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Vostro and Nostro accounts

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Why is in news? GST Council clears a few measures to boost foreign trade

Amid the sustained slump in India's exports, the Goods and Services Tax (GST) Council has cleared a few measures to boost foreign trade, including **enabling tax credits for services exporters receiving payments in rupees, critical for trade with countries such as Iran and Russia that face global sanctions.**

The government has been pushing for rupee-based trading arrangements with several countries to reduce the dependence on the U.S. dollar, and banks from over 20 nations have opened special rupee (INR) Vostro accounts with Indian banks to remit payments for their imports from India.

However, many exporters of such services were being denied input tax credits under the GST regime as the norms required foreign currency receipts to recognise the 'export' status.

"The Council has recommended to issue a circular to clarify the admissibility of export remittances received in Special INR Vostro account, as permitted by the Reserve Bank of India, for the purpose of consideration of supply of services to qualify as export of services under the Integrated GST [IGST] Act, 2017," the Finance Ministry said in a statement after meeting of the GST Council.

Vostro account:

Vostro comes from the Latin word for "yours," as in "your money that is on deposit at our bank."

It is an account that a **domestic bank holds for a foreign bank in the domestic bank's currency** — which, in the case of India, is the rupee.

From the domestic bank's point of view, a Vostro account is **just the same as any other ordinary bank account** as it is payable on demand and is denoted by the same domestic currency of the country.

Vostro accounts are **maintained in the domestic country.**

For example, imagine that a particular USA-based bank wants to open an account in a particular India-based bank that has the currency of INR (Indian Rupees). Then this type of account is called a Vostro account.

These services include executing wire transfers, withdrawals, and deposits for customers in countries where the domestic bank does not have a physical presence.

Domestic banks use it to provide international banking services to their clients who have global banking needs.

Hence, it helps **domestic banks gain wider access to foreign financial markets** and serve international clients without having to be physically present abroad.

Nostro account:

Nostro comes from the Latin word for "ours," as in "our money that is on deposit at your bank."

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Nostro Account is defined as a **bank account that is created** by any commercial bank of a given country **in some other foreign country with the currency of a foreign country**.

Simply, the money that is in your bank is in your country's currency.

The interest rate is not given to this type of account.

If a case arises where there is an overdrawn amount or there is an insufficient amount of funds in the Nostro account, some fee is charged from these accounts.

In simple words, if there is any bank in India that opens an account to deal with transactions with a foreign bank, it will be called a Nostro Account.

A Nostro account is used as a specialized, additional feature that is mostly found in the countries with the facility of convertible currencies.

Banks usually tie up with third parties to enable transactions like these.

The banks with Nostro facilities are also called **facilitator banks**.

These banks are not at all similar to deposit accounts, and they demand that the deposit accounts are kept in the same currency as a bank.

Loro Account:

Loro account is derived from the Italian word "Loro," which means 'Their,' which means this account is a 'Third Party Account.'

In bilateral correspondence between any two given banks, the words Vostro (Your) and Nostro (Our) are used, that is, the bank whose book the account is maintained and the one who is maintaining the account.

In such conditions, a third bank's account, which is talked about, is called a Loro account.