



# **Remittances from Indian Diaspora:** **A Report**

**Prepared by Overseas Indian Facilitation Centre: August 2009**

## **The Context**

The Indian diaspora forms an important constituency of India's economic growth and development. Estimated at over 30 million, the diaspora community is today the most diverse, heterogeneous and eclectic faction representing different regions, languages, cultures and faiths. Its contribution to the Indian economy and society is a matter of great pride and achievement for Indians the world over. Non-Resident Indians (NRI) and People of Indian Origin (PIO) have emerged as the largest pool of knowledge, skills, resources and enterprise, acting as India's brand ambassadors globally and adding in considerable measure to the basket of knowledge and innovation. One of the most important and noteworthy contribution has been made in the form of transfer of remittances in India, offsetting the rising trade deficits and building up India's foreign exchange reserves.

## **Inward Remittances: Definition and Magnitude**

Remittances commonly refer to the flow of private unrequited transfer of money from the migrants earning outside their country of origin, back into their home country.

Migrant remittances have recently surged to the forefront of development agendas worldwide, forming a very important component of a nation's balance of payments, especially for developing countries like India.

Remittances from overseas Indians comprise of the inflows towards family maintenance and the funds domestically withdrawn from the Non-Resident Indian (NRI) rupee deposits (NRERA and NRO deposit schemes). Such remittances are treated as private unrequited transfers, which are included in the current account of the balance of payments and influence the disposable income of the country.

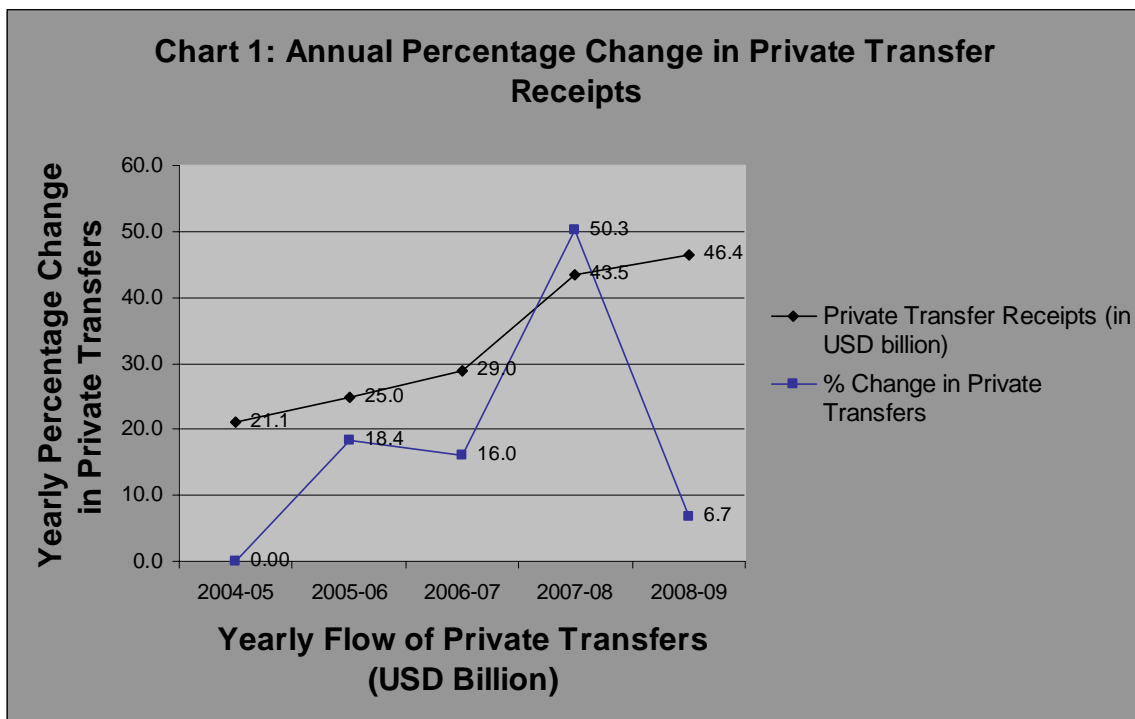
The total value of remittances has been increasing steadily over the past decade.

