What remittances do for the economy

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The report on Reserve Bank of India (RBI)'s Survey of Inward remittances for 2016-17, released in early August, has triggered interest in the role of remittances in India's economy. The survey utilised the responses from 42 major authorised dealers (ADs), who account for 98.3% of total remittances.

Remittances from Indians working overseas have been rising annually, increasing from $14.27 billion in 2001 to the highest at $70.38 billion in 2014-15. Remittances are now hovering around $69 billion during the last two years.

Blue-collar workers, plumbers, carpenters, electricians as well as professionals including nurses working in the Gulf countries are remitting their savings to support families back in India. Their regular monthly contributions and occasionally more sizeable amounts from highly qualified professionals of Indian origin and those resident and working on temporary basis in advanced countries, including the United States, have been adding to India's resources.

> Remittances, being in foreign exchange, are additions to India's foreign exchange reserves. In the absence of remittances, the country has to export more to earn foreign exchange.

India's foreign reserves touched the highest-ever level at $426 billion in April this year. In the context of declining export earnings, ($317.7 billion in 2014, $266.2 billion in 2015, $261.9 billion in 2016) and higher import expenditures, remittances have been reducing annual current account deficits: $26.8 billion in 2014, $22.1 billion in 2015 and $15.2 billion in 2016, or in percentages of GDP: -1.3% in 2014/15, -1.1% in 2015-16 and -0.7% in 2016-17. Remittances have thus emerged to be a major support to India's balance of payments. Current account deficit, thanks to remittances, is smaller and manageable.

In the absence of remittances, the deficits would have been much larger and the pressure on Indian rupee would be much higher. Further, annual remittances are more than the annual FDI inflows. While net FDI was averaging $32 billion during 2014-15 and 2016-17, the annual remittances averaged $65 billion. More importantly, remittances are much more certain than annual portfolio funds from overseas investors.

> Rightly called as "hot money," these funds move from advanced countries in search of higher returns to emerging economies, seeking higher premium from interest and risks.

Being short-term funds, foreign investors pull them out at will. When they do so in dollars on a large scale, the rupee not only falls unexpectedly but also suffers from the volatility.

The net portfolio investment inflows in equity and debt instruments were $42.2 billion in 2014-15. They plunged to a negative figure when outflows exceeded inflows: -$4.1billion in 2015-16 and were becoming very volatile. They rose again to $7.6 billion in 2016-17. Hot money is always uncertain.

On the other hand, inward remittances have been steady. They do not become as uncertain as FDI and volatile as short-term portfolio funds. Remittances were once called by the IMF as "unrequited transfers". There is no element of quid pro quo, which is defined "as gift or advantage that is given to someone in return for something". Remittances sent to families back home truly reflect the spirit behind the term 'unrequited transfers'. It is something akin to a mother's love for her child!

The RBI survey findings reveal that over half the remittances — 52% — originated from the Gulf and West Asia: United Arab Emirates: 26.9%; Saudi Arabia: 11.6%; Qatar: 6.5%; Kuwait: 3.5%; and Oman: 2.3%). Kerala was the highest recipient state (19.0%), followed by Maharashtra (17%) and Karnataka (16%). Some 59% of remittances were used for family maintenance.

> The findings show that remittances support the recipient families to fight poverty. They not only help to maintain but also help in raising their living standards. They are also a great help to young families with children for meeting education and healthcare expenditures.

The findings further show that remittances are also invested. While 8% of remittances were invested in landed property, including housing, 20% of the remittances were deposited in banks. The remaining 12% was spent on others, including weddings and religious functions.

The 20% deposits in banks is encouraging. It reflects growing banking habits of the recipient families in the rural areas. In the absence of banks, their savings tend to get frittered away on needless and wasteful consumption.

The ongoing efforts towards bringing in the bypassed regions and the disadvantaged sections of the population, known as financial inclusion (officially defined as a "process of ensuring access to financial services, and timely and adequate credit where needed, by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost"), combined with the emergence and spread of internet and mobile banking are expected to promote greater savings. And greater mobilisation of resources as deposits would enable the banks to recycle them as credit to entrepreneurs in rural areas.

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