

# Indian govt allows Lankans to hold \$10K worth of ₹ in cash

## SL banks must open nostro accounts with Indian banks

MANOJIT SAHA

Mumbai, 28 November

Sri Lankans can now hold \$10,000 worth of the Indian rupee (INR) in physical form, though the INR would not be legal tender in the island nation, after India approved a Sri Lankan request to designate the INR as a foreign currency.

This will provide the island nation much needed liquidity support to help it tide over its economic crisis amid inadequate dollar liquidity.

The decision is also in sync with the Indian government's efforts to popularise the INR among Asian nations and reduce dollar dependence. Sri Lankans will now be able to convert the INR into another currency.

To enable this, Sri Lankan banks must enter an agreement with an Indian bank to open INR nostro accounts — accounts that banks hold in a foreign currency in another bank.

Another significant development is that offshore banking units (OBU) of Lankan banks have been permitted to accept savings, time and demand deposits from non-residents.

According to sources familiar with the development, all current account transactions including exports, imports, and remittances can be undertaken between Lankan residents and non-residents. Transactions between Sri Lankan residents can only be done through banking channels and only for permitted activities, bankers said.

While this arrangement was approved by India a few months ago, the Central Bank of Sri Lanka was yet to notify the rupee as a designated foreign currency.

Sri Lanka has designated 15 foreign currencies, including the US Dollar, Pound Sterling, Renminbi, Kroner, and Swiss Franc. Last year, the Thai Baht was added to this list.

"Sri Lanka is facing dollar liquidity issues, but it has requirements on the import front. If Sri Lanka does not have dollar liquidity, it may take several months before it will be comfortable on that front. But trade cannot come to a standstill. With this, Sri Lanka can export textiles to India, for example, and get paid in rupees which can be used for imports from India," said an official at a foreign bank, while explaining the rationale behind the move.

Besides, this move also eases norms for Sri Lankans planning to visit India, such as stu-

## STRENGTHENING TIES

▶ Move aimed at reducing dependence on dollar

▶ Sri Lankan banks must enter into an agreement with Indian banks to open accounts

▶ All current account transactions including exports, imports and remittances can be undertaken between Lankan residents and non-residents

▶ ₹ will not be a legal tender in Sri Lanka

▶ Foreign travel grant up to \$5K in cash equivalent to ₹

▶ Transactions between Lankans can happen only via banking channels equivalent to ₹

▶ There are 15 designated foreign currencies of Sri Lanka



dents, as balances of up to \$5,000 worth of INR can be withdrawn as foreign travel allowance in cash. This means Lankans can convert their currency directly into INR.

To put this in context, before the Covid-19 pandemic, over 300,000 Sri Lankans on average visited India annually, accounting for about 3 per cent of the total foreign tourist arrivals.

The Indian government's move comes months after it put in place an additional arrangement for invoicing, payment, and settlement of exports and imports in rupees, popularly known as INR Trade.

Mails sent to the Ministry of External Affairs, department of economic affairs, and the Reserve Bank of India asking for comment remained unanswered till the time of going to press. Officials at Sri Lanka's central bank too did not respond when contacted.