- The pre-liberalization phase has witnessed a fluctuating trend in the flow of private transfer receipts. The transfers increased steadily during the 1970s, remained more-or-less flat in the 80s and started picking up sharply during the 1990s.
- Since the beginning of the liberalization era, these transfers have become an important component of India's overall balance of payments. As per the IMF estimates, remittances to India more than quadrupled between 1991 and 2003, and

totaled to about USD18 billion in 2003, making India one of the largest recipient of remittances in the world. In terms of the percentage of GDP, remittances equaled about 3 percent in 2003 with the sharpest increase in transfers during the period 1991-1997.

- Such a steady trend has followed in the recent years as well with private transfer receipts, comprising mainly remittances from Indians working overseas, increasing up to USD 46.4 billion during 2008-09 from USD 21.1 billion in the year 2004-05. In other words, the private transfers have been stable sources of funds over the past decade.

- A massive growth of nearly 50 % was recorded between 2006-07 and 2007-08 largely on account of the rising share of remittances repatriated by the Gulf workers for family maintenance. The following chart depicts the steady flow of private transfer receipts over the last five years with a dramatic increase in the year 2007-08.



Source: Reserve Bank of India (Balance of Payment Statement, Annual Press Releases since the year 2004) and on the basis of author's calculations.

- Reiterating its traditional role of being the major source of invisible account surplus, private transfer receipts accounted for an annual average growth of 27 per cent during 2005- 2008 and were around 3 per cent of GDP during the same period. The relative importance of private transfers in India's GDP is reflected in Table 1.

| <b>Table 1: Private Transfers as a Percentage of GDP</b> |                                      |
|--|--------------------------------------|
| <b>Years</b>   | <b>Private Transfers /GDP (in %)</b> |
| 2004-05  | 3.5                                  |
| 2005-06  | 3.7                                  |
| 2006-07  | 3.7                                  |
| 2007-08  | 4.9                                  |
| 2008-09  | 4.6                                  |

Source: Reserve Bank of India ((Balance of Payment Statement, Annual Press Releases since the year 2004)

Economic Survey 2008-09 (for GDP figures) and on the basis of author's calculations

For the purpose of conversion of GDP figures into USD, the exchange rate of

USD 1 = 48.49 Indian Rupees, has been taken into consideration

- A detailed breakdown of private transfer receipts into its two main components: inflows for family maintenance and withdrawals from NRI deposits, is shown in Table 2.
- The share of remittances repatriated by the overseas Indians for family maintenance, considered as low value transfers from NRIs and PIOs to their families, has declined to almost 48 percent in 2006-07 from 60 percent in 1999-2000. However in

the first half of 2007-08, the share of remittances repatriated was about 50 per cent of total remittance flows to India and has been stable since then.

- On the other hand, withdrawals from non-resident rupee deposit schemes for local use, have served as a conduit to remittance inflows to India. Although the average contribution of local withdrawals to total private transfers declined from 50 per cent in the first half of 1990s to only 29 per cent in the latter half, a reversal in this trend has been witnessed in the recent period. The phenomenon of local withdrawals from non-resident rupee deposits schemes exceeding those through direct remittances for family maintenance and savings was particularly pronounced in 2005-06 and 2006-07 and has been rising since then.

| <b>Table 2: Details of Private Transfers to India</b> |                                |   |                                  |  |                                  |
|---|--------------------------------|---|----------------------------------|--|----------------------------------|
| <b>in USD billion</b>                                 |                                |   |                                  |  |                                  |
| <b>Year</b>   | <b>Total Private Transfers</b> | <b>of which</b>                                 |                                  |  |                                  |
|   |                                | <b>Inward Remittance for family maintenance</b> |                                  | <b>Local withdrawals / redemptions from NRI deposits</b> |                                  |
|   |                                | <b>Amount</b>                                   | <b>Percentage share in total</b> | <b>Amount</b>  | <b>Percentage share in total</b> |
| (1)   | (2)                            | (3)   | (4)                              | (5)  | (6)                              |
| 2006-07   | 30.8                           | 14.7  | 47.8                             | 13.2   | 42.8                             |
| 2007-08 (PR)  | 43.5                           | 21.9  | 50.4                             | 18.9   | 43.5                             |
| 2008-09 (PR)  | 46.4                           | 23.1  | 49.9                             | 20.6   | 44.5                             |

