries peaked at USD 1.1 billion (RBI 2021a; RBI 2022b).

In 2023, analysts have pointed out that tensions between India and Pakistan were a key challenge to the growth of further SAARC cooperation. There has been some progress by SAARC countries in furthering economic cooperation, such as the South Asian Free Trade Agreement (SAFTA) (Pioneer 2023). It has also been reported that India is looking at other

⁴ This is in contrast with another regional swap line arrangements—such as the Chiang Mai Initiative Multilateralization (CMIM)—within which multiple countries funded the scheme through a contribution pool. For more details on Chiang Mai, see Hoffner 2023.

regional and subregional initiatives to further collective development goals, such as the Bay of Bengal Initiative for Multi-Sector Technical and Economic Cooperation (BIMSTEC), which include Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand (BIMSTEC 2022; Pattanaik 2023). Such regional groups hope to continue the momentum of regional cooperation, while SAARC cooperation takes time to revive (Pattanaik 2023). India has additionally invited Pakistan's Foreign Minister Bilawal Bhutto Zardari to a regional Foreign Ministers' meeting in Goa, India, in May 2023, which would mark the first visit by a Pakistani FM since July 2011 (Haidar 2023).

Summary Evaluation

Since the Global Financial Crisis in 2008, there has been an increase in the creation of regional swap arrangements (see Hoffner 2023 and Mühlich, Fritz, and Kring 2022). Research has concluded that such measures have contributed to improving liquidity and financial stability in the region (Agnihotri 2020).

The RBI, as the single lender, defined the rules of SAARC swap facilities (Mühlich and Fritz 2021). An academic paper concluded that the SAARC framework was different from other regional lending initiatives in being able to provide significant lending capacity to borrowing nations without major delays or the need for strict reform packages (Mühlich, Fritz, and Kring 2022).

The three borrowing central banks used USD 1.1 billion of foreign exchange support from the RBI in 2020-21 (RBI 2022b). Borrowers may have preferred the SAARC framework to other facilities, such as those offered by the IMF, because of the timely disbursement of funds and lack of conditionality (Mühlich and Fritz 2021).

Context: India 2012–2013		
GDP (SAAR, nominal GDP in USD)		\$1.8 trillion in 2012
		\$1.9 trillion in 2013
GDP per capita (SAAR, nominal GDP in USD)		\$1,434 in 2012
		\$1,438 in 2013
Sovereign credit rating (five-year senior debt)	2012	Moody's: Baa3
		S&P: BBB-u
		Fitch: BBB-u
	2013	Moody's: Baa3
		S&P: BBB-u
		Fitch: BBB-u
Size of banking system		\$1.4 trillion in 2012
		\$1.4 trillion in 2013
Size of banking system as a % of GDP		73.9% in 2012
		74.5% in 2013
Size of banking system as a % of financial system		Data not available in 2012
		Data not available in 2013
Five-bank concentration of banking system		39.4% in 2012
		39.5% in 2013
Foreign involvement in banking system		3% in 2012
		3% in 2013
Existence of deposit insurance		Yes in 2012
		Yes in 2013
<i>Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.</i>		

Key Design Decisions

- 1. Purpose and Type: The RBI offered to enter into bilateral, unidirectional swap arrangements with SAARC member countries under the SAARC swap framework to provide liquidity during market crises.**

The RBI launched the SAARC swap framework to “[strengthen] regional financial and economic cooperation” and to provide to SAARC countries a “backstop line of funding . . . to meet any balance of payments and liquidity crises” (RBI 2012). The facility was made available to all SAARC member countries: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka (RBI 2012).

The member countries had to each approach the RBI to use the swap facility and enter into a bilateral swap agreement, which would incorporate the terms of the framework (RBI 2012). Specific terms of the SAARC swap agreement, such as maturity, draws, and rates, were stated in the 2012 framework and did not have to be renegotiated by borrowing central banks in each bilateral agreement. The main decision to be made with each agreement was the maximum size of the swap facility. The original swap framework was established for a three-year term, before receiving extensions in 2016 and 2019.

- 2. Part of a Package: The RBI and government of India provided additional financial support (lines of credit, deferment of dues) to SAARC member countries. The borrowing countries also had other bilateral and multilateral agreements to access liquidity during a crisis.**

The Indian government provided additional financial support to Bhutan and Sri Lanka that was not part of the SAARC framework. These facilities were designed to provide Indian rupee liquidity, meet balance of payments (BoP) needs, and strengthen food and energy security.

