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India-Japan \$75 Billion Swap – Why Currency Diplomacy Matters More Than Ever



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 The Hindu

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INTERVIEW ANGLE

"India has the world's 4th largest forex reserves yet needs a \$75 billion swap with Japan. Why? What does this say about India's external vulnerability?"

WHY IN NEWS

India and Japan renewed their Bilateral Swap Arrangement (BSA) with effect from February 28, 2026, maintaining the facility at **\$75 billion** — one of the largest bilateral currency swap arrangements in the world. The renewal comes at a time when India's forex reserves have fallen by over \$19 billion in just two weeks amid the West Asia oil supply crisis and massive foreign portfolio investor (FPI) outflows.

What Is a Bilateral Currency Swap?

A bilateral currency swap arrangement (BSA) is a two-way framework under which both central banks can exchange their local currencies for US dollars. When either country faces short-term balance of payments (BoP) stress or currency volatility, it can draw US dollars from the partner without approaching the IMF — preserving policy sovereignty and avoiding the political stigma of IMF borrowing.

How the India-Japan BSA Works

FEATURE	DETAIL
Facility size	\$75 billion
Parties	Reserve Bank of India (RBI) and Bank of Japan (BoJ)
Mechanism	Two-way swap — India can get USD from Japan and vice versa
Currency exchanged	INR or JPY against USD
First established	October 2018 (during PM Modi's visit to Tokyo)
Previous renewals	2020, 2023, February 2026
Activation	Only drawn during BoP stress; no standing facility
Interest	Market-linked; repayment within agreed tenor

Why \$75 Billion Matters Now

India's forex reserves peaked at **\$728.49 billion** on February 27, 2026 but have since declined sharply. By mid-March, reserves stood at approximately **\$709.76 billion** — a fall of nearly \$19 billion in two weeks. The composition includes **\$573.13 billion** in foreign currency assets, **\$130.68 billion** in gold, and SDRs and IMF reserve position making up the balance.

The Pressure Points

Three simultaneous shocks are draining India's external cushion:

1. West Asia Oil Crisis and Hormuz Disruption

India imports **85-88% of its crude oil requirement**. The Strait of Hormuz carries approximately **20 million barrels per day** of crude — about 20% of globally traded oil. Any sustained disruption forces India to pay elevated prices, widening the current account deficit (CAD) and depleting forex reserves faster.

2. FPI Outflows

Foreign portfolio investors pulled out approximately **Rs 1.03 lakh crore (~\$11 billion)** from Indian equity and debt markets in March 2026 alone. This capital flight puts downward pressure on the rupee, forcing the RBI to sell dollars from reserves to defend the currency.

3. Dollar Strength

The US Federal Reserve's hawkish stance has kept the dollar strong globally. Emerging market currencies, including the rupee, face sustained depreciation pressure. Every 1% depreciation in the rupee adds approximately **\$2-3 billion** to India's annual oil import bill.

Import Cover — Comfortable but Eroding

METRIC	VALUE
Gross forex reserves	~\$709.76 billion (mid-March 2026)
Import cover (gross)	~11 months
Import cover (net of forward positions)	~9.4 months
RBI comfort zone	6-9 months
Strategic Petroleum Reserve (SPR)	5.33 million metric tonnes (~9.5 days consumption)

While 11 months of import cover sounds comfortable, the **net adjusted figure of 9.4 months** — after accounting for RBI forward dollar commitments — is more revealing. If the Hormuz crisis persists and FPI outflows continue, reserves could dip below the psychological threshold rapidly.

The BSA provides an additional **\$75 billion safety net** that does not require drawing down reserves. It is insurance — rarely activated, but critically important for market confidence.

Japan as a Strategic Economic Partner

The BSA is not just a financial instrument — it is a pillar of the broader India-Japan Special Strategic and Global Partnership. The economic dimension includes:

Bilateral Economic Architecture

AREA	KEY DATA
BSA	\$75 billion (largest bilateral swap for both countries)
Japanese ODA to India	Largest recipient of Japanese ODA globally
Mumbai-Ahmedabad High-Speed Rail	Rs 1.08 lakh crore project, Japanese Shinkansen technology
Japanese companies in India	~1,450+ (as of 2025)
Bilateral trade (2024-25)	~\$22 billion
Japanese FDI in India	~\$38 billion cumulative (2000-2024)

The Quad Economic Dimension

Japan is a fellow Quad member alongside India, the US, and Australia. The BSA reinforces the economic leg of the Quad's Indo-Pacific strategy — ensuring that like-minded democracies can support each other's financial stability without dependence on China-led institutions like the Asian Infrastructure Investment Bank (AIIB) or the BRICS New Development Bank (NDB).

