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India-Japan \$75 Billion Currency Swap — Strengthening Financial Stability

29 March 2026

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India-Japan \$75 Billion Currency Swap — Strengthening Financial Stability

*The Reserve Bank of India (RBI) and the Bank of Japan (BoJ) renewed their Bilateral Swap Arrangement (BSA) effective from February 28, 2026, maintaining the facility size at **\$75 billion** — the largest bilateral currency swap arrangement India has with any country. The BoJ, acting as agent for Japan’s Ministry of Finance, and the RBI signed the third amendment and restatement agreement of the BSA.*

WHAT IS A BILATERAL CURRENCY SWAP ARRANGEMENT?

A **Bilateral Swap Arrangement (BSA)** is an agreement between two central banks or monetary authorities to exchange their local currencies for US dollars (or each other’s currencies) up to a pre-agreed limit. The purpose is to provide a **financial safety net** — enabling either country to access foreign exchange liquidity during times of stress without depleting its own reserves or approaching the International Monetary Fund (IMF).

How It Works

STEP	PROCESS
1. Activation	Country A faces a balance of payments (BoP) stress or forex liquidity crunch
2. Request	Country A's central bank requests Country B to activate the swap
3. Exchange	Country A provides its local currency; Country B provides US dollars
4. Duration	The swap is for a fixed short-term period (typically 1–6 months)
5. Reversal	At maturity, Country A returns the US dollars and gets back its local currency
6. Interest	Country A pays an agreed interest rate on the borrowed amount

The key benefit is that the swap can be activated **quickly** — much faster than an IMF programme — and without the **conditionality** (fiscal austerity, structural reforms) that IMF lending typically imposes.

TIMELINE OF THE INDIA-JAPAN BSA

The India-Japan bilateral currency swap has a long history, reflecting the deepening strategic and economic partnership between the two countries.

Evolution of the Arrangement

YEAR	EVENT	AMOUNT
June 2008	First BSA signed by RBI Governor Y.V. Reddy and BoJ Governor Masaaki Shirakawa in Basel, Switzerland	\$3 billion
2012	Renewed and expanded after expiry	\$15 billion
2013	Further expanded during PM visit	\$50 billion
October 2018	Expanded during PM Modi's visit to Tokyo; signed between PM Modi and PM Shinzo Abe	\$75 billion
January 2019	Union Cabinet approved the enhanced BSA (effective February 28, 2019)	\$75 billion
February 2022	First renewal of the \$75 billion arrangement	\$75 billion
February 2026	Second renewal — third amendment and restatement agreement signed	\$75 billion

The 25-fold increase from \$3 billion to \$75 billion over 18 years reflects the **strategic convergence** between India and Japan, driven by shared concerns over China’s economic and military assertiveness in the Indo-Pacific.

WHY \$75 BILLION MATTERS

Scale in Context

India’s **total foreign exchange reserves** stood at approximately **\$640 billion** (as of early 2026). The \$75 billion BSA with Japan is equivalent to roughly **11.7% of India’s forex reserves** — a substantial buffer that can be activated without touching the RBI’s own reserves.

Comparison with Other Swap Arrangements

ARRANGEMENT	TYPE	SIZE	INDIA’S ROLE
India-Japan BSA	Bilateral	\$75 billion	Two-way (India or Japan can activate)
SAARC Currency Swap Framework	Regional	\$2 billion	India is the provider (to SAARC members)
BRICS Contingent Reserve Arrangement (CRA)	Multilateral	\$100 billion (India’s commitment: \$18 billion)	Contributor and beneficiary
Chiang Mai Initiative Multilateralisation (CMIM)	ASEAN+3	\$240 billion	India is not a member (ASEAN+3 only)
India-UAE Currency Swap	Bilateral	Local currencies (INR-AED)	Trade settlement, not crisis facility
RBI Framework for SAARC	Framework	Up to \$2 billion	India extends to Bhutan, Nepal, Sri Lanka, Bangladesh, Maldives

The India-Japan BSA is **unique** in two ways: it is India’s largest bilateral swap, and it is a **two-way arrangement** — meaning Japan can also access Indian rupees against US dollars if needed. This symmetry reflects the **equal partnership** between the two economies.

INDIA-JAPAN ECONOMIC TIES — THE BROADER PICTURE

The currency swap is one pillar of a multifaceted economic relationship between the world’s 5th and 4th largest economies.

Trade and Investment Data

PARAMETER	FIGURE
Bilateral Trade (FY 2024-25)	~\$25.17 billion
Japan’s FDI in India (cumulative, 2000–2025)	~\$39 billion
Japanese Companies in India	~1,450+
Key Japanese Projects	Delhi-Mumbai Industrial Corridor (DMIC), Mumbai-Ahmedabad High-Speed Rail (Shinkansen), Metro projects in Mumbai, Bengaluru, Chennai
ODA (Official Development Assistance)	Japan is India’s largest bilateral ODA donor (~\$3 billion/year in yen loans)
CEPA (Comprehensive Economic Partnership Agreement)	Operational since August 2011

Strategic Alignment

India and Japan are partners in multiple frameworks: the **Quad** (with the US and Australia), the **2+2 Ministerial Dialogue** (Foreign + Defence Ministers), and the **India-Japan Special Strategic and Global Partnership** (upgraded in 2014 during PM Abe’s visit to India).

