



Russian Banks open Vostro Accounts in India

For Prelims: Foreign Trade, Currency Depreciation & Appreciation, Global Sanctions, Balance of Payments

For Mains: Effect of global sanctions on economy of India, Benefits and challenges of settling trade in Rupee, Intervention of government in economy

Why in News?

The [Reserve Bank of India \(RBI\)](#) has allowed the opening of nine special vostro accounts in two Indian Banks (UCO Bank and IndusInd Bank) for the settlement of payments in rupee for trade between India and Russia.

- Russia's two largest banks — Sberbank and VTB Bank — are the first foreign lenders to have received approval from the RBI towards settling international trade transactions in rupee.
- A Vostro account is just **another name for a Nostro account**. It is an account held by a bank that **allows the customers to deposit money** on behalf of another bank.

What is the Background?

- In July 2022, the RBI had unveiled a [mechanism to settle international transactions in rupee](#) to promote the growth of global trade, with emphasis on exports from India, as well as pushing rupee as an international currency.
- It is also expected to enable trade with sanction-hit nations such as Russia.
- According to the mechanism finalised by the RBI, banks of partner countries can approach authorised dealer banks in India for opening special rupee vostro accounts. The authorised dealer bank will then have to seek approval from the central bank with details of such an arrangement.

What is a Nostro Account?

- A Nostro account is an account held by a bank in another bank. It allows the customers to deposit money in the bank's account in another bank. It is often used if **a bank has no branches in a foreign country**. Nostro is a Latin word that means "ours".
 - Let's presume bank "A" does not have any branches in the Russia, but bank "B" does. Now, to receive the deposits in the Russia, "**A" will open a Nostro account with "B"**".
 - Now, if any customers in the Russia want to send money to "A", they can deposit it **into A's account in "B"**". "B" will transfer the money to "A".
- The main difference between a deposit account and a Nostro account is that the former is held by individual depositors while **foreign institutions hold the latter**.

What is a Vostro Account?

- The word Vostro means yours in Latin.
- A Nostro account is a **Vostro account for the bank** that opens the account.

- In the above example, the account will be **called a Vostro account for bank "B"**. The Vostro account accepts the payments on **behalf of the account holder's bank**.
- If a person deposits money in the Vostro account, it will be **transferred to the account holder's bank**.
- Nostro and Vostro accounts are held in **a foreign denomination**.
- Vostro accounts enable **domestic banks to provide international banking services** to their clients who have global banking needs.
- Vostro account services include executing wire transfers, performing foreign exchange transactions, enabling deposits and withdrawals, and expediting international trade.

What is Rupee Payment Mechanism?

▪ About:

- Authorized Dealer Banks in India had been permitted to open **Rupee Vostro Accounts**.
 - Indian importers undertaking imports via this mechanism will make **payment in INR which will be credited into the Special Vostro account of the correspondent bank** of the partner country, against the invoices for the supply of goods or services from the overseas seller.
 - Indian exporters using the mechanism will be paid the export proceeds in INR from the balances in the designated Special Vostro account of the correspondent bank of the partner country.
 - Indian exporters **may receive advance payment against exports from overseas importers in Indian rupees** through the above Rupee Payment Mechanism.
 - Before allowing any such receipt of advance payment against exports, Indian **banks need to ensure that available funds** in these accounts are first used towards payment obligations arising out of already executed export orders/export payments in the pipeline.
 - Balance in Special Vostro Accounts **can be used for: payments for projects and investments, export/ import advance flow management, and investment in Government Treasury Bills, [Government securities, etc.](#)**

▪ Existing Mechanism:

- If a company exports or imports, **transactions are always in a foreign currency** (excluding with countries like Nepal and Bhutan).
- So, in case of imports, the **Indian company has to pay in a foreign currency** (mainly dollars and could also include currencies like pounds, Euro, yen etc.).
- The Indian company **gets paid in foreign currency in case of exports and the company converts that foreign currency to rupee** since it needs rupee for its needs, in most of the cases.

What are the Benefits of this Mechanism?

▪ Promote Growth:

- It will promote growth of global trade and **will support the increasing interest** of the global trading community in INR.

▪ Trade with Sanctioned Countries:

- Ever since sanctions were imposed on Russia, trade has been **virtually at standstill with the country due to payment problems**.
 - As a result of the trade facilitation mechanism introduced by the RBI we see the payment issues with Russia easing.

▪ Forex Fluctuation:

- The move would also reduce the **risk of forex fluctuation**, especially looking at the Euro-Rupee parity.

▪ Arrest Fall of Rupee:

- Amid ongoing rupee weakness, this mechanism aims at reducing demand for foreign exchange, by promoting rupee settlement of trade flows.

UPSC Civil Services Examination Previous Year Question (PYQ)

Q. Convertibility of rupee implies (2015)

- (a) being able to convert rupee notes into gold
- (b) allowing the value of rupee to be fixed by market forces
- (c) freely permitting the conversion of rupee to other currencies and vice versa
- (d) developing an international market for currencies in India

Ans: (c)

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