The RBI also extended special bilateral swap lines to Sri Lanka that exceeded the limits under the SAARC framework. The CBSL had to supplement their SAARC swaps with special swap lines for USD 700 million in 2015 and 2016 (see Figure 2) (RBI 2015b; RBI 2016c). In 2019, the CBSL also requested an additional USD 1 billion swap line from the RBI, which was “under consideration” (CBSL 2019a). As of 2020, CBSL was continuing negotiations with the RBI to secure a special bilateral swap line for an additional USD 1.0 billion (CBSL 2020).

Figure 2: Bhutan and Sri Lanka's Non-SAARC Aid from India, 2014–2022

	Authority	Type	Size	Duration	Reason
			(in INR billion)	(months)	
Bhutan					
2013	Gol	Credit Line	10	6	Manage Indian rupee reserves and meet balance of payments needs
2013	SBI and PNB	Overdraft facility	-	12	Meet development and balance of payments needs
2014	Gol	Credit Line	7	valid in 2022	Meet development and balance of payments needs; Two facilities of INR 3 bn and INR 4 bn
2017	Gol	Hydropower Debt	115	valid in 2022	To help with energy security; Increased to INR 148 bn as of 2022
2022	Gol	Standby Credit Line	7	60	Manage Indian rupee requirements and facilitate bilateral trade
			(in USD billion)		
Sri Lanka					
2014	Gol	Investment Agreement	-	-	Diversify foreign exchange management activities
2015	Gol	Special Swap Line	0.7	6	Mitigate currency volatility; Improve bilateral relations
2016	Gol	Special Swap Line	0.7	3	Mitigate currency volatility; Improve bilateral relations
2022	Gol	Credit Line	1.0	12	Strengthen food, health, and energy security

Sources: *GoI 2022c; RMA 2014; RMA 2022; GoI 2022a; RBI 2015b; CBSL 2015; RBI 2016c.*

Both Sri Lanka and Maldives obtained aid from the IMF, while Bhutan did not. On September 1, 2022, the IMF reached an agreement with Sri Lanka to provide USD 2.9 billion via an Extended Fund Facility (EFF) and to stabilize the country's economy and create grounds for a sustainable economic recovery through a 48-month process (IMF 2022b). Maldives received USD 28.9 million on April 24, 2020, under the IMF's Rapid Credit Facility. Maldives also received SDR 20.3 million as part of the IMF's general allocation for 2021 to help countries deal with the COVID-19 pandemic (MMA 2022).

3. Legal Authority: The RBI functioned under the Reserve Bank of India Act, 1934, and India's Union Cabinet approved the swap framework.

India's central bank acted under the Reserve Bank of India Act, 1934, and we found no evidence that the SAARC swap framework required further legislation (GoI 1934; RBI 2021a). India's Union Cabinet approved the RBI's decision to offer the swap framework and all subsequent extensions and amendments⁵ (RBI 2012).

The Royal Monetary Authority of Bhutan (RMA) had the ability to set a fixed exchange rate and manage the external reserves of the Royal Government of Bhutan as per the Royal Monetary Authority Act of Bhutan, 2010 (GoB 2010). The CBSL is instituted by the Monetary Law Act No. 58 (1949) of Sri Lanka (CBSL 2022; SL 1949). The MMA functions as the central bank of Maldives as per Law no. 6/81 Maldives Monetary Authority Act 1981 (GoM 1981; MMA 2022).

4. Governance: The RBI signed bilateral agreements with each member country's central bank under the SAARC swap framework.

The "Framework on Currency Swap Arrangement for SAARC Member Countries" was extended solely by the RBI, which is the sole lender under the framework. There was no institutional governing body under the SAARC 2012 framework (Mühlich and Fritz 2021).

Under the framework, the RBI entered into bilateral agreements with any requesting SAARC central bank, subject to final approval by the government of India. Each agreement is broadly based on the original 2012 SAARC framework, but further modifications to tenures and size

⁵ Union Cabinet represents the council of ministers headed by the prime minister to aid India's president in exercising its duties (GoI 2022b).

limits have been agreed to in future renewals of bilateral agreements by the signing parties. Extensions and amendments to the SAARC framework and individual bilateral agreements had to be approved by the government of India (RBI 2012). Our understanding is that the RBI reserved the right to approve individual draws once the bilateral agreement had been signed.

