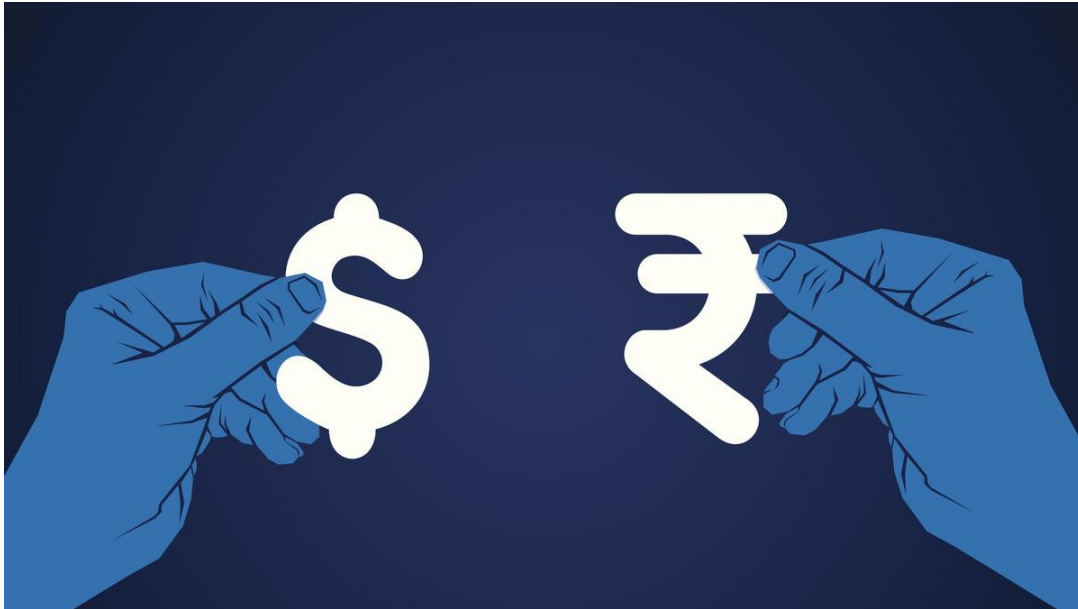


3. Vostro accounts and how they facilitate trade

Prelims Syllabus: Economy

Mains Syllabus: GS-III Economics - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.



Why in News?

- About 20 Russian banks such as Centro Credit Bank, Credit Bank of Moscow, Rosbank, and Tinkoff Bank have opened Special Rupee Vostro Accounts (SRVA) with partner banks in India.

Special Rupee Vostro Accounts (SRVA) arrangement:

- A Vostro account refers to an account that a domestic bank holds for a foreign bank in the domestic bank's currency. Such accounts are used by domestic banks to facilitate international banking services to their clients with global banking requirements.
- Vostro accounts arrangement is an offshoot of correspondent banking that helps the banks to provide wire transfers, conduct business transactions, accept deposits and gather documents on behalf of the other bank.
- This arrangement further aids domestic banks to gain broader access to foreign financial markets and serve international clients without the need for being physically present in their home countries.
- The Special Rupee Vostro Accounts or the SRVA arrangement is an additional arrangement that facilitates the establishment of a complementary system by using freely convertible currencies.

Nostro account:

- A Nostro Account refers to a bank account that a bank holds in a foreign currency.
- A bank, through a Nostro Account, holds the currency of the country where the funds are held. i.e Nostro accounts are denominated in foreign currencies.
- Nostro Accounts are generally used to simplify foreign exchange and trade transactions between countries.
- The word “Nostro” is derived from the Latin word that means “ours”.

Vostro account:

- The word “Vostro” is derived from the Latin word that means “yours”.
- A Vostro account refers to an account that a correspondent bank holds on behalf of another bank.
- Vostro account helps to enable a foreign correspondent bank to act as an agent or an intermediary for a domestic bank.
- Services provided by a Vostro account include wire transfers, withdrawals, and deposits for customers in countries where the domestic bank does not have a physical presence.
- If an Indian bank maintains an account in the US with dollars, such an account, maintained in a foreign currency at a foreign centre is called Nostro Account for that concerned Indian bank.
- The American bank which is holding dollars from the concerned Indian bank will refer to the same account as a Vostro Account.

Functioning of the SRVA arrangement:

- The SRVA framework mainly involves three important components which are invoicing, exchange rate and settlement.
- Invoicing requires all exports and imports to be denominated and invoiced in Indian Rupees.
- The exchange rate between the two currencies of the partner countries will be market-determined.
- The final settlement also takes place in Indian Rupees.
- To facilitate the SRVA arrangement, the authorised domestic banks are mandated to open SRVA accounts for the correspondent banks of the partner country.

- Further, domestic importers are required to make payments in Indian Rupees into the SRVA account of the correspondent bank against the invoices for the supply of goods or services from overseas suppliers.
- Likewise, the domestic exporters must be paid for their exports in Indian Rupees from the balances in the designated account of the correspondent bank of the partner country.
- The reporting of all such cross-border transactions must be done in accordance with the existing guidelines under the Foreign Exchange Management Act (FEMA), 1999.

Eligibility criteria for banks:

- Banks from the partner trading countries would approach an authorised domestic bank for opening the SRVA.
- The domestic bank is then required to seek approval from the Reserve Bank of India (RBI) which is the apex banking regulator in India.
- It is to be noted that, it is the responsibility of the domestic banks to ensure that the correspondent bank is not from a country listed under the updated Financial Action Task Force (FATF) Public Statement on High Risk & Non-Co-operative jurisdictions.
- Furthermore, domestic banks should also put forth for perusal, financial parameters pertaining to the corresponding bank.
- Authorised banks are free to open multiple SRV accounts for different banks from the same country and the balances in the account can be recovered in freely convertible currency or the currency of the partner country depending on the transactions for which the account was credited.

The need for SRVA arrangement:

- The Economic Survey 2022-23 highlighted the fact that such a framework could help reduce the demand for foreign exchange, especially the U.S. dollar, for the settlement of current account-related trade flows.
- As per the Economic Survey, the SRVA arrangement would also play a key role in reducing the need for holding foreign exchange reserves and dependence on foreign currencies which would make the country less vulnerable to external shocks.
- Further, the SRVA arrangements help Indian exporters get advance payments in Indian Rupee from foreign clients which in the long-term helps promote Indian Rupee as an international currency once the rupee settlement mechanism gains momentum.