TRADE IN LOCAL CURRENCY

UAE, Malaysia, Nigeria pacts likely in March

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India may ink pacts with the United Arab Emirates (UAE), Malaysia, and Nigeria to facilitate settlement of international trade in local currencies as early as next month.

The move is aimed at reducing transaction costs for exporters and importers, sources said.

Top Reserve Bank of India (RBI) officials and their counterparts in the aforementioned countries have been in touch with each other over the last few months to work out a mechanism to enable bilateral trade in local currencies. "Discussions with the UAE are at an advanced stage. Discussions with Malaysia and Nigeria are also progressing well. Memorandums of understanding (MoUs) can be signed as early as next month," one of the persons cited above told *Business Standard*.

"African countries (such as Nigeria) are also interested in settling trade in local currencies because of the foreign exchange crisis. With the fear of recession looming this year, several countries are expected to grapple with the forex crisis," the official cited above said.

The development comes in the backdrop of India's latest push towards the internationalisation of rupee. Another advantage of trading in local currencies is that it further facilitates bilateral trade.

As far as India and UAE are concerned, India had prepared a concept paper on rupee-dirham trade and shared it with the West Asian nation last year.

Officials said the UAE's interest in this mechanism is evident — its central bank has already designated a nodal person. The larger idea is to work out the framework that will reduce the cost of transaction and do away with the practice of doing trade via a third currency.

Typically, exporters and importers lose money on currency exchange.

INDIA'S TRADE DEFICIT DURING APRIL-DECEMBER

COUNTRIES:

UAE	$17.4 bn
Malaysia	$4.6 bn
Nigeria	$1.7 bn

Source: Department of Commerce

For instance, during trade, rupee is first converted into dollars, which is then changed to another currency. Central banks are also discussing the share of trade that can be covered through local currencies.

Ajay Sahai, director-general (DG) and chief executive officer (CEO), Federation of Indian Export Organisations (FIEO), said, "Since India imports a lot from these three countries and the balance of trade is in their favour, we will save in foreign currency once we start trading in Indian rupee. Besides, it may help small and new exporters as they will be insulated from (currency) exchange risks and complexities related to that."

"The only concern is when exporters deal with foreign currency, particularly in dollars, they may get a forward premium of 3 per cent (for six months). This means exporters may get 3 per cent additional benefit, which won't be there while dealing in rupee. That's why we need to see how much of the trade will shift from foreign currency to local currencies," Sahai said.

The UAE is India's third largest trade partner and second largest export market. India and the UAE also signed a free trade agreement (FTA) that kicked in from May 2022.

The country is also India's fourth largest crude oil supplier, after Iraq, Saudi Arabia, Russia, and the United States.

Malaysia is India's 10th largest trade partner, while Nigeria is the 28th besides being the seventh largest crude oil supplier to India.