The RBI disclosed the use of each swap line in its annual report under the Foreign Exchange Reserves section. Swaps were disclosed separately from official reserve estimates (see Figure 1).

Sri Lanka's 2020 swap agreement was recommended by the Monetary Board of the CBSL and approved by Sri Lanka's Cabinet of Ministers (CBSL 2020). The RBI and CBSL's swap line signed in July 2020 was disclosed by both central banks via press releases on their respective websites (CBSL 2020; RBI 2020a). The CBSL's Economic Research Department (ESD) is the main contact for dealing with multilateral organizations like the SAARCFINANCE⁶ group and the IMF (CBSL 2019b).

The RMA reported on the use of the swap line with the RBI under the SAARC framework in its annual reports (RMA 2016). The RBI's decision to provide an additional currency swap of USD 200 million to Bhutan in November 2022 was disclosed as a press release by the Embassy of India, Thimphu (GoI 2022a).

The CBSL also used its annual report to disclose the initiation, use, and repayment of its swap lines with the RBI (CBSL 2016; CBSL 2017a; CBSL 2021a). The MMA reported in its annual report on the details of its swap line with the RBI (MMA 2022).

Bhutan and Sri Lanka's use of the 2012 SAARC framework to sign and use a bilateral swap line with India in 2022 was disclosed by the RBI in its half-yearly report on FX reserve management (RBI 2022c).

5. Administration: The borrowing central bank was responsible for initiating each swap draw, and the RBI was most likely responsible for approving each draw.

It is not clear which body at the RBI made decisions on day-to-day operations of the swap. The borrowing central bank was required to approach the RBI to access and activate the facility (RBI 2012). Each draw of the swap line has been presented as part of the RBI's balance sheet in foreign exchange reserve.

6. Communication: The RBI offered the SAARC swap framework initially to provide a backstop line of funding to member nations. The framework was extended with the intentions of strengthening bilateral ties and tackling dollar liquidity needs.

The RBI released the original swap framework from 2012, and the extensions in 2016 and 2019, via press releases on its website (RBI 2012; RBI 2016a; RBI 2019a). As per the original framework in 2012, the RBI intended to provide a backstop line of funding to all SAARC

⁶ Network of central bank governors of the SAARC region, instituted on September 9, 1998 (RBI 2021).

member nations to help meet balance of payments need and address liquidity crises (RBI 2012). In 2016, the RBI extended the tenure of the swap framework, while mentioning the need to further financial stability and economic cooperation in the region (RBI 2016a). In 2019, the RBI's revised swap framework referred to the need for swap facilities during specific foreign exchange liquidity crises in member nations and as a broader step to help financial stability in South Asia (RBI 2019a).

The RBI said that its swap agreements with Sri Lanka in 2015 and 2016 were intended to strengthen economic cooperation and improve bilateral ties (RBI 2015a; RBI 2015b; RBI 2016c). In 2016, RBI Governor Raghuram Rajan confirmed in his speech to the SAARCCFINANCE group that the swap facility had helped member countries alleviate short-term foreign exchange requirements (Statesman 2016). In 2020, the RBI said that it was trying to provide a backstop line of funding to borrowing central banks to help meet dollar liquidity needs in the face of declining tourism receipts and other COVID-19 related disruptions to the economy (RBI 2021a).

7. Eligible Institutions: India made the facility available to the central banks of the other seven SAARC member countries.

The RBI made swaps under the 2012 SAARC framework available to all other SAARC member countries—Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka (RBI 2012). The member countries each had to approach the RBI to use the facility and enter into bilateral swap agreements (RBI 2012). As of February 28, 2022, three countries—Bhutan, Maldives, and Sri Lanka—had done so.

8. Size: Under the 2012 SAARC framework, each country was eligible for a swap line between USD 100 million and USD 400 million, for an aggregate total not to exceed USD 2 billion. Amendments to the framework adopted in 2018 permitted each participating country to draw an additional USD 400 million via a Standby Arrangement while maintaining the aggregate USD 2 billion cap.