Both Sides — Is the BSA Enough?

The Optimistic View

India's reserves at ~\$710 billion plus a \$75 billion swap line from Japan means a combined buffer of nearly \$785 billion — more than sufficient to weather any short-term external shock. India's CAD remains manageable at around 1.5-2% of GDP, and the economy's fundamentals (7%+ growth, controlled fiscal deficit) support external stability.

The Cautionary View

Critics point out that:

- The BSA has **never been activated** — its value is psychological, not operational
- India's **merchandise trade deficit** hit **\$23.7 billion in February 2026**, driven by elevated oil prices
- **Short-term external debt** (maturing within a year) exceeds **\$260 billion** — the reserves-to-short-term-debt ratio, while above 1, is tightening
- Reliance on a bilateral swap with one country concentrates risk — India should diversify swap arrangements

Way Forward

- ❶ **Diversify swap architecture** — India should pursue BSAs with other partners. The existing RBI-BoJ arrangement could be complemented by swap lines with the Bank of England, European Central Bank, and central banks of ASEAN nations under the Chiang Mai Initiative Multilateralisation (CMIM).
- ❷ **Expand SPR capacity** — India's strategic petroleum reserve covers only 9.5 days of consumption. The Phase II expansion (adding Chandikhol in Odisha) should be fast-tracked to reach 15-20 days of cover.
- ❸ **Reduce oil import dependency** — Accelerate renewable energy deployment, green hydrogen production, and ethanol blending (currently at 12-15%) to structurally reduce the forex outflow on energy imports.
- ❹ **Deepen rupee internationalisation** — The RBI's framework for invoicing trade in rupees (launched July 2022) must be expanded. If India can settle 15-20% of its trade in INR by 2030, the pressure on dollar reserves would reduce significantly.
- ❺ **Strengthen the Quad economic pillar** — Use the BSA template to build a Quad financial stability framework that includes joint infrastructure financing and supply chain resilience.

UPSC RELEVANCE

Bilateral Swap Arrangement, forex reserves composition (FCA, gold, SDRs, IMF reserve tranche), import cover meaning, CMIM, SPR locations in India.

MAINS GS-2:

India-Japan bilateral relations, Quad as a strategic framework beyond security.

MAINS GS-3:

External sector vulnerability, BoP crisis management, forex reserve adequacy, rupee internationalisation, oil import dependency.

★ FACTS CORNER — KNOWLEDGEPEDIA

INDIA-JAPAN BSA:

Size: \$75 billion (one of the largest bilateral swaps globally)

Parties: RBI and Bank of Japan

First signed: October 2018

Renewed: 2020, 2023, February 2026

Mechanism: Two-way exchange of local currency for USD

INDIA'S FOREX RESERVES (MARCH 2026):

Peak: \$728.49 billion (February 27, 2026)

Mid-March 2026: ~\$709.76 billion

Composition: FCA \$573.13B + Gold \$130.68B + SDRs ~\$18.87B + IMF reserve position ~\$4.81B

Import cover (gross): ~11 months

Import cover (net of forwards): ~9.4 months

FPI OUTFLOWS:

March 2026: ~Rs 1.03 lakh crore (~\$11 billion)

Causes: West Asia crisis, dollar strength, global risk-off sentiment

INDIA'S OIL DEPENDENCY:

Import dependency: 85-88% of crude oil

SPR capacity: 5.33 million metric tonnes (~9.5 days)

SPR locations: Visakhapatnam, Mangaluru, Padur (all in Phase I)

SPR Phase II: Chandikhol (Odisha) proposed

INDIA-JAPAN ECONOMIC TIES:

Japanese ODA: India is the largest recipient globally

Mumbai-Ahmedabad bullet train: Rs 1.08 lakh crore, Shinkansen technology

Japanese companies in India: ~1,450+

Cumulative Japanese FDI: ~\$38 billion (2000-2024)

OTHER RELEVANT FACTS:

Strait of Hormuz: ~20 million barrels/day crude transit; width ~33 km

Chiang Mai Initiative Multilateralisation (CMIM): ASEAN+3 multilateral swap facility, \$240 billion

Rupee internationalisation: RBI framework launched July 2022

India CAD (2025-26 estimate): ~1.5-2% of GDP

Quad members: India, US, Japan, Australia

Sources: [Business Standard](#), [The Hindu](#), [RBI](#), [PIB](#)

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