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World Bank Report on Remittances – II

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What is the current status?

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- The World Bank has recently declared India to be the largest recipient of remittances from abroad.
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- According to the Bank, remittances to India are likely to touch $80 billion this year, way ahead of the second largest recipient China ($67 billion).
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- According to the official Indian balance of payments data, remittances through private transfers that includes –
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1. Remittances for family maintenance
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2. Local withdrawals from Non-Resident Rupee Accounts (NRE and NRO)
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3. Gold and silver brought through passenger baggage
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4. Personal gifts/donations to charitable/religious institutions
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- It includes workers' remittances, which consist only of transfers made by migrants employed and resident abroad to relatives in India.
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- Workers' remittances form the dominant component of private transfers.
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- The share of workers' remittances in total transfers touched a high of 69% in the first six months of financial year 2018-19.
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- This shows that the remittance levels have remained high, despite the lower oil prices in the gulf and the trend has remained positive.
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Who is the biggest contributor?

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- India became a successful exporter of software and business services, which often require onsite provision at locations abroad.
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- Hence it is expected that there would be a shift in remittance flows away from the Gulf region to North America (especially the US).
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- It was expected that there would be higher contributions from workers employed on temporary visas (such as H1-B).
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- These workers typically extending for more than a year at much higher salaries earn more than the preponderantly semi-skilled workers migrating to the Gulf region.
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- However, contrary to expectations, remittances have substantially come from the Gulf region.
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- According to the RBI, as much as 53.5% of remittances came from the Gulf countries in 2016-17, with the US and Canada together contributing about 24%.
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- This also shows that the share of North America in remittances (from IT and business services workforce abroad) peaked in the mid-2000s, and there has been a deceleration since then.
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How do the skilled migrations benefit India?

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- The contribution of workers' remittances to foreign exchange inflow has been between 47% and 57% of inflows, especially with respect to India's

flagship export sectors (IT and Telecom).
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- This shows that more remittances are being received by the workers who got benefitted export of telecommunication, computer and information services from India.
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- This is mainly because of immense policy support that the IT and IT-enabled services sector has received from the government.
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- The support was provided in the form of investment in infrastructure, tax holidays and beneficial import policies.
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- Policies of foreign governments on temporary employment of foreign workers also have boosted migrations from India. (out-migration)
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- Moreover, the IT and related services boom was possibly helped by the technical and English language skills of a section of Indian workers thus raising the prospect of employment opportunities.
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- This has made families to stay behind and workers just need to remit foreign exchange for family maintenance and similar expenditures.
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Has it helped managing India’s current account deficit?

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- According to the RBI surveys, the share of remittances meant to finance family maintenance varied between 49 - 61% of total remittances.
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- Another 20% was into deposits, possibly to be withdrawn later to finance bulk expenditure requirements.
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- Remittances also cover between 47-80% of the deficit in trade in Goods and Services between 2013-14 and 2017-18.
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- Thus the benefit provided by migrant workers in the form of remittances help manage India’s balance of payments to a considerable extent.
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Source: Business Line

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