The maximum amount that India made available under the SAARC swap framework was USD 2 billion. The swap amount available to each participating country was predetermined by the agreement. It was “broadly based” on two months of the country's import cover and was set to a minimum of USD 100 million and a maximum of USD 400 million per country (RBI 2012). The RBI did not disclose the amount it was willing to make available to each SAARC member country. As of December 20, 2018, the RBI incorporated a Standby Swap Arrangement (SSA) into the original swap framework. This allowed individual SAARC member countries to draw an additional USD 400 million beyond their originally specified limit to take advantage of the unutilized balances of the facility (RBI 2020b).

On January 31, 2020, the RMA and RBI signed an agreement for USD 200 million under the SAARC framework (RBI 2020b; RMA 2020). In November 2022, as per the request of the Royal Government of Bhutan, the GoI provided an additional USD 200 million swap line and extended the validity of the agreement to June 30, 2023 (GoI 2022a). As per Figure 1, the size

of Bhutan's swap line with the RBI increased from USD 100 million in 2016 to USD 400 million in 2022.

The MMA borrowed the maximum permissible amount of USD 400 million from the RBI under the SAARC swap arrangement and repaid it fully by December 2021 (MMA 2022).

9. Process for Utilizing the Swap Agreement: The borrowing central bank had to enter into a bilateral agreement with the RBI to utilize the facility; it could then request draws of funds.

An eligible central bank would have to approach the RBI to set up a bilateral agreement, which would need final approval from the Government of India. As per the 2012 framework, each requesting member country could draw dollars, euros, or Indian rupees in multiple tranches. The foreign exchange liquidity would be provided to the borrowing central bank against collateral of their domestic currency or domestic currency-denominated government securities (RBI 2012).

Each swap draw could be rolled over twice on the request of the borrowing member country (RBI 2012). The RBI provided concessions under the SAARC framework relating to the waiting period and the second rollover to incentivize draws in Indian rupees (RBI 2020b).

10. Downstream Use of Borrowed Funds: The borrowing central banks used their swap lines to provide liquidity to their markets (Bhutan, Sri Lanka) and conduct foreign exchange interventions to maintain exchange rate stability (Maldives).

The RBI imposed no restrictions on the downstream use of funds by borrowing central banks. The RMA entered into the 2013 and 2016 swaps to better manage its Indian rupee reserves, to provide relief for short-term balance of payment transactions, and to help with a backstop line of funding for liquidity mismatches (RMA 2014a; RMA 2016).

The RBI's swap facility helped Sri Lanka stabilize its exchange rate and strengthen its position in the financial markets (CBSL 2017a). The CBSL's downstream swap programs with commercial banks helped moderate the decline in market liquidity in 2016 (CBSL 2017b). As a response to the COVID-19 crisis, the CBSL's swap line with the RBI was intended to "maintain sufficient short-term FX liquidity" without adversely affecting the country's foreign exchange reserves as a result of the COVID-19 pandemic (CBSL 2020). In 2020, the CBSL also entered into foreign exchange swap agreements with licensed domestic banks to address foreign exchange liquidity shortages in the market (CBSL 2021a).

The Maldives central bank has a mandate to keep its currency in a +/-20% band of MVR 12.85 per US dollar. The MMA continued to intervene in the foreign exchange market to maintain exchange rate stability. The MMA was providing foreign exchange liquidity to the markets in the first three quarters of 2021 to help with US dollar shortages in the economy (MMA 2022). In 2022, the MMA also used its swap line to provide a backstop line of funding for meeting short-term foreign exchange liquidity requirements (RBI 2022a).

11. Duration of Swap Draws: Each swap draw had a tenure of three months.

Each swap draw was for a tenure of three months and could be rolled over twice for a maximum tenure of nine months (RBI 2012).

12. Rates and Fees: The 2012 SAARC framework provided for rates of three-month LIBOR plus 200 basis points on US dollar and euro swaps, and RBI Repo minus 200 basis points on Indian rupee swaps.

The interest rate charged under the SAARC framework would be three-month LIBOR plus 200 basis points for dollar and euro swaps, and the RBI Repo rate minus 200 basis points for Indian rupee swaps. The second rollover of any draw under a SAARC swap agreement would incur a 50-basis-point premium to the previously charged interest rate (RBI 2012).

The RMA's non-SAARC swap agreement with the RBI in March 2013 charged an interest rate of 5.5% (RMA 2013). There was no other disclosure of fees or exchange rates in the swap agreements.

