



RUPEE VOSTRO ACCOUNT – ECONOMY

NEWS: The Reserve Bank of India (RBI) is considering allowing rupee vostro accounts to be used for more types of transactions to boost rupee-based international trade.

- **Expected Framework:** A new framework for vostro accounts may be introduced within six months to broaden transaction types, including cross-border lending and capital account transactions.

WHAT'S IN THE NEWS?

Understanding Vostro Accounts

- **Definition:** A vostro account is held by a domestic bank on behalf of a foreign bank, facilitating forex settlements, cross-border payments, and investments in the local market.
- **Usage in Trade:** Vostro accounts enable Indian traders to transact in rupees with foreign traders, promoting the rupee as a medium for cross-border payments.

Potential New Transactions Allowed

- **Cross-Border Lending and Loans to NRIs:** The RBI is exploring the possibility of allowing vostro account funds for cross-border lending and loans to non-resident Indians (NRIs) from rupee holdings.
- **Capital Account Transactions:** Vostro funds could potentially be used for specific capital account transactions, further integrating NRIs into India's financial ecosystem.

Nostro Account vs. Vostro Account



Nostro

- "Our money on deposit at your bank"
- Account held by our bank in foreign currency at another bank



Vostro

- "Your money on deposit at our bank"
- Account held by a foreign bank in domestic currency at our bank



Initiatives to Internationalize the Rupee

- **Long-Term Strategy:** The RBI and the Indian government have been actively promoting the rupee for international transactions, including opening rupee accounts abroad for people residing outside India.
- **Facilitating Investments:** RBI plans also include using vostro and special non-resident rupee accounts to support foreign direct investment (FDI) and foreign portfolio investment (FPI).

Current Limitations and Challenges

- **Limited Active Agreements:** Although India has SRVA (Special Rupee Vostro Account) agreements with 20 countries, only the ones with Russia, Sri Lanka, and the Maldives are currently operational.
- **Reliance on Foreign Currency:** Indian exporters often prefer invoicing in US dollars or other foreign currencies to hedge against currency fluctuations, presenting a challenge to rupee-based trade adoption.

Need for Bank Presence in SRVA Partner Countries

- **Branch Offices Requirement:** Experts highlight the need for Indian banks to set up branches in SRVA-partner nations to support and expand rupee-denominated transactions.
- **Comparison to China's Yuan Strategy:** China's two-decade effort to promote the yuan has resulted in just 8% of global trade in its currency, underscoring the long-term nature of such initiatives.

Broader Economic Impact and Benefits

- **Lowering Transaction Costs:** Vostro accounts in 22 countries, including Russia and the UK, aim to simplify trade in rupees and reduce transaction costs.
- **Strengthening Economic Ties:** Increased vostro transactions can deepen India's financial relationships, particularly with countries in the global south.

Economic Growth and Trade Aspirations

- **Global Economic Role:** The RBI's vostro expansion aligns with India's goal of becoming a significant player in the global economy.
- **Opportunities for Digital Public Infrastructure (DPI):** India is sharing its digital public infrastructure with other nations, creating opportunities to integrate rupee-based transactions and bolster rupee internationalization.

Vision for Rupee as a Hard Currency

- **Future Currency Goals:** There is optimism that the rupee may attain "hard currency" status, potentially entering the IMF's special drawing rights (SDR) basket within a decade, which could reduce India's financing costs and enhance its financial stability.



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**P.L. RAJ IAS & IPS ACADEMY | 1447/C, 3rd floor, 15th Main Road,
Anna Nagar West, Chennai-40. Ph.No.044-42323192, 9445032221
Email: plrajmemorial@gmail.com Website: www.plrajiacademy.com
Telegram link: <https://t.me/plraji2006> YouTube: P L RAJ IAS & IPS ACADEMY**