The currency swap arrangement complements this strategic alignment by ensuring that **financial stability** underpins the broader security and economic partnership. In an era of global financial volatility — driven by Federal Reserve rate cycles, energy price shocks, and geopolitical crises — having a \$75 billion liquidity buffer strengthens India’s macroeconomic resilience.

THE QUAD AND FINANCIAL ARCHITECTURE

The Quad grouping (India, Japan, US, Australia) has primarily focused on **maritime security, technology, and supply chains**. However, financial cooperation is an emerging pillar. The India-Japan BSA is the strongest **bilateral financial link** within the Quad framework.

Quad Financial Cooperation

- **India-Japan BSA:** \$75 billion (renewed February 2026)

- **India-US:** No bilateral currency swap; India accesses dollar liquidity via the **FIMA Repo Facility** (Federal Reserve facility for foreign central banks)
- **India-Australia:** \$10 billion local currency swap (AUD-INR) framework agreed in principle
- **Japan-Australia:** ~\$23.5 billion BSA under the CMIM framework

The India-Japan BSA thus serves as the **financial backbone** of the Quad’s Indo-Pacific architecture, ensuring that both countries can withstand external financial shocks without dependence on Western institutions.

HOW CURRENCY SWAPS DEFEND AGAINST CRISES

Currency swap arrangements have proven critical during financial crises.

Historical Examples

CRISIS	YEAR	SWAP ROLE
Asian Financial Crisis	1997–98	Led to creation of CMIM (Chiang Mai Initiative)
Global Financial Crisis	2008–09	Fed activated dollar swap lines with 14 central banks
Taper Tantrum	2013	India’s forex reserves fell from \$294B to \$275B; Japan BSA provided confidence
COVID-19	2020	Fed expanded swap lines to 9 additional central banks
Sri Lanka BoP Crisis	2022	India extended \$1.4 billion in swap + credit lines

India has never actually drawn on the Japan BSA. The arrangement functions primarily as a **confidence signal** — its mere existence reassures markets and credit rating agencies that India has access to substantial liquidity if needed.

UPSC RELEVANCE

UPSC RELEVANCE

Bilateral Swap Arrangement (BSA), RBI, Bank of Japan, Chiang Mai Initiative Multilateralisation (CMIM), BRICS CRA, SAARC Currency Swap Framework, FIMA Repo Facility.

MAINS GS-2:

Bilateral and regional groupings — India-Japan Special Strategic and Global Partnership, Quad financial architecture.

MAINS GS-3:

Indian Economy — external sector, forex reserves, balance of payments, macroeconomic stability, currency swap mechanisms.

INTERVIEW:

How do bilateral currency swaps differ from IMF lending in addressing BoP crises?

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INDIA-JAPAN BSA — CORE DATA:

Current size: \$75 billion (largest bilateral swap India has with any country)

Effective date of latest renewal: February 28, 2026

Type: Two-way (either country can activate)

First signed: June 29, 2008 (RBI Governor Y.V. Reddy + BoJ Governor Masaaki Shirakawa, Basel)

Initial size: \$3 billion (2008) — expanded to \$15B (2012), \$50B (2013), \$75B (2018)

\$75B expansion signed: October 29, 2018, during PM Modi's visit to Tokyo (with PM Shinzo Abe)

Cabinet approval for \$75B: January 10, 2019

INDIA-JAPAN ECONOMIC TIES:

Bilateral trade (FY 2024-25): ~\$25.17 billion

Japan's cumulative FDI in India (2000–2025): ~\$39 billion

Japanese companies in India: 1,450+

Japan is India's largest bilateral ODA donor (~\$3 billion/year in yen loans)

CEPA (Comprehensive Economic Partnership Agreement): operational since August 2011

Key projects: Delhi-Mumbai Industrial Corridor, Mumbai-Ahmedabad Bullet Train (Shinkansen)

INDIA'S FOREX RESERVES:

Total reserves (early 2026): ~\$640 billion

\$75B BSA equivalent: ~11.7% of total reserves

India has never drawn on the Japan BSA — it serves as a confidence signal

COMPARISON WITH OTHER ARRANGEMENTS:

SAARC Currency Swap: \$2 billion (India is provider)

BRICS CRA: \$100 billion total (India's share: \$18 billion)

CMIM (Chiang Mai Initiative): \$240 billion (India not a member — ASEAN+3 only)

India-UAE: local currency swap (INR-AED) for trade settlement

STRATEGIC PARTNERSHIP MILESTONES:

India-Japan Special Strategic and Global Partnership: upgraded 2014 (PM Abe's India visit)

2+2 Ministerial Dialogue: launched 2019 (Foreign + Defence Ministers)

Quad: India, Japan, US, Australia (first leaders' summit: March 2021)

India-Japan civil nuclear agreement: signed November 2016

OTHER RELEVANT FACTS:

Bank of Japan (BoJ) established: 1882; headquarters: Tokyo

RBI established: April 1, 1935; headquarters: Mumbai

IMF SDR basket currencies: USD, EUR, GBP, JPY, CNY

Asian Financial Crisis (1997–98) triggered creation of Chiang Mai Initiative (2000)

Taper Tantrum (2013): India's forex reserves fell from \$294B to \$275B

Sources: [Business Standard](#), [PIB](#), [Bank of Japan](#), [RBI](#)

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