13. Balance Sheet Protection: The RBI had relatively short tenures of draws and expirations of swap agreements, which were subject to regular review.

The RBI's original swap framework did not specify an exact expiration date but limited the maximum maturity of each swap draw to three months with a limit of two rollovers. The maturity of individual swap lines would be negotiated bilaterally between the RBI and borrowing central bank (RBI 2012).

Each central bank's borrowing limit was broadly based on two months' import cover of their respective countries and was limited to a range of USD 100 million–USD 400 million (RBI 2012). The CBSL signed a special swap agreement with the RBI to borrow an additional USD 700 million beyond the SAARC facility (RBI 2015b; RBI 2016c).

14. Other Restrictions: The RBI did not impose any restrictions on borrowing central banks.

There were no restrictions imposed by the RBI on the downstream use of funds by borrowing central banks.

15. Other Options: Research did not identify any other options considered by the RBI to fund the SAARC swap framework. The RBI and Indian government provided other non-SAARC swap aid to member countries to address foreign exchange shortages.

Research did not identify if the RBI considered any other types of support for its USD 2 billion contribution to the SAARC swap framework. The RBI and Indian government provided other non-SAARC swap aid to member countries to address foreign exchange shortages (Figures 4 and 7 in the Appendix). In December 2018, India also provided Maldives with an assistance

package of USD 1 billion (USD 200 million in budget support and USD 800 million credit facility by the India EXIM bank) (GoM 2018).

16. Exit Strategy: The SAARC swap framework was set to expire on November 13, 2022, but the RBI entered into new swap agreements in November and December 2022 that have three-year terms.

The RBI first offered the swap to SAARC nations on November 15, 2012. In 2016, RBI extended to November 15, 2017 (RBI 2016a). In 2019, the framework was implemented for a further three years to November 13, 2022 (RBI 2019a).

In April 2022, the RBI extended the duration of their swap line with the CBSL and converted it into a standing agreement.⁷ In November 2022, in response to the Royal Government of Bhutan, the GoI extended their bilateral swap agreement to June 30, 2023 (GoI 2022a). India also agreed to a swap line with Maldives in December 2022 based on the SAARC 2012 framework, which leads us to assume that the swap agreement is still active (RBI 2022a).

⁷ On April 22, 2022, the official Twitter handle of the High Commission of India in Colombo, Sri Lanka, confirmed that India's swap line for USD 400 million to the CBSL was set to expire in January 2022 and has been "extended indefinitely" (GoI 2022d).

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Appendixes

Appendix 1: Bhutan

The Bhutanese ngultrum (BTN) is pegged at par to the Indian rupee. It was experiencing depreciation pressure against the dollar in 2013 because of India's volatile capital flows and large current account deficit (RMA 2013). At the time, India accounted for 66% of Bhutan's overall external debt (RMA 2014a).

On March 8, 2013, the RBI signed a three-year bilateral agreement with the Royal Monetary Authority of Bhutan (RMA) to swap dollars, euros, or Indian rupees in multiple tranches for up to USD 100 million (RBI 2013a). The RMA used the swap to manage its Indian rupee reserves and provide relief for short-term balance of payment transactions (RMA 2013). The RMA and RBI signed similar bilateral agreements on March 17, 2016, for USD 100 million and on January 31, 2020, for USD 200 million (RBI 2016b) (RBI 2020b). By drawing on the RBI swap agreement, Bhutan raised INR 5.4 billion (USD 99.4 million⁸) on March 8, 2013, for a duration of six months (three-month swap plus one rollover) and charging an interest rate of 5.5% (RMA 2013).

On March 17, 2016, the RBI and RMA signed another bilateral swap agreement to be valid for three years from signing for USD 100 million, based on the SAARC 2012 framework (RBI 2016b). The terms of the agreement were the same as those of the 2013 swap facility, allowing for multiple tranches of borrowing in USD, EUR, or INR (RBI 2016b). The RMA paid off the full principal of INR 6.7 billion and interest of INR 153.2 million to the RBI in 2017 (RMA 2017, 31). The RMA reported borrowing INR 6.7 billion (USD 100 million) from the RBI in 2017-18 (RMA 2018). The RMA reported an increase in its outstanding loan to the RBI resulting from the swap in 2018-19 to INR 6.97 billion (USD 100 million) (RMA 2019, 108). The RMA's use of the swap line with the RBI in 2018 and 2019 seems like an activation of the renewed swap agreement signed in March 2016. In 2020, the RMA reported borrowing INR 28.3 billion (USD 200 million) under the RBI swap agreement, of which INR 14.05 billion had been repaid that year (RMA 2020).

