

Govt may expand role of currency swap to help EMs

This is backed by trade in minerals, which is essential for India to build chip industry, expand renewable energy

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To help economies facing the risk of debt default, India could try an innovative method of currency swap backed by trade in mineral resources.

“Given the currency fluctuations, it will be crucial for the Global South to enter into currency swap agreements and link them to projects and trade in minerals and other commodities,” said Dammu Ravi, Secretary (Economic Relations), Ministry of External Affairs at an event in New Delhi. A currency swap between two cross-border entities allows them to procure loans in foreign currency at more favourable interest rates than might be available when they borrow directly in a foreign market.

Access to critical minerals from abroad has become essential for India to build up its semiconductor chip industry and expand renewable energy to push growth. India has already extended the term of a \$400 million currency swap facility with Sri Lanka this year. Currency swaps have become a much sought-after facility for extending support to developing countries hamstrung with low foreign exchange reserves. Since 2018, India has in principle



agreed to have swaps with 23 nations. To formalise it, the union cabinet has also approved an amended “Framework on Currency Swap Arrangement for SAARC Member Countries”, which came into force in 2019. The Framework includes a standby swap of \$400 million, within an overall size of the facility of \$2 billion.

The secretary’s comments at the inaugural session of “Towards Indian G20 Presidency: Delhi Process VI”, organised by RIS, which specialises in global trade issues, are significant. It could offer a fresh look at these cross-country arrangements. While developing countries need the support, they are progressively more leery of countries like China, which has been quite liberal in having swap arrangements. India, by con-

trast, has the restriction of a limited balance sheet. A counterpart offer of mineral trade with these countries will offer some leeway. It will give the recipient countries room to expand their trade network, and will also allow India the option to draw upon scarce mineral resources from abroad with transparent pricing. Sachin Chaturvedi, director general, RIS, and a member of the central board of RBI, said this approach could be considered by the central bank. He also said Ravi’s comments sit well with Prime Minister Modi’s urging of triangular cooperation to tackle the global challenges of inflation and building up supply chain resilience.

An IMF paper last year noted that the global current swap network had reached 91 lines by 2020-end.