

## REMITTANCES: ECONOMY

**NEWS:** Examining the RBI's remittances survey

### WHAT'S IN THE NEWS?

India received a record \$118.7 billion in remittances in 2023–24, surpassing FDI and helping cover half the trade deficit, with a structural shift in remittance sources from Gulf nations to advanced economies. The growing dependence on high-value digital transfers and regional imbalances raises new policy and regulatory challenges.

#### What are Remittances?

- Remittances refer to **money transfers made by migrant workers** to their families or relatives residing in their home countries.
- These transfers are an important component of India's **external sector and macroeconomic stability**.
- They are classified under the **Current Account of India's Balance of Payments (BoP)**.
  - Specifically, they fall under **unilateral transfers** – one-way flows of money that do not create liabilities or require repayment.

#### Significance of Remittances for India

- India received a **record \$118.7 billion** in remittances during 2023–24.
- They **exceeded Foreign Direct Investment (FDI)** inflows.
- Remittances helped **cover over half of India's trade deficit**, acting as a cushion against external shocks.
- In times of **global financial uncertainty**, remittances serve as a **stabilizing force** for the Indian economy.

#### Key Insights from RBI's Sixth Round of Remittances Survey

##### Structural Changes in Source Countries

- Historically, most remittances came from **Gulf Cooperation Council (GCC) countries** due to migration of low-skilled workers.
- There is now a **clear shift toward advanced economies (AEs)**:
  - **United States (27.7%)** is now the largest source.
  - **AEs (51.2%)** now surpass GCC nations (37.9%) in remittance share.
  - Other key AEs: United Kingdom, Canada, Australia, and Singapore.

## Reasons for the Shift

- Change in migration pattern:
  - Earlier: **Low-skilled migration** to West Asia.
  - Now: **High-skilled professionals** and international students are moving to developed countries.
- This reflects both India's growing **human capital export** and **macroeconomic transitions** in remitting countries.

## Concerns and Emerging Trends in Remittances

### High Dependence on Large-Value Transactions

- In 2023–24, **transactions above ₹5 lakh** constituted **29% of total remittance value**, though they formed only **1.4% of total transactions**.
- This shows a growing dependence on **wealthy, high-earning Indian professionals**.
- Risk: If **immigration policies tighten** in AEs, remittance inflows could decline sharply.

### Digitalization of Remittance Channels

- **73.5%** of all remittances were routed through **digital channels** in 2023–24.
- Cost of remitting \$200 to India has dropped to **4.9%**, lower than the global average of **6.65%**.
- However, it still remains above the **UN SDG target of 3%**.
- Growth driven by **fintech apps, mobile banking, and online money transfer platforms**.

### Uneven Digital Adoption Across Regions

- High digital adoption in:
  - **Saudi Arabia (92.7%)**
  - **UAE (76.1%)**
- Low digital use in:
  - **Canada (40%)**
  - **Germany (55.1%)**
  - **Italy (35%)**
- India must invest in **cross-border payment systems** to enhance speed and reduce cost.

### Geographic Imbalance in Remittance Flows (Within India)

- States like **Maharashtra, Kerala, and Tamil Nadu** receive **51% of India's total remittance inflows**.
- In contrast, **Bihar, Uttar Pradesh, and Rajasthan** together receive **less than 6%**, despite having high out-migration rates.
- Indicates **regional inequality in earnings, migration patterns, and financial access**.

### **Lack of Data on Utilization of Remittances**

- RBI survey does **not track how remittances are spent** or invested by households.
- This creates uncertainty in evaluating their **developmental impact**.
- Two possibilities:
  - Used for **daily consumption** like food, health, education.
  - Channelled into **investments**, such as housing, land, savings, or small businesses.

### **Policy Recommendations**

- Develop **savings-linked remittance products** to promote financial security.
- Launch **financial literacy campaigns** for migrant households to improve savings and investment behaviour.
- Offer **incentives for channelizing remittances into productive assets** like MSMEs or rural entrepreneurship.
- Improve **digital infrastructure and legal clarity** to make remittances faster, safer, and cheaper.

### **Governing Laws and Institutions**

#### **1. Reserve Bank of India (RBI)**

- Regulates inward and outward remittance flows.
- Monitors compliance among banks and authorized financial institutions.
- Ensures **anti-money laundering and transparency** in international transactions.

#### **2. Foreign Exchange Management Act (FEMA), 1999**

- Main legislation governing India's foreign exchange transactions.
- Controls both **sending and receiving money** to/from abroad.
- Prevents misuse of foreign currency and ensures smooth international financial flow.

### 3. Financial Action Task Force (FATF)

- International body that sets **global standards to combat money laundering and terrorist financing**.
- Member countries are required to implement regulations to **track remittance flows** and detect illicit activity.
- India aligns with FATF guidelines to prevent financial abuse through remittance channels.

Source: <https://www.thehindu.com/opinion/op-ed/examining-the-rbis-remittances-survey/article69629309.ece>