In November 2022, as per the request of the Royal Government of Bhutan, the government of India (GoI) provided an additional USD 200 million "INR equivalent" swap line to provide new support to Bhutan and extended the agreement signed on January 31, 2020, to June 30, 2023. The disclosure confirmed the signing of swap agreements between the RBI and RMA as "exemplary ties of friendship and close cooperation" in 2013, 2016, 2019, and 2020 (GoI 2022a). The RMA has an existing maximum swap limit with the RBI of USD 400 million as of year-end 2022. See Figure 3 for a summary of Bhutan's use of the RBI's swap facility.

⁸ Per Yahoo Finance, USD 1 = INR 54.4 as of March 1, 2013.

Figure 3: Bhutan's Use of the RBI's Swap Facility, 2013–2022

Bhutan	Roll	Draw/ Balance (INR billions)	Size Max. (USD millions)	Duration (months)	Notes
Mar-13	Yes	5.4	100	36	Manage Indian rupee reserves and meet balance of payments needs
Mar-16	Yes	6.7	100	36	Meet Indian rupee shortages and provides balance of payments backstop
2017-18	-	6.7	100	-	Based on March 2016 swap
2018-19	-	6.9	100	-	Based on March 2016 swap
Jan-20	Yes	14.3	200	36	Meet balance of payments needs; Borrowed INR 28 bn, repaid INR 14 bn
2020-21	-	14.5	200	-	Based on January 2020 swap
2021-22	-	15.2	200	-	Based on January 2020 swap
Nov-22	-	-	400	6	Extended to June 30, 2023

Sources: GoI 2022a; RBI 2016b; RBI 2020b; RMA 2013; RMA 2018; RMA 2019; RMA 2020; RMA 2021; RMA 2022.

Apart from the SAARC swap facility, India provided Bhutan with other forms of financial support (as seen in Figure 4). The RMA had an INR 10 billion (USD 167 million) credit line with the GoI and an overdraft facility from State Bank of India (SBI) and Punjab National Bank⁹ (PNB) to meet Bhutan's developmental and balance of payments (BoP) needs (RMA 2014a). Bhutan also had a line of credit from the Government of India for INR 7.0 billion in 2016–17 (RMA 2017). This line of credit remained active every year and was active as of 2022 (RMA 2022).

India also provided Bhutan with two Standby Credit facilities of INR 3 billion and INR 4 billion to facility bilateral trade and help with Indian rupee payments from July 1, 2022 (GoI 2022a). Both facilities charged a reduced interest rate of 2.5%, with the settlement periods extended to 60 months. These facilities were announced to promote bilateral trade and meet Indian rupee payment requirements by Bhutan. This agreement was communicated as another sign of close ties and cooperation between Bhutan and India (GoI 2022a).

Figure 4: Non-Swap Aid Provided by India to Bhutan, 2013–2022

Bhutan	Authority	Type	Size (INR billions)	Duration (months)	Reason
2013	GoI	Credit Line	10	6	Manage Indian rupee reserves and meet balance of payments needs
2013	SBI and PNB	Overdraft facility	-	12	Meet development and balance of payments needs
2014	GoI	Credit Line	7	standing	Meet development and balance of payments needs
2017	GoI	Hydropower Debt	119	standing	To help with energy security; Increased to INR 148 bn as of 2022
2022	GoI	Standby Credit Line	7.00	60	Manage Indian rupee requirements and facilitate bilateral trade

Sources: GoI 2022a; GoI 2022c; RMA 2014; RMA 2022.

⁹ SBI and PNB are two of India's largest public-sector banks (with more than 50% government ownership).

Appendix 2: Sri Lanka

The Central Bank of Sri Lanka (CBSL) began to seek swap arrangements with other Asian neighbors in 2014, as it marked the first full year of policy divergence among global central banks since the GFC (CBSL 2015a). In 2015, the Sri Lankan rupee (LKR) was experiencing strong depreciation pressures amidst reversing external capital flows, increased market volatility, and tighter market conditions. The CBSL also highlighted financial stability risks from excessive government borrowing from domestic sources and decline in liquidity in FX and money markets (CBSL 2015b). Sri Lanka's usage of the SAARC swap framework has been summarized in Figure 5 and Figure 6. Sri Lanka also received significant foreign aid beyond the SAARC swap framework, and this has been summarized in Figure 7.

