

India and Japan sign new \$15bn currency swap agreement

Written by Administrator

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India and Japan have signed a \$15bn (Â£9.7bn) currency swap agreement as the two nations seek to boost financial co-operation.

It will see them swap currencies for US dollars and tap into each other's foreign exchange reserves to ease any liquidity problems.

The pact is expected to boost the Indian rupee which has been Asia worst performing currency this year.

The Japanese yen has also been volatile in wake of an uncertain global outlook.

"Amid global economic uncertainties, ensuring the stability of the financial markets is all the more important for the stable economic development of the two countries," Japanese prime minister Yoshihiko Noda and Indian prime minister Manmohan Singh said in a joint statement after their meeting in New Delhi.

Capital outflows

The deal comes at a time when there have been growing concerns about foreign institutional investors (FIIs) pulling out of the Indian market.

Investors have been concerned that the ongoing economic problems in the eurozone and the US may hurt demand for Indian exports and slow its growth.

Fears of a slowdown in the Indian economy saw FII's withdraw almost 32,000m rupees (\$600m; Â£390m) from the Indian securities market in November alone.

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The huge capital outflows has hurt the Indian currency which has hit an all time low against the US dollar in recent weeks.

There have also been fears of the impact of these withdrawals on the overall Indian economy.

Analysts said though the Indian foreign exchange reserves were healthy, the deal will help allay any fears of a potential problem in the short-term.

"If we add to this the still huge uncertainty on the resolution of the European debt crisis, it seems clear that India can benefit from an additional cushion against capital outflows," said Alicia Garcia-Herrero, chief economist for emerging markets at BBVA bank.

Infrastructure development

The Japanese prime minister also promised to provide financial assistance for infrastructure development in India.

Mr Noda said that Japan will invest \$4.5bn to help build the industrial corridor between New Delhi and Mumbai, a project that is expected to boost India's growth further.

The corridor, which is expected to cost \$100bn, includes plans for nine mega industrial zones, a high speed freight line, three ports, six airports and a six-lane intersection-free expressway connecting India's political and financial capitals.

Analysts said Japanese businesses were likely to benefit from the project.

"One big objective of the industrial corridor is to create a manufacturing base for Japanese companies to export to Europe and Africa," said Robinder Sachdev of think tank Imagindia.

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Mr Noda also said that Japan would provide an extra \$1.7bn in funding for other projects including the expansion of Delhi's metro railway network.

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