

India & the U.A.E push for stronger use of ‘auxiliary currencies’ for inter-regional transactions

The United Arab Emirates (UAE) and India authorized a deal to bring trade via the rupee and dirham closer under the local currency settlement system (LCSS). This deal will be a haven for all authorized open account transactions. This allows for shippers and international merchants to bill and finance according to their regional currencies thus strengthening the possibilities of a Rupee-Dirham currency trading market. Remittances can be sent faster incurring lesser transaction costs. This arrangement would additionally support India’s petroleum imports and can effectively replace the U.S. dollar as the standard payment currency.

International trade between the UAE and India stands at \$86 billion (2023) with UAE standing as the fourth largest distributor of petroleum products. The union government understood the risks of trading in the dollar, especially, securing its economy from volatility in global exchange markets and the impact of economic sanctions against Russia. The buyers can trade using rupee and it will be credited to a specific account of an intermediary bank of the associated nation.

Meanwhile, the Reserve Bank of India (RBI) and the Central Bank of the UAE have signed an agreement to link UPI and IPP, their respective instant payment platforms. This will allow users in both countries to make fast and cost-effective cross-border fund transfers. The agreement is part of a memorandum of understanding (MoU) on payments and messaging systems, which also includes exploring the linking of India’s Structured Financial Messaging System (SFMS) with the UAE’s payments messaging system.