On March 25, 2015, the RBI and CBSL signed an agreement enabling the CBSL to borrow up to USD 400 million (in dollars and euros) for three months in multiple tranches in exchange for Sri Lankan rupees (RBI 2015a). The CBSL also signed a special swap agreement with the RBI increasing the size to USD 700 million in 2015 and 2016, bringing Sri Lanka's total swap limit to USD 1.1 billion (breakdown: SAARC swap for USD 400 million and special swap for USD 700 million) (RBI 2015b; RBI 2016c). This allowed the CBSL to draw USD 1.5 billion¹⁰ from the RBI in the full-year 2015 under this SAARC framework (CBSL 2017a).

Figure 5: Sri Lanka's Exchange Rate and SAARC Swap Usage, 2014–2022

CBSL	2014	2015	2016	2017	2018	2019	2020	2021	2022
LKR-USD (year-end)	131	144	150	154	183	181	185	203	367
Annual growth (%)		-9%	-4%	-3%	-16%	1%	-2%	-9%	-45%
(in USD billions)									
FX Reserves	9.9	9.3	8.4	10.4	9.6	8.5	8.5	6.1	5.8
SAARC swap usage	-	1.1 ^A	0.4 ^B	0.4 ^B	-	-	0.4 ^C	0.4 ^C	0.4
^A USD 400 mn rolled twice and USD 700 mn special swap									
^B USD 400 million rolled four times and settled in March 2017									
^C USD 400 million, rolled twice in 2020 and settled in February 2021 (CBSL had no SAARC swap draws in 2021)									

Sources: Bloomberg; CBSL 2016; CBSL 2017a; CBSL 2018; CBSL 2021a; RBI 2015a; RBI 2015b; RBI 2022c.

In 2016, deteriorating capital flows put further pressure on the Sri Lankan rupee, leading to potential BoP and external sustainability concerns (IMF 2016). The SAARC swap line helped the CBSL to stabilize its exchange rate and strengthen its position in the financial markets (CBSL 2017a). The CBSL's downstream swap programs with commercial banks helped moderate the decline in market liquidity in 2016 (CBSL 2017b). In June 2016, the IMF approved a 1.1 billion Special Drawing Rights (SDR) (USD 1.5 billion) support package under the Extended Fund Facility (EFF) to help Sri Lanka's economic reform agenda (IMF 2016).

¹⁰ Draw of USD 700 million under the July 2015 special facility and two rollovers of the USD 400 million swap facility by the CBSL.

Figure 6: Sri Lanka's SAARC Swap Usage, 2014–2022

Sri Lanka	Roll	Signed/Draw	Size Max. (USD millions)	Duration (months)	Notes
Mar-15*	Yes	Signed	400	36	To further economic cooperation; Multiple tranches allowed; Effective rate of 2.32%; Repaid in October 2015
Dec-16	Yes	Draw	400	15	To help stabilize exchange rate; Rolled 4 times in 2016 and settled in March 2017
Jan-19	Yes	Signed	400	-	To boost investor confidence and help manage external reserves; A larger USD 1 bn swap was in discussions
Jul-20	Yes	Signed	400	30	To meet balance of payments and FX liquidity needs without lowering reserves; Rate of LIBOR + 200 bps
Jul-20	Yes	Draw	400	3	First rollover in November 2020 and settled in February 2011
Jan-22	Yes	Draw	400	3	Maturity extended in April 2022 to November 2022

* Total draw of LKR 158.5 bn (USD 1.1 bn) at the end of 2015, with USD 400 mn from the SAARC swap framework and USD 700 mn from the special swap

Sources: CBSL 2016; CBSL 2017a; CBSL 2018; CBSL 2021a; RBI 2015a; RBI 2015b; RBI 2022c.

In January 2019, Sri Lanka Prime Minister Ranil Wickremesinghe noted that a political crisis had adversely affected the Sri Lankan economy, leading to Sri Lankan rupee depreciation and capital outflows (PTI 2019). On July 27, 2020, the RBI and CBSL signed a swap agreement under the SAARC framework (RBI 2020a). The CBSL intended to “maintain sufficient short-term FX liquidity” without adversely affecting the country’s FX reserves as a result of the COVID-19 pandemic (CBSL 2020).

