Special Rupee Vostro Accounts

Why in news?

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

What is the SRVA arrangement?

- **Vostro account** - A Vostro account (Vostro means 'yours' in Latin) is an account that a domestic bank holds for a foreign bank in the domestic bank's currency.
- In this case between India and Russia, Indian banks hold an account for Russian banks in rupee (INR).
- **Special Vostro Accounts** - Normal Vostro accounts acts only as transit accounts whereas in Special Vostro Accounts INR (Indian Rupee) balances can be held.



How does it function?

Components of the framework

- The framework entails three important components - invoicing, exchange rate and settlement.
    1. **Invoicing** entails that all exports and imports must be denominated and invoiced in INR.
    2. The **exchange rate** between the currencies of the trading partner countries would be market-determined.
    3. The **final settlement** also takes place in Indian National Rupee (INR).

Eligibility criteria of banks

- Banks from partner countries are required to approach an authorised domestic dealer bank for opening the SRVA.
- **Role of Domestic banks** - The domestic bank would then seek approval from the apex banking regulator providing details of the arrangement.
- Domestic banks need to ensure that the correspondent bank is not from a country mentioned in the updated Financial Action Task Force (FATF) Public Statement on High Risk & Non-Co-operative jurisdictions.
- Domestic banks must also put forth for perusal, financial parameters pertaining to the corresponding bank.
- **Other Features -** Authorised banks can open multiple SRV accounts for different banks from the same country.

- All reporting of cross-border transactions are to be done in accordance with the extant guidelines under the *Foreign Exchange Management Act (FEMA), 1999.*

Why is it so significant?

- **International banking services** - Domestic banks use it to provide international banking services to their clients without having to be physically present abroad.
- **Expansion of market base** - It helps domestic banks gain wider access to foreign financial markets.
- **Payments in rupee** - It also enables payments in rupee for the export and import of goods in the case of trade with Russia.
- Balances in the account can be repatriated in freely convertible currency and/or currency of the beneficiary partner country.
- **Reduction in forex -** The Economic Survey (2022-23) had argued that the framework could largely reduce the net demand for foreign exchange.
- **Protection from external shocks** - It added that the framework would also reduce the need for holding foreign exchange reserves and dependence on foreign currencies, making the country less vulnerable to external shocks.
- **INR as an international currency** - In the long-term, it promotes INR as an international currency.

As per the Bureau for International (BIS) Settlements' Triennial Central Bank Survey 2022, the U.S. dollar was the most dominant vehicle currency accounting for 88% of all trades. The INR accounted for 1.6%.

Reference

1. The Hindu | Vostro accounts and how they facilitate trade

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