Source: Reserve Bank of India (Macro Economic and Monetary Developments)

- The buoyancy in remittances has been instrumental in substantially reducing the current account deficit and building up the stock of external reserves.
- Although remittances have increased in tandem with the increase in remittances of other developing and emerging countries, the increase has been somewhat sharper in India. As per the latest World Bank study on 'Migration and Remittances', India, retains its position as the top recipient of migrant remittances among developing countries followed by China and Mexico.
- A cross-country comparison of the break up of remittance inflows into the country reflects the fact that Middle East accounts for the maximum proportion of total remittances flowing into India due to the presence of large number of Indian workers in the Gulf and the existence of blue collared work force. North America and Europe are the next largest host regions of massive remittances inflows into the home country.
- Net inflows from non-resident Indians have witnessed a stupendous, over twenty-fold rise to \$4 billion in fiscal '09 as these constituents sharply increased their exposure to various NRI deposit schemes in the country.

## **Factors Driving Remittances into India**

Understanding the motivations for remitting is necessary for analyzing the wider economic consequences of remittances, for at least two reasons. First, the amount that a migrant transfers to family members remaining at home at any given time depends, among other things, on the migrant's underlying motivations to go abroad and to remit funds in the first place. The size and timing of remittance flows in turn determine their effects on economic activity in the receiving country. Second, the intended purpose of remittances affects the end uses of these funds, and the uses to which recipients put them is also an important determinant of their economic impact on the recipient economy.

Literature offers a number of approaches and studies identifying the main intentions of migrants to remit his/her earnings for family consumption or local use. However one of the main messages spelt out of the theoretical literature on the causes of remittances is that there exists plausible exchange motivations as well as altruistic motivations for remittances with the two co-existing at the same time in many circumstances.

In recent times, the increase in the remittances is primarily attributable to many reasons. According to policy experts, factors responsible for the growth in remittances include the diminishing role of unofficial channels to remit wealth, shifting emigration pattern to highly skilled intensive operations, greater competition in the money

transfer market, the extent of economic activity in the source country and the resilient nature of the Indian economy to any kind of external shock in the background of strong macro economic fundamentals and dynamic economic reforms.

The most significant factor in the surge of remittances, ultimately, may be the way NRIs perceive the Indian economy. If the liberalization of the Indian economy in 1991 was a clear benchmark, its real significance has taken time to crystallize. Indian economy has been witnessing a phenomenal growth since the last decade. The country is still holding its ground in the midst of the current global financial crisis. With increasing incentives and tax exemptions coupled with liberalized foreign exchange controls, the Diaspora continues to repose its faith on India even during the turbulent times.

## **Conclusion**

This report analyzes the recent behavior of flow of remittances to India. Commensurate with the increase in the number of migrants from India, private transfers into the country on current account have been very robust in the past decade. Such transfers, comprising largely of the inward remittances from workers, are sent to their families or relatives for local consumption. According to an IMF study, NRI remittances are primarily sent to family members to support them for their survival. Once these remittances improve their living standards, they are invested in consumer goods, housing and land, and bank deposits. Very rarely are these remittances used to establish new businesses and industries. With rising share of such remittances in India's GDP, and with India emerging as one of preferred destinations for FDI, it is now time for the Global Indians to engage with the 'Emerging Global Power' beyond repatriating their wealth for personal consumption, and invest their effort, expertise, knowledge, time and wealth in the larger interest of India. The recently established Overseas Indian Facilitation Centre, a not-for-profit public private initiative between the Ministry of Overseas Indian Affairs and Confederation of Indian Industry, will expand the investment and entrepreneurial ties of the Global Indians with India and drive them as partners in India's progress.