In March 2022, as part of its Article IV consultation for Sri Lanka, the IMF highlighted a new USD 1.4 billion bilateral support package by India that included a swap line, a credit line for fuel imports, and deferment of dues at the Asian Clearing Union¹¹ (IMF 2022a). In April 2022, the RBI extended the USD 400 million swap granted to the CBSL, likely as an extension of the 2020 agreement under the SAARC framework (CB 2022). In May 2022, the Indian High Commission (Embassy of India) in Colombo announced a concessional loan of USD 1 billion for 12 months through the State Bank of India (SBI) to Sri Lanka to help with food, health, and energy security (GoI 2022c).

On September 1, 2022, the IMF reached an agreement with Sri Lanka to provide USD 2.9 billion via an Extended Fund Facility (EFF) and to stabilize the country’s economy and create grounds for a sustainable economic recovery through a 48-month process. The IMF indicated its willingness to assist Sri Lanka in debt relief negotiations and to secure financing assurances through collaborative agreements with private creditors (IMF 2022b).

Figure 7: Sri Lanka's Non-SAARC Aid, 2014–2022

Sri Lanka	Authority	Type	Size (USD billions)	Duration (months)	Reason
2013	India	Investment Agreement	-	-	Diversify foreign exchange management activities
2014	China	Investment Agreement	-	-	Diversify foreign exchange management activities
Sep-14	China	Swap Line	1.6	-	Facilitate bilateral trade and investment
Jul-15	India	Special Swap Line	0.7	6	Mitigate currency volatility; Improve bilateral relations
Mar-16	India	Special Swap Line	0.7	3	Mitigate currency volatility; Improve bilateral relations
Jun-16	IMF	Extended Fund Facility	1.5	36	Assist economic reform agenda
Jul-20	FRBNY	Repo Line	1.0	-	Provide temporary source of US Dollar liquidity
Mar-21	China	Swap Line	1.5	36	Finance trade and direct investment
May-21	Bangladesh	Swap Line	0.2	12	Assist in fighting the foreign exchange crisis
May-22	India	Credit Line	1.0	12	Strengthen food, health, and energy security
Sep-22	IMF	Extended Fund Facility	2.9	48	Stabilize the economy and provide grounds for a sustainable recovery

Sources: CBSL 2014; CBSL 2015; CBSL 2020a; CBSL 2021; GoI 2022c; IMF 2016; IMF 2022a; RBI 2015b; RBI 2016c.

¹¹ The Asian Clearing Union (ACU) was established on December 8, 1974, by the United Nations Economic and Social Commission for Asia and Pacific (ESCAP) to provide a centralized clearing union for payments among member countries on a multilateral basis. The ACU members are Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka (RBI 2021b).

Appendix 3: Maldives

Keeping within its mandate of price stability, the Maldives Monetary Authority (MMA) aims to keep the Maldivian rufiyaa (MVR) pegged to the dollar in a 20% current band to the US dollar (MMA 2022).

In July 2020, the MMA and RBI signed a swap agreement based on the SAARC framework for USD 400 million (RBI 2021a). The MMA borrowed the maximum permissible amount of USD 400 million from the RBI, with USD 150 million repaid in January 2021 and USD 250 million repaid in December 2021. The MMA paid MVR 88 million (USD 5.8 million¹²) in 2021 and MVR 43.6 million (USD 2.9 million¹³) in 2020 as interest expense on foreign exchange swap charges (MMA 2022).

The MMA was providing FX liquidity to the markets in the first three quarters of 2021 to help with US dollar shortages in the economy. In 2021, Maldives's current account deficit (CAD) was largely funded by government borrowings, with the CAD exceeding the overall financial account position at a deficit of USD 178 million and international reserves of USD 806 million (MMA 2022).

On December 8, 2022, the MMA and the RBI signed a swap agreement under the SAARC framework for a maximum of USD 200 million. The swap line was signed to provide a backstop line of funding for meeting short-term FX liquidity requirements (RBI 2022a).

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¹² Per Yahoo Finance, USD 1 = MVR 15.2 as of December 31, 2021.

¹³ Per Yahoo Finance, USD 1 = MVR 15.2 as of December 31, 2020.