

India, UAE central banks discuss mechanism to trade in local currencies

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The central banks of India and the United Arab Emirates (UAE) are discussing the creation of a mechanism to engage in bilateral trade in local currencies, in order to reduce transaction costs for exporters and importers, India's ambassador to UAE, Sunjay Sudhir, said on Friday.

"India has prepared a concept paper (regarding rupee-dirham trade) and has shared it with the UAE. UAE's central bank has already designated a nodal person for this. The discussion is now going on between the central banks...[it] will be seen how in a realistic scenario, the whole concept can be operationalised. The objective is very clear—to reduce the cost of transaction," Sudhir told reporters, adding that the idea is not to have trade using a third currency.

Typically exporters and importers lose money on currency exchange. For instance, during trade, rupees are first converted into dollars, which is then re-converted into dirhams. In order to avoid this, central banks are discussing the percentage of trade that can be covered through direct rupee-dirham transactions.

UAE is India's third-largest trade partner and second-largest export market. Earlier this year, India and UAE signed a free trade agreement (FTA) that became operational in May. The West Asian nation is also a part of the six-member Gulf Cooperation Council (GCC) countries.

Separately, India and GCC nations are also trying to ink a trade pact, the negotiations for which are expected to begin in the first quarter (January-March) of 2023.

India-UAE CEPA

Amid faltering external demand due to recessionary trends in developed nations, India's export performance with the UAE is relatively better, mainly due to the FTA signed with the West Asian nation, Srikar Reddy, joint secretary at the Department of Commerce, said.

India's exports to UAE declined 18 per cent year on year in October.

During the five-month period (June-October), India's global non-oil exports shrank



by two per cent to \$142.07 billion, while non-oil exports to UAE grew 8 per cent to \$9.69 billion, according to an analysis by the Department of Commerce. The impact of the FTA should be seen in November.

Data for the month of May was not included, as that it could be an aberration, being the first month of FTA implementation. Besides, that month was also marked by festivities in the UAE and not many people were aware of the trade deal, Srikar said.

As far as the trends in the FTA utilisation are concerned, duty concession benefit under the FTA for October was \$63 million (about Rs 520 crore). Overall duty concession benefits since May were \$151 million (Rs 1,235 crore).

Electrical machinery, gems and jewellery, cereals, inorganic chemicals, and automobiles were the top gainers from the FTA during June-October, the analysis showed.

The utilisation of the FTA is on an uptrend and is likely to increase further, Reddy said. The Department of Commerce is also trying to raise awareness about the trade pact with regular Industry interactions and end-to-end hand holding.

The Department of Commerce, in association with the Indian mission in the UAE, has organised a series of FTA-specific trade promotion events in the UAE.