



24 – February 2023

VOSTRO ACCOUNT

This article covers “Daily current events “and the topic is about ‘Vostro Account’ which is in news, it covers “Economics” In GS-3, the following content has relevance for UPSC.

For Prelims: Vostro Account

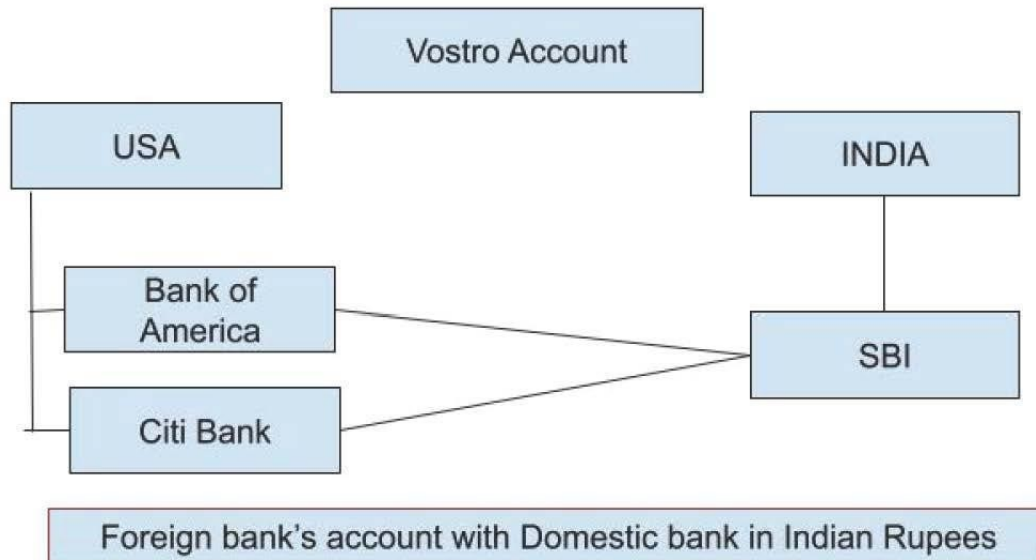
For Mains: GS-3, Economics

Why in news:

Government officials informed that 20 Russian banks, including Rosbank, Tinkoff Bank, Centro Credit Bank, and Credit Bank of Moscow have opened Special Rupee Vostro Accounts (SRVA) with partner banks in India.

ABOUT VOSTRO ACCOUNT

- Vostro means “yours.”
 - And used for: “the money that you have deposited with our bank.”
- The Vostro Account is a list of funds due to or held by a third party, usually another bank, though it can also be a business or a person.
- A domestic bank maintains and oversees the money in the account on behalf of the owner.
- To open an account on behalf of their client, the domestic bank will contact the foreign correspondent bank.
- The domestic bank will serve as the custodian or manager of the funds, while the correspondent will retain the money.
- The domestic bank will serve as the funds’ custodian or manager while the correspondent will have custody of the money.



Vostro Account

THE FOLLOWING ARE THE REASONS FOR SUCH BANKING SERVICES

- Establishing and running a bank branch abroad is expensive (and occasionally impossible) to establish and run a bank branch abroad.
- Many organizations may establish connections with foreign banks in order to meet the demands of their consumers who want international banking, making it simple for them to offer Vostro accounts and related services to their customers.

SPECIAL RUPEE VOSTRO ACCOUNT

- The **Special Rupee Vostro Account (SRVA)** is a separate structure that complements the current system and uses freely convertible currencies.
- Freely convertible currencies are those for which there is a reasonably active market for deals against major currencies and which are allowed by the rules and regulations of the relevant country to be converted to major reserve currencies like USD or Pound.
- Therefore, maintaining balances and holdings in such currencies is balances and positions is therefore necessary for the current systems.

THE FRAMEWORK HAS THREE CRUCIAL PARTS

- **Invoicing:** All exports and imports must be valued and invoiced in INR.
- **Exchange rate:** The market would decide the rate of exchange between the currencies of the trading partners.
- **Settlement:** Indian National Currency is used for the ultimate settlement (INR). The **Special Rupee Vostro Account (SRVA)** accounts for correspondent banks of

the trading partner countries must be opened by authorized domestic dealer banks (those permitted to deal in foreign currencies).

- Domestic importers must pay the bills for the supply of goods or services from the international seller/supplier (in INR) into the **Special Rupee Vostro Account** (SRVA) account of the correspondent bank.
- From the remaining balances in the designated account of the correspondent bank of the partner country, domestic exporters will be paid the export revenues (in INR).

ADDITIONAL INFORMATION

Economic Survey 2022-2023

- The framework could also lessen the necessity for keeping foreign exchange reserves and the country's reliance on foreign currencies, making it less susceptible to outside shocks.
- As the rupee settlement system takes off, Indian exporters might receive advance payments in INR from clients abroad and eventually promote INR as a global currency.

Nostro Account

- The Nostro account serves as the bank's official record of its deposits at other financial institutions.
- These accounts are used to streamline commerce and foreign exchange settlements.
- The main differences between nostro accounts and regular demand deposit bank accounts are that nostro accounts are typically maintained by financial institutions and are denominated in foreign currencies.
- When a bank or other financial institution needs to keep balances in a currency other than its home accounting unit, nostro accounts are typically utilized